

# Fiscal talks could change country

Premiers want 'imbalance' fixed  
But that's about all they agree on  
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When they sit down to dinner tonight, the premiers and Prime Minister Stephen Harper will be setting in motion a potentially radical restructuring of Confederation.

The participants have told us that the dinner meeting is just an informal, get-acquainted session for the new prime minister and his provincial counterparts, but served up with the soup and salad will be something called the "fiscal imbalance."

In his campaign platform, Harper promised to fix it "in a permanent fashion." That drew applause from the premiers, who had grown tired of the piecemeal fixes offered by Harper's Liberal predecessors, Paul Martin and Jean Chrétien.

But the agreement among the premiers ends there. They disagree on the very definition of the fiscal imbalance and on the solutions.

The "have-not" provinces see the fiscal imbalance as "horizontal" — between themselves and the "haves" (Ontario, Alberta, British Columbia and Saskatchewan) — and the solution as a hike in equalization payments from Ottawa.

The "have" provinces see the imbalance as "vertical" — between the provinces and Ottawa. That is, Ottawa is awash in surpluses while the provinces are struggling to make ends meet. The most obvious solution to a vertical imbalance is to transfer "tax points" from Ottawa to the provinces.

Under a proposal put forward earlier this week by the Canadian Council of Chief Executives, the federal government would vacate the sales tax field and leave it to the provinces. At the same time, the federal government would eliminate transfers to the provinces for health, welfare and post-secondary education. The provinces would make up for the lost federal grants by increasing their sales taxes. Quebec likes this solution because it would get Ottawa out of areas of provincial jurisdiction — health, welfare and education. Unlike the federal transfer payments, there would be no strings attached to the sales tax room that the provinces would occupy. Quebec also wouldn't mind a sharp increase in equalization payments, which also have no strings attached. What of Ontario? This province, seen elsewhere as the fat cat of Confederation, is struggling with a budgetary deficit and crumbling public infrastructure. Premier Dalton McGuinty has also been complaining about the "\$23-billion gap" between what Ontarians pay to Ottawa in taxes and get back in federal goods and services.

A deal such as that proposed by the council of chief executives would go a long way toward closing that gap and enable Ontario both to balance its budget and make the necessary investments in public infrastructure.

There seems to be a reluctance on the part of the McGuinty government to embrace the idea, however — either out of fear it would be interpreted by the rest of the country as greedy or out of genuine ambivalence about undermining federal authority.

"In approaching this debate, we all have to be representatives of our respective constituencies and proud Canadians at the same time," said McGuinty last month in an interview with the *Star*. One informed source says the McGuinty government has not done the necessary research on the fiscal imbalance issue.

"This makes it harder for them, to put positions forward with the same sophistication that several other provinces (read: Quebec) bring to the table."

There is still time, of course. The issue will not be settled over dinner tonight. At best, Harper and the premiers will agree on a timetable of meetings, leading up to a first ministers' conference, perhaps in the fall.

Providing fodder for the debate will be two reports due out this spring: one from a federal task force looking at the equalization program, and another from a provincial panel studying the broader issue of the fiscal imbalance.

At the end of it all, Canada could be transformed.