

May 3, 2006

Honourable Ralph Klein  
Premier of Alberta  
307 Legislative Building  
10800 - 97 Avenue  
Edmonton, AB T5K 2B7

Dear Premier Klein:

As you know, the Ontario Chamber of Commerce has been actively engaged in the issue of the 'fiscal imbalance' in Canada, and is encouraged that you and your fellow Premiers, along with the Federal Government, are aggressively pursuing options and solutions to this important problem.

Indeed, the Ontario Chamber of Commerce is gravely concerned that a fundamental restructuring and a different approach to how our Federation is funded through all transfer programs is required in order for Canada to truly improve the wealth of all our citizens, as well as raise our competitiveness on the global stage.

To that end, we fully support the efforts of Premier Dalton McGuinty to narrow the fiscal gap between Ontario and the rest of Canada. We understand that this issue and related problems will be considered further by the Council, now that the report of the Advisory Panel on Fiscal Imbalance has been received. Certainly, we are encouraged by both the tone and willingness of the federal government to find solutions to this issue, as outlined in its budget report, *Restoring Fiscal Balance in Canada*.

The fiscal gap is very real and very large in relation to the size of the Ontario economy. The people of Ontario contribute a share of GPP to support the transfer system and other interregional subsidies provided by the Government of Canada that is much larger than the province's annual growth, also expressed as a share of GPP. To our knowledge, no jurisdiction anywhere in the world except Alberta is expected to provide as much financial support to their neighbours without financial return. To put this transfer in perspective, the Canadian system of interregional subsidies and transfer payments is a more serious financial weight for the people of Ontario than is defense for the people of the United States.

The immediate consequences of this large scale transfer of wealth for Ontarians are quite different from common perceptions. Funding for Ontario government programs, particularly for institutions such as universities and colleges that are vital to competitiveness, is between two thirds and three quarters of the level in other Canadian provinces and far behind the United States. This difference cannot be offset by increased taxation because of the extent to which Ontario is economically integrated with adjacent

American states, and the fact that Ontario's marginal taxes are already higher than in those jurisdictions. In general, we believe that Canada has dramatically over-equalized current recipient jurisdictions with serious productivity and competitiveness consequences for Ontario and all of Canada.

As you may know, the Ontario Chamber of Commerce has recently published two reports on the issue of the fiscal imbalance. During the course of our review, our members expressed deep concern about another dimension of the fiscal gap problem. They are shocked that there is no system in place to measure the comparability of provincial programming across Canada, which is the stated goal of the equalization program. The Ontario Chamber of Commerce has drawn this serious deficiency to the attention of the Auditor General of Canada. However, any action she might take would take time, and for this reason the federal government and provinces should consider taking immediate steps to put such a system in place.

The final major problem considered by our members is a matter of performance. They noted that the United States, with no interregional subsidies, has narrowed regional disparities in that country by almost as much as Canada, which has what is probably the largest program of regional transfers in the world. Members also noted the recent rapid growth of Ireland, Iceland and other jurisdictions which either have no geographical subsidies of the type used in Canada, or transfer programs that are relatively much smaller in scale for both contributing and receiving jurisdictions. It is worthy to note and to explore further, that these jurisdictions have grown much more rapidly than recipient Canadian provinces. We were very disappointed that the Advisory Panel on Fiscal Imbalance did not consider these contextual and performance issues in its recent report.

There are many things that could be done to address these serious difficulties and many of them have been suggested by the Ontario

Chamber of Commerce and by leading research organizations such as the C.D. Howe Institute, the Conference Board of Canada and the Canadian Council of Chief Executives.

I would like to make two suggestions to you and your colleagues as we enter a period of national debate about interregional transfers and the appropriate roles of both the federal and provincial governments.

The first suggestion is for your Council to obtain fully independent research to study the problems described above and to recommend possible solutions. The Ontario Chamber of Commerce does not support a Royal Commission because it would take too long given the rapid relative economic decline Ontario is experiencing. However, the issue of the horizontal fiscal gap and its productivity and competitiveness implications could be referred to a consortium of independent policy organizations in Canada, or to international organizations such as the Organization for Economic Co-operation and Development (or to a combination of both). With adequate funding support, such a reference could be completed within six months and would address some of the key problems not addressed by the Advisory Panel on Fiscal Imbalance.

Our second suggestion is a matter of tone. We hope that all concerned will take the long view as the horizontal fiscal imbalance in Canada comes to the forefront of our national agenda. Recipient jurisdictions could continue to seek more funding from the rest of Canada, but we think they need to reflect on how that will impact Ontario as the jurisdiction whose people make the largest contribution to these efforts, and to Canada as a whole. Asking others to further contribute to programs that (a) are not measured in terms of their principal goals, (b) subsidize others to a higher standard than the citizens who disproportionately provide the funding, and (c) sharply constrain the ability of citizens in contributing jurisdictions to invest in the future, is not a system based on fairness and equality.

The fact that Ontario's effective provincial revenues per capita are now almost certainly the lowest in Canada should serve as a basic call to rethink our national policies on wealth transfers among regions.

Thank you for your consideration of these matters and for the efforts the Council is making on Canada's fiscal imbalances. I would be pleased to respond to any questions or observations this letter might bring to mind. You may have your staff contact Stuart Johnston, Vice

President Policy & Government Relations at (416) 482- 5222, ext. 232  
to arrange a meeting.

Yours sincerely,

Len Crispino  
President & CEO

ccs: The Right Hon. Stephen Harper, Prime Minister of Canada  
Hon Jim Flaherty, Minister of Finance  
Hon. Pat Binns, Premier of Prince Edward Island  
Hon. Gordon Campbell, Premier of British Columbia  
Hon. Lorne Calvert, Premier of Saskatchewan  
Hon. Jean Charest, Premier of Quebec  
Hon. Gary Doer, Premier of Manitoba  
Hon. Dennis Fentie, Premier of the Yukon Territory  
Hon. Joe Handley, Premier of the Northwest Territories  
Hon. Bernard Lord, Premier of New Brunswick  
Hon. Rodney MacDonald, Premier of Nova Scotia  
Hon. Dalton McGuinty, Premier of Ontario  
Hon. Paul Okalik, Premier of Nunavut  
Hon. Danny Williams, Premier of Newfoundland and Labrador

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

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