

September 8, 2006

Mr. Alfred LeBlanc, Director
Federal-Provincial Relations and Social Policy Branch
Consultations on Restoring Fiscal Balance in Canada
Department of Finance
140 O'Connor Street
15th Floor, East Tower
L'Esplanade Laurier
Ottawa, Ontario
K1A 0G5

Re: Online consultations on Restoring Fiscal Balance in Canada

Dear Mr. LeBlanc,

The Ontario Chamber of Commerce (OCC) is a federation of 160 local chambers of commerce and boards of trade in the Province of Ontario, representing 57,000 businesses of all sizes, in all economic sectors and from every area of the province. The OCC's mandate is to advocate strong policies on issues that affect its membership throughout Ontario's business community.

The Ontario Chamber of Commerce has been advocating over the past 18 months for the federal government to work with provincial governments on a viable solution to restore fiscal balance in the federation. We have articulated our position to all premiers, ministers of finance and the Auditor General of Canada.

We gratefully acknowledge this opportunity to participate in the federal public consultations. The Chamber and its members believe that it is the mission of both federal and provincial/territorial governments to bring fairness, accountability, measurability and sustainability to one fundamentally important issue - restoring the fiscal balance in Canada.

After extensive research on this issue, the Ontario Chamber of Commerce recommends that the solution to restore the fiscal balance should be guided by the following seven principles:

1. **BALANCED FORMULA:** Provinces that receive equalization should not have a higher fiscal capacity than non-recipient provinces.

2. **SYSTEM FAIRNESS:** Provinces that benefit from equalization should not have higher per capita program expenditures than the average of contributing provinces. The program should ensure a fiscal capacity to deliver reasonably comparable levels of services at reasonably comparable levels of taxation.
3. **SUSTAINABLE GROWTH RATES:** Equalization growth rate should not be higher than the average real economic growth rate.
4. **COMPARABLE ALLOCATIONS:** Discretionary transfers from the federal government should be allocated on a per capita basis.
5. **FINANCING SOLUTIONS:** All alternative financing solutions including Tax policy initiatives should be employed.
6. **POWER AUTHORITY:** Clearly define areas of Federal & Provincial jurisdiction. Provinces should commit to spending equalization funds/transfers on a reasonable level of public services.
7. **PROGRAM EVALUATION:** As the largest wealth transfer in the world, measurement standards to determine outcomes must be put in place. A review by the Auditor General every five to six years may be appropriate.

Balanced formula: The federal transfer system, including equalization, is not balanced and equitable across provinces in Canada. Evidence shows that some receiving provinces have currently greater spending capacity than contributing provinces. “Have-provinces”, such as Ontario, currently receive less dollars-per-capita in the Canada Health and Social Transfers, less in transfers for infrastructure development, and less in labour development programs than so called “have-not” jurisdictions.

System fairness: The system is tremendously unfair. Canada’s transfer system is the largest in the world. Unfortunately, for Canadian taxpayers the system is neither measured in terms of its possible impacts on contributing provinces, nor assessed on whether it has produced tangible benefits for the receiving jurisdictions. Our membership believes the Canadian taxpayer must have assurances that they are receiving value for their money; however, there is evidence to suggest that such value is more perceived than real.

Sustainable growth rates: The system is not sustainable. The legislated growth rates for the equalization and transfer programs cannot and should not exceed the economic performance of contributing provinces. To do it otherwise erodes the economic base of the so-called “have-provinces”, as the government is committed to increase the amount of annual public spending on these programs with no reference to where the money will come from.

Comparable allocations: The current system is flawed because funding is not distributed on a per-capita basis. Canadians in “receiving” provinces are not any different from those in “contributing” provinces. Nevertheless, “have-not” jurisdictions receive larger discretionary transfers from the federal government, resulting in higher per capita program spending compared to the “have” provinces.

Financing solutions: The current system of transfer/equalization arrangements has not taken advantage of the wide range of financing solutions available today for sound public finance policy. The current formula is based on an outdated standard and does not account for alternative financing solutions, including any tax policy initiatives.

Power authority: Increasingly, both provincial and federal governments operate in areas of each other’s jurisdiction, and engage in overlapping programs that result in large inefficiencies. A more clearly defined structure of funding delivery of public services is required.

Program evaluation: Federal transfers have neither been audited nor evaluated in order to examine whether government activities are being managed with due regard for economy, efficiency, and environmental impact, nor are there measures in place to determine their effectiveness and performance.

As noted, the OCC has conducted an extensive analysis on the issue of the fiscal imbalance, resulting in our most recent publication, “*Fairness in Confederation: A roadmap to recovery*” (enclosed).

This report outlines the OCC key recommendations to the government on restoring fiscal balance by:

- **Increase system accountability and transparency**
- **Put in place a new system to measure program comparability across provinces**
- **Include tax policy initiatives in the solution**
- **Undertake a performance audit by the Canadian Auditor General on the equalization program; and,**
- **Refrain from the practice of equalizing regions through non-equalization programs like employment insurance or other forms of regional subsidies.**

We urge the government to give thorough consideration to developing measurable benchmarks for a reasonable level of public spending in all provinces and territories. We note with interest that the federal government is developing measurement benchmarks to establish a national wait-time guarantee for the public health care system.

The OCC considers benchmarking as sound public policy, and recommends that such an exercise be extended to the federal transfer program as well.

We thank you for the opportunity to share our opinion on restoring fiscal balance and we sincerely hope that the government's solution will embrace our above listed principles.

For any further information please contact, Stuart Johnston, Vice President Policy and Government Relations at 416 482 5222 (ext 232) or stuartjohnston@occ.on.ca .

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Len Crispino', with a stylized flourish at the end.

Len Crispino
President and CEO

ccs: The Rt. Hon. Stephen Harper, Prime Minister of Canada
The Hon. Jim Flaherty, Federal Minister of Finance
The Hon. Michael Chong, Federal Minister of Intergovernmental Affairs
The Hon. Dalton McGuinty, Premier of Ontario
The Hon. Marie Bountrogianni, Ontario Minister of Intergovernmental Affairs
The Hon. William Graham, MP, Leader of the Federal Official Opposition
John Tory, MPP, Leader of the Ontario Official Opposition
Steve Jones, Chair, Ontario Chamber of Commerce
OCC Membership

As the most diverse and most influential business group in the province, the Ontario Chamber of Commerce works closely with governments, labour, academia and various other groups to create a stronger and more vibrant economy in Ontario and the surrounding regions.

The OCC represents 57,000 members through 160 independent chambers of commerce and boards of trade throughout the province. The OCC has worked on behalf of business since 1911.
