

Rapporteur Wrap-Up

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I am concerned we've got sidetracked by looking at the question of harmonization in the context of some kind of big-bang solution to a lot of other problems like fiscal imbalance and whatever else the GST may cure. I want to make a suggestion. In the remaining time of the discussion we should come back to a much simpler proposition: Does it make any sense to have harmonization of the retail sales taxes with the GST? We're spending too much time for economists, at least in the first round, thinking about the politics of it. We should step back and just think about the economics. I think what we've heard so far is that it sounds like good economics. It will improve the output and the income of the residents of those provinces. The numbers at first blush seem to be relatively revenue-neutral, so that doesn't seem to be a big concern.

One of the issues we discussed at length is, if you have harmonization, does it have to be at the single rate? Did we get a bit restrictive when we insisted that the Atlantic provinces have a single rate? Obviously, we're not going to have a single rate across the whole country because there's no way that Alberta is going to have a 7 percent or 8 percent tax rate, so we've got to break that restriction. Beyond that point, does it really matter whether we've got a collection of RSTs with the same base or we've got a harmonized GST with different rates?

Finally, I come back to Bill Watson's question that, if no one was interested in 1991, and they weren't interested in 1996, why would they be interested now? First, as economists who think this is a good idea, we shouldn't be sidetracked by past failures at convincing people. I think it's still timely to look at this change. Conditions have changed. For example, consider the current context of Ontario. The industrial business sector of Ontario is absolutely under siege right now. It's had a poor productivity record, it's got a pretty weak competitive position, it's getting clobbered by producers elsewhere in the world, and it's got to do everything it can to bolster its position. I guarantee that there is more awareness of the high rate of taxation of capital in Ontario now than there ever has been before, and certainly more so than 10 or 15 years ago.

The proposition I would suggest for discussion is, why wouldn't Ontario or BC or Saskatchewan or Manitoba or PEI just harmonize right now without it being in the context of a big-bang solution, without a federal bribe or anything? It's good economics and it's not bad for the fiscal bottom line. Why wouldn't they do it? We actually have considerable experience predicting price effects from GST tax changes. Our GST pre-implementation estimate back in 1991, assuming everything passed through the way it's supposed to do in the textbooks, was that the CPI was going to go up 1.4 percent. And as far as I could tell afterwards, actually to the decimal place, it went up by 1.4 percent. We put together a task force to examine, commodity by commodity, what happened. After months of study, we came up with just one case where it didn't seem to have worked out as predicted, and that was greeting cards. I'm not quite sure why it was greeting cards, but out of the thousands of goods, it was the only sector that didn't seem to work as expected based on that type of pass-through. So there is a track record on these matters.

That comes back, too, to the synergy between the economics, the public finance community and the politicians. Obviously, we have to provide the studies for such a change. And that's why I'm hopeful of the kind of results coming out from Michael's present analysis.

I'll end with the thought that we should get back to the simple tax harmonization proposition and not get sidetracked by all these other fiscal transfers and fiscal imbalance issues. Solid analysis, such as Michael Smart has provided, will help economists make the case for the five remaining RST provinces to convert to value-added taxes.