10th Anniversary CPRN 10e anniversaire RCRPP 2005

Participants' Workbook

For the

Citizens' Dialogue on Sharing Public Funds for a Better Canada

December 10, 2005

Canadian Policy Research Networks Inc.

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About Canadian Policy Research Networks (CPRN)

CPRN is a not-for-profit think-tank based in Ottawa. It has been using public dialogue for a number of years as a means to involve citizens more directly in research and public policy discussions on issues such as health care reform, quality of life indicators, Canada's children, aging and the society we want. You can obtain further information about CPRN and its work in public involvement and other policy areas at www.cprn.org

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THE COUNCIL OF THE FEDERATION · LE CONSEIL DE LA FÉDÉRATION

Advisory Panel on Fiscal Imbalance · Comité consultatif sur le déséquilibre fiscal

Dear Dialogue Participant,

Thank you for agreeing to take part in the ***Citizens' Dialogue on Sharing Public Funds for a Better Canada***. The purpose of the dialogue is to better understand the values and principles that Canadians believe should guide the sharing of public funds between governments to allow each to provide quality public services to citizens.

This project is an initiative of the *Advisory Panel on Fiscal Imbalance* which was established by the *Council of the Federation* led by Canada's Premiers. Its mandate is to provide independent advice to the Premiers by March 1st 2006 on how to better share funds between the federal and provincial governments to ensure quality programs in areas such as health and education. This dialogue will help the Panel provide that advice.

The Advisory Panel has asked Canadian Policy Research Networks (CPRN), an independent not-for-profit think tank, to lead this dialogue with Canadians to seek your views on this important public policy issue. We are asking you to think through the values and principles that you believe should guide the sharing of public funds between governments to allow each to provide quality public services to citizens; invest in future growth and development; and enhance competitiveness.

There are no right or wrong answers here. What we are looking for is a better sense of what you collectively value and what you believe to be the best path to take, and why. We are also hopeful, that through this process, we can help inform Canadians about the nature of the challenge in front of us.

CPRN will use the findings gathered through this process to write a report for the Advisory Panel, focusing on what you, the participants, had to say about the fundamental and shared values that you want to guide governments as they direct funds to provide important public services. You will receive a copy of this report and it will be made public.

We sincerely appreciate the contribution you are making to this dialogue and hope you will find it to be a worthwhile and rewarding experience. Thank you for your participation.

Robert Gagné	Janice Gross Stein
Co-Chair	Co-Chair

INTRODUCTION

The Issue

The Issue

Each year federal and provincial/territorial governments in Canada collect billions of tax dollars. Some of the tax dollars the federal government collects are used to provide programs directly to Canadians. Other tax revenues are transferred to provincial/territorial governments to help them provide important public services like health care and education. While these services are, for the most part, in areas of provincial/territorial jurisdiction, these transfers help to provide quality services to Canadians, invest in future growth and development, and enhance competitiveness.

Currently, there are several ways that the federal government can and does transfer funds:

- Transfer tax points (e.g., let provinces collect more of the available income tax while the federal government collects less);
- Transfer money <u>without</u> conditions (e.g., through the Equalization program);
- Transfer money <u>with</u> conditions (e.g., money for health care that requires provinces and territories to ban extra-billing by physicians); or
- Provide benefits directly to citizens (e.g. Old Age Security and the National Children's Benefit) and transfer funds directly to institutions (e.g. universities) and municipalities

Each of these mechanisms reflects different values and principles. Some are designed to ensure that citizens across the country receive reasonably comparable public services (similar but not identical) regardless of where they live. Others help provincial/territorial governments to provide the types of services they believe their citizens want and need – regardless of what services citizens in other provinces are receiving. Still others help transfer funds raised in federal taxes from richer provinces to poorer provinces/territories (sometimes called "have" and "have not" provinces/territories.)

In other words, the way funds are shared among governments influences the kind of society that we live in and will leave for our children and grandchildren.

Through this dialogue, we want to:

- learn about the values that you, as citizens, hold dear;
- explore why you believe these values are important;
- discuss how you would address the tension that arises when values compete; and
- identify the tradeoffs that you are prepared to make to help Canada work better.

