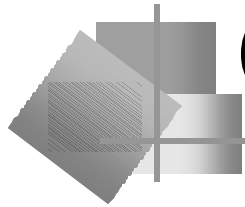




Equalization and Fiscal Arrangements: where next?

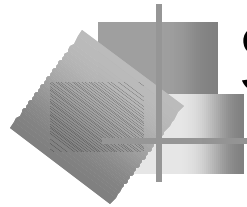
Fred Gorbet

Presentation to 2006 Federal Budget Conference
John Deutsch Institute
June 2006



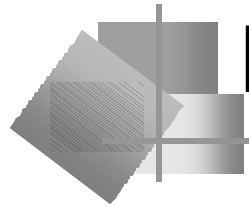
Overview

- Some personal observations on fiscal imbalance
- Some comments about Equalization; Task Force Report and place in broader set of issues
- Some views on outcomes



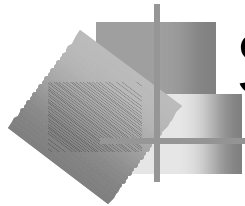
Some starting propositions...

- Fiscal imbalance is real – but it is only superficially about money
- Substance is alignment: roles and responsibilities; clarity and accountability
- How do we make the federation function better?



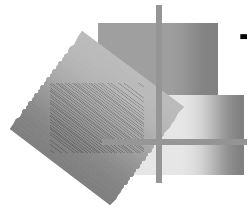
New factors at play

- Old provincial consensus breaking down
 - Council of Federation focusing attention on differences rather than consensus
- Federal government acknowledgement
 - Budget paper redefines issue and sets agenda



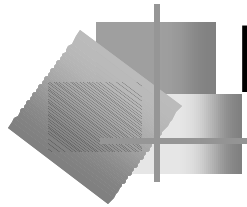
Some consequential conclusions

- Should look for a package – but how big?
- Should include provincial actions to enhance efficiency/competitiveness
- Requires robust federal Equalization Program as necessary condition
- Will the federal government really deliver on clarity and accountability?



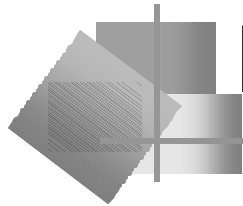
The Panel report on Equalization

- Principle-based and formula driven
- Four principles are key
 - Accountability, fairness, equity, affordability
- “Best second-best solution”
- Response to report encouraging



Most probable outcome

- EQ along lines of Panel Report
- Federal spending increasingly focused on federal areas of responsibility
- Federal guarantee of existing health transfers
- New federal transfers for PSE/infrastructure
- Possible removal of associated EQ
- Provincial commitment to Securities Commission and action on wait times



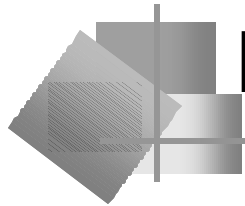
Most probable outcome

PROS

- Buys short-term peace
- Victory on EQ
- Victory on Securities
- Well positioned for next election (maintains strong federal spending presence)
- Relatively easy to negotiate and implement

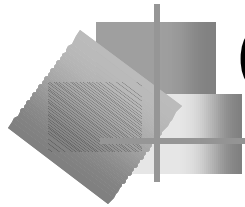
CONS

- Does not address clarity, accountability or basic alignment issues
- Continues to muddle federal role in health, PSE and cities



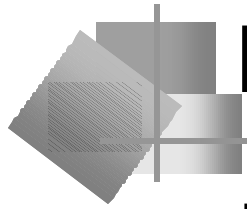
More desirable outcome – core

- EQ along lines of Panel Report
- Federal spending increasingly focused on federal areas of responsibility
- Cut back CHT/CST and transfer roughly equivalent tax points; eliminate associated EQ on the way through; no further equalization of tax point transfers
- Focus on sales tax and require GST harmonization prior to transfer
- Possible transition grants
- Health care guarantees



Other 'nice-to-haves'

- 'Economic-union' add-ons
 - Securities commission
 - Labour mobility
 - Credential recognition
- Federal transfers other than EQ
 - Targeted to institutions/people, not governments
 - Focused, not unconditional



More desirable outcome

PROS

- Greater clarity of roles and provincial accountability
- Buys longer-term peace
- GST harmonization brings real benefits

CONS

- More difficult to achieve
- Health care bogeyman?