



TURNING A NEW LEAF: The Federal Plan for Reforming Fiscal Arrangements

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Outline



- Motivation
- What's the plan?
 - The setup
 - The ask
 - The plan and process
- Possible futures



Motivation



- New ideology re the federal gov't role
- Deterioration in fiscal arrangements
 - Principles-based federalism
 - Cheque-book federalism
 - Smash-and-grab federalism
- Prevent more political hostage taking
- Prepare for the empty piggy bank



The Setup [1]



- Beg forgiveness (for the former gov't)
 - Meddled in provincial areas – confused accountability, uncertainty, induced cost pressures
 - Neglected own areas of responsibility – defense, immigration, foreign affairs, international trade
 - Spend large unplanned surpluses at the last minute outside of budget



The Setup [2]



- Causes of unplanned surpluses
 - Surprising strength of economy
 - Very prudent fiscal rule
- Should add
 - Surprisingly low interest rates
 - Budget process / Fiscal dividend



The Setup [3]



- Stop denying and start redefining the problem...
 - Provinces are right, there is a fiscal imbalance (because everyone believes there is...)
 - Build the box to put the problem in
 - Equalization, PSE, infrastructure
 - Available federal resources
 - Time-frame for resolution
 - Lay out the plan/process



The Ask



- Enhance the economic union (explicit)
 - Labour mobility
 - Immigrants' credentials
 - Single securities regulator
 - GST harmonization
- Solve your own problems (implicit)
 - Health/PSE/Infrastructure
 - Municipalities



Plan and Process [1]



- Build the box (starting with this budget)
- Lay out the principles
 - Clear roles
 - Fiscally responsible and transparent
 - Predictable L/T arrangements
 - Efficient economic union
 - Effective collaborative management



Plan and Process [2]



- Use SUFA model for collaboration
- Use excess federal revenues to cut taxes not spend in provincial areas
- Use unexpected surpluses to bolster CPP



Plan and Process [3]



- Consult with citizens and provinces
- Finance Ministers to play key role
- Discuss in Parliament
- Fall 2006 First Ministers' Meeting
- Package in Budget 2007



Possible Futures [1]



- Business as usual:
 - Ottawa uses excess surpluses to enlarge equalization and other non-conditional transfers
 - Continues bilateral approach to dealing with provinces
 - Continued large increases in federal spending at expense of accountability/tax relief/debt reduction or other saving



Possible Futures [2]



- Business as usual continued...
 - Provincial budgets continue to be overwhelmed by health spending pressures
 - Provinces renew demands for unconditional transfers for health and other social programs
 - Provinces increasingly divided along natural resource lines



Possible Futures [3]



- Tax disentanglement
 - Ottawa uses excess surpluses to rebuild own areas of jurisdiction and modest increases in equalization, plus further tax reductions and debt repayment/saving
 - Tax room vacated by Ottawa is occupied by provinces
 - Increased accountability forces provinces to tackle health spending leviathan



Possible Futures [4]



- Spending disentanglement
 - Ottawa uses excess surpluses to rebuild own areas of jurisdiction and modest increases in equalization, but instead of enriching other transfers, looks to change unconditional transfers into direct spending
 - Increased accountability forces provinces to tackle health spending leviathan