The dialogue will also explore the principles that you collectively believe should guide the sharing of public funds among governments to enable each to provide quality public services to citizens regardless of where they live.

There are no 'right' or 'wrong' answers to these questions. You must search inside yourselves to think about what is best for your community and for all the people of Canada, now and in the future.

Background

Canada is a federation which means that there are two levels of government – the federal government and provincial/territorial governments. (Issues related to municipal and First Nations governments are not part of this dialogue.)

Each level of government has its own formal responsibilities as set out in the Constitution. The federal government is responsible for such things as national defence, foreign policy and international trade among others. Provinces/territories are responsible for such things as education, health care, and social assistance. However, there is also an overlap of responsibility among federal and provincial/territorial governments in some areas (e.g. agriculture, the environment, and justice).

Both levels of government have the power to raise revenues. The federal government raises revenues in several ways - but mostly through personal and corporate income tax and sales taxes like the GST and HST.

Provincial/territorial governments also raise revenues through sales tax and personal and corporate income tax. As well they receive royalty revenues from natural resources such as oil and gas, potash and other minerals. In some provinces this is a significant source of revenue.

The federal government transfers money (both with and without conditions) to provinces/territories to help them pay for the services for which they are responsible (e.g., health care). Through its direct spending power, however, it also provides benefits such as employment insurance and pensions directly to Canadians and transfers funds directly to institutions (e.g. universities) and municipalities. Because federal revenues are more stable than provincial/territorial revenues the federal government has the ability to mount programs to respond to national challenges.

The system of transfers from the federal government to the provincial/territorial governments is about redistributing wealth to provide all Canadians with access to reasonably comparable (similar but not identical) government services regardless of who they are, where they live, how much tax they pay, or the relative health of their local and regional economy. This value is expressed in our Constitution which states that Canadian governments, federal and provincial, are: "[…] committed to:

(a) promoting equal opportunities for the well-being of Canadians;
(b) furthering economic development to reduce disparity in opportunities; and
(c) providing essential public services of reasonable quality to all Canadians."

In summary, the federal government transfers funds to provincial/territorial governments to help maintain a balance between revenues and responsibilities and to help provinces/territories provide quality services to all Canadians. When the federal government makes these transfers, it tries to do more than simply make up for shortfalls in provincial/territorial budgets. It often uses transfers and its spending power to encourage provinces/territories to pursue national goals (e.g., universal hospital/medical care and greater access to post-secondary education and quality child care).

How does the federal government transfer funds?

The experience of Canada and other countries has shown that alignment of governments' responsibilities and the services they pay for and the tax revenues they collect is never perfect. Over time the balance between federal and provincial/territorial revenues and expenditures shift for a number of reasons including :

- the state of the economy;
- changing demands from the public; and
- the decisions that governments make about taxes and expenditures.

Over time these shifts can lead to a fiscal imbalance between levels of government, or in other words, a mismatch between revenues and expenditures. As we will discuss later there is a debate about:

- whether a fiscal imbalance currently exists;
- whether it is more or less permanent (which might require a major change in tax powers and federal transfers to provincial/territorial governments); or
- whether it simply requires adjustment from time to time.

There are several ways to transfer funds to ensure provinces/territories have sufficient revenues to carry out their program and service responsibilities to their residents, including:

1) **Tax point transfers:** This involves the federal government reducing the amount of tax it collects so that provincial/territorial governments can collect more tax revenue to fund public services. The last time a tax point transfer occurred was in 1977 when the federal government agreed to reduce its taxes so provincial governments could increase theirs by exactly the same amount. (The value of this transfer in 2004-2005 was $17.5 billion, since it grows each year.) Transferring tax points does not change the total amount of tax citizens and businesses pay; rather it changes how much tax each level of government receives. The federal government basically gives up some tax room or tax points to provinces/territories from the income tax it collects from individuals and corporations.

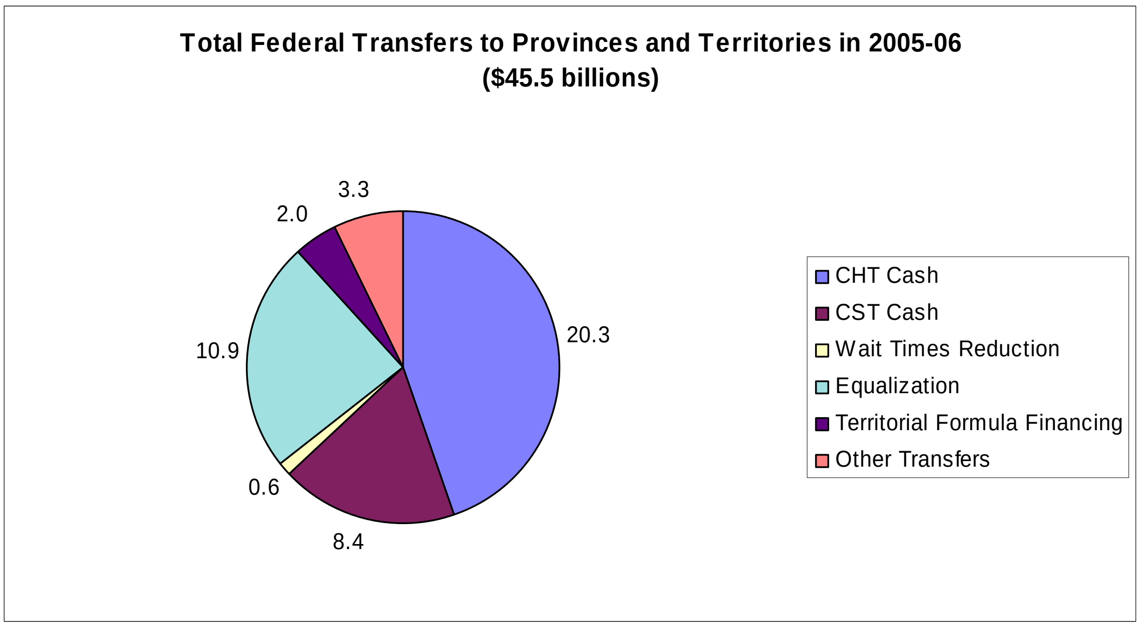
2) **Unconditional cash transfers:** The federal government transfers significant sums of money each year to help provincial/territorial governments to offer reasonably comparable (similar but not identical) levels of services to its residents. The most important of these payments is the Equalization Program for provinces (*Equalization*) and the Territorial Formula Financing (*TFF*) for the three northern territories. For the fiscal year 2005-2006, the federal government will transfer approximately $10.9 billion under the Equalization Program and $2 billion under TFF. Given their relative wealth, Alberta and Ontario do not receive Equalization and, depending upon the year and the size of their revenues, British Columbia and Saskatchewan sometimes do not qualify for Equalization payments. To date, the three Territories have always received TFF.

3) **Conditional cash transfers:** The federal government transfers funds to the provinces/territories but with certain conditions mostly for health care, post-secondary education, social assistance, child care, highways, infrastructure and legal aid. The conditions imposed by the federal government vary. For example:
   a. The Canada Health Act requires that provincial/territorial governments ensure that all Canadians have access to the health system even when they move from one part of Canada to another (mobility), and that patients are not required to pay anything extra when they receive services from physicians (extra-billing). In 2004-2005 the federal government transferred a total of $15.2 billion in cash to provincial/ territorial governments for health care using the Canada Health Transfer (CHT).
   b. In the fiscal year 2004-2005 the federal government gave provinces/territories a further $2.1 billion for more targeted expenditures relating to health reform and reducing wait times and wait lists.
   c. The Canada Social Transfer (CST) also transfers $8.2 billion to help provinces/territories to cover the cost of such things as social assistance and post-secondary education.

4) **Direct Federal Spending:** This is another way the federal government can provide supports and services to citizens and institutions. In 2003-2004 Ottawa transferred a total of $42 billion to individuals and a further $23 billion to institutions. These transfers include:
   - grants to municipalities for infrastructure;
   - direct transfers to universities for research;
   - targeted financial assistance to individual Canadians in need by means of such things as:
     - employment insurance,
     - pensions,
     - disability payments,
     - direct payments to families with children,
     - student loans;
   - grants to support skill/language training;

- transfers to First Nations governments and direct assistance to Aboriginal peoples;
- assistance to businesses for research, export development, etc.

The following pie chart provides a snapshot of federal government transfers to the provinces/territories through six transfer mechanisms. The table that follows provides more details on examples of federal government transfers to provinces/territories and directly to individuals.



Source: Finance Canada

Transfer	Total Amount / Year
Unconditional Transfers to Provinces/Territories	**2005-2006**
• Equalization (to all provinces except Ontario and Alberta) • Territorial Formula Financing	$10.9 Billion $2.0 Billion
Conditional Transfers to Provinces/Territories	**2005-2006**
• Health – Canada Health Transfer (CHT) • Health - Wait Times Reduction Transfer (WTRT) • Social Assistance and Post-secondary Education (CST) • Other Transfers for persons with disabilities, official languages, infrastructure, etc.	$20.3 billion $0.63 Billion $8.4 Billion $3.3 Billion
Selected Transfers to Individuals and Institutions	**2003-2004** (the most recent year available)
• Old Age Security payments, the Guaranteed Income Supplement and the Allowance for spouses. • Employment Insurance • Cash payments to low- and modest-income families: Canada Child Tax Benefit ($8 billion) and the Goods and Services Tax (GST) credit ($3 billion) • Support for research and development, infrastructure, regional development and assistance to businesses • Transfers to First Nations and Aboriginal peoples • Assistance to farmers and other food producers	$27 Billion $15 Billion $11 Billion $3 Billion $9 Billion $4 Billion

Source: Finance Canada

Principles that guide transfer decisions

The following seven principles have guided decisions about transfers.

- ***Equity*** means that Canadians receive reasonably comparable services (similar but *not* identical) from government regardless of where they live. Our Constitution states that federal and provincial/territorial governments are committed to:
    - promoting equal opportunities for the well-being of Canadians;
    - furthering economic development to reduce disparity in opportunities; and
    - providing essential public services of reasonable quality to all Canadians.

- ***Fairness*** relates to issues about how much equity and how much redistribution. Currently, different programs use different ways to achieve fairness including:
    - *Relative wealth* of a province so that the poorer provinces get more and richer provinces get less (or perhaps nothing at all) from one type of transfer.
    - *Local conditions* affect the amount and type of services needed in a province/territory and costs to deliver services (e.g. remote areas).
    - *Per capita* (population) approach is based on the premise that the more people in a province/territory, the larger the demands for government programs/services, and the larger the total size of the federal transfer.

- ***Accountability*** addresses issues related to transparency about:
    - who funds which services;
    - how money is spent;
    - for what purpose; and
    - how results are reported.

- ***Adequacy*** means that provinces/territories can offer programs and services that:
    - are sufficient to meet the needs of their population;
    - are reasonably comparable to levels of service in other provinces/territories; and
    - will help reduce disparities among different parts of Canada.

- ***Affordability*** means that the ways in which funds are transferred to provinces/territories helps the federal government plan ahead and avoid a deficit. It also means that the way in which the federal government transfers funds and the amount it transfers are predictable so that both federal and provincial/territorial governments can manage their budgets without regularly running deficits as a result of decisions made by others.

- ***Shared National Goals*** means that some programs reflect our national values and help define us as Canadians. These goals can be promoted by ensuring all provincial/territorial governments have the resources necessary to provide reasonably comparable levels of services at reasonably comparable taxation levels. This can be achieved by Equalization, by conditional transfers to provinces (e.g., for post-secondary education) or transfers to individuals (e.g., scholarships and subsidized students loans). It can also be achieved by federal programming and cost-sharing with provinces/territories to ensure that funding for services is used for common purposes to meet common goals.

- ***Autonomy*** recognizes that provincial/territorial governments are best able to tailor funding to their local needs and realities in certain areas. The way we share public funds can affect provincial/territorial government decision-making. For example:
    - Transferring tax points and unconditional transfers like Equalization and TFF give provincial/territorial governments greater control. They can use these revenues as they see fit (e.g., to offer more and better services, rely less on tax revenue, or avoid deficit financing) without having to negotiate with the federal government.
    - Conditional transfers like the Canada Health Transfer limit the autonomy of provinces/territories insofar as they must respect the conditions and principles included in the Canada Health Act (e.g., no extra-billing by physicians).
    - Other conditional transfers, like the recent transfer for child care (being negotiated separately with each province), require provincial governments to respect certain obligations as to how and where they spend the money (e.g. ensuring universal access).

Key concerns about how we share public funds

Having outlined some background on the way we share public funds in Canada and the principles underlying these transfer decisions, let's look at some current debates about how funds are shared among governments.

Fiscal Imbalance

While there is always some gap between revenues and responsibilities in a federation, and a gap between wealthier parts of the country and less wealthy parts of the country, many experts and provincial/territorial Premiers argue that this gap has grown too large. They point to growing federal surpluses when most provinces/territories are running deficits or only have small surpluses due in part to the rising costs of health care. They also point to the growing disparity in wealth among the different parts of the country. The term "fiscal imbalance" has been used to describe this situation and it is said that this imbalance can take two forms:

- ***Vertical fiscal imbalance*** is a ***gap between revenue sources and spending*** responsibilities between the two levels of government. It means that one level of government collects more tax dollars than it needs to support its responsibilities. This limits the ability of the other level of government to raise the revenue it needs to fund its responsibilities.

- ***Horizontal fiscal imbalance*** is the ***difference in the ability of individual provinces/territories to raise revenues*** to meet the needs of their individual citizens. It means there is disparity in the ability of some provinces/territories to deliver reasonably comparable quality services at reasonably comparable taxation levels.

The federal government does not accept that a vertical fiscal imbalance exists. It argues that both levels of government have access to all major sources of revenue. The federal government says that if provinces are faced with rising costs, such as in health care, they can:

- choose to cut spending in other areas,
- raise taxes,
- be less aggressive in cutting their own taxes, or

- use a combination of the above measures.

The federal government argues that it must deal with a much larger debt burden compared to that of the provinces/territories and that it is under considerable pressure to reduce its own taxes and increase spending in areas like national defence, foreign aid and Aboriginal affairs.

The federal government agrees that a horizontal fiscal imbalance exists – and says that this is why Equalization was introduced in the late 1950s. From 1982 to 2005, the amount transferred under the program was determined by a formula based on how much was needed in the five "middle-rich" provinces in Canada (B.C., Saskatchewan, Manitoba, Ontario and Quebec). This formula resulted in an amount that varied widely each year.

This year the Equalization program was changed – it is now a fixed amount ($10.9 B) that will increase by 3.5% per year. The federal government argues that these recent changes will make this transfer program more stable and predictable, while ensuring it provides adequate resources to provinces/territories. Therefore, for the federal government, the question is what are the best and fairest ways to address horizontal imbalance?

Achieving a better vertical fiscal balance: what is fair; what would work best?

Those who argue that a vertical imbalance exists, think that the best way to address it is to increase the size of federal transfers to the provinces/territories. Some also argue specifically for an increase in the size of the Equalization Program. Others suggest that the federal government should give more tax points to the provinces/territories so they can raise the revenue they need to pay for the services they provide without increasing the tax burden on citizens.

Earlier we saw that there are different ways of defining what constitutes a fair and effective approach to sharing public funds among provinces. Tax dollars can be redistributed according to several criteria:

- Relative wealth or economic disparity;
- Local conditions;
- Per capita (population);
- Service or population needs; or

- Some combination of these factors.

Achieving a better horizontal fiscal balance: what is fair; what would work best?

Three issues should be considered when thinking about how to address horizontal fiscal imbalance.

1) **Disparities** are increasing across the country as some provinces benefit from natural resource revenues and "windfalls" from high oil and gas prices. This raises questions about the extent to which some provinces (e.g., Alberta) should enjoy all the benefits of such "windfalls" or whether our idea of Canada as a sharing community means that these additional revenues should be shared (and if so to what extent). How we deal with uneven distribution of natural resource revenues affects how we address the inequalities in revenues among regions of the country.

2) **Special arrangements** are being made with some provinces so they can keep revenues from offshore oil and gas resources (e.g. Newfoundland/Labrador and Nova Scotia). This means that these revenues are not clawed back when Equalization payments are calculated. These provinces claim that these nonrenewable natural resources are limited and profits should be used to help the industry grow. Other provinces argue that if there are special arrangements for some provinces then other provinces should have access to similar arrangements (e.g. Saskatchewan whose natural resources revenues are included in Equalization payments.)

3) In seeking to be fair to the less well off parts of Canada there is a risk that we could **overequalize**. That is to say, in redistributing funds to the poorer parts of Canada, we can reach the point where the transfer system can penalize the richer parts of Canada either by redistributing too much of wealth generated in some parts of the country to other parts (e.g., concerns in Alberta about taking away resource revenues) or doing so in a way that threatens their ability to generate wealth (e.g., concerns in Ontario that the transfer system risks harming the Ontario economy, a critical engine of growth for all of Canada).

CASE STUDIES

The following outlines two different case studies for you to discuss in small groups this afternoon.

- **Access to Post-secondary Education** (PSE) is a case study to help you think about the principles and issues related to vertical fiscal imbalance. It is about how the federal government should allocate funds for PSE to ensure that more students can attend a technical school, college or university.
- **The Equalization Program** is a case study to help you think about principles and issues as they relate to horizontal fiscal imbalance. It is about how the federal government should redistribute public funds to help provincial/territorial governments provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Case Study # 1 – Access to Post-secondary Education
- Focusing discussion on vertical fiscal imbalance

Post-secondary education is critical to Canada's economic and social success in the 21st century. For the economy as a whole, investments in education and research/development are essential to keeping Canada competitive in a global world economy.

For individuals access to higher education serves two goals – achieving a higher quality of life, and providing people with the skills they need to adapt to life's opportunities and challenges.

The following provides a snapshot on post-secondary education (PSE) in Canada today.

- People who complete PSE, especially university graduates, are much more likely to be employed in better jobs and have higher incomes. They are also much more likely to vote in elections and engage in civic activities.
- The cost of PSE has increased significantly over the past decade. Students and families are paying a larger share of PSE costs (23% in 2001 compared to 17% in the mid-90s) which is an increasing burden for many low and middle income families.

- Other factors in addition to financial circumstances limit access. These include parental education/expectations, living in a remote/rural area, and inadequate information on the costs/benefits of PSE.
- Mobility is another key aspect of PSE – many students attend educational institutions outside their home province/territory in order to take the program of their choice and/or experience other parts of the country. These out-of-province students face higher tuition fees than students who pursue education in their own province/territory.

For many years now we have recognized that most individuals and their families and provincial governments do not by themselves have sufficient resources to pay for all of the funding required by universities, colleges and technical schools. Both the federal and provincial/territorial governments agree that more funding is required for PSE in Canada. But they do not always agree on the amount or how best to make that money available.

Four different approaches that could be used by the federal government are set out below. Each approach would have a different impact on provinces/territories.

1. It could transfer tax points to provinces/territories which could then be used to raise more provincial/territorial revenues to expand PSE in their region. However, provincial/territorial governments could choose to use these additional tax points to lower other taxes or invest in other priority areas.
2. It could transfer money directly through increased unconditional payments to all provinces/territories or increased Equalization payments to eligible provinces. This would allow the provinces/territories to spend more on PSE. However, these would be unconditional transfers would mean that provinces/territories could use this revenue to fund other priorities, if they so desired. And if Equalization was the mechanism used, not all provinces would benefit as some do not receive Equalization.
3. It could make specific conditional, targeted grants to all provinces/territories (not just those who receive Equalization payments) for higher education. This could be done either by increasing the existing Canada Social Transfer or by creating a new, dedicated transfer for post-secondary education with new

conditions. These conditions could, for example, require provincial/territorial governments to guarantee equal access to all Canadians (e.g., outlaw higher fees to out-of-province students) or require the province/territory to use the funds to increase access to PSE (e.g., lower or limit the increases in tuition fees). However, some provinces/territories may argue that the conditions do not fit with their own educational priorities.

4. It could transfer money directly to individual students or individual universities and colleges by means of grants, subsidized student loans, scholarships, and so forth. (This could build on existing federal efforts such as the Canada Millennium Scholarship Fund, the Registered Education Savings Plan and the Canada Student Loan Program). This approach would enable the federal government to help address the specific needs of universities, colleges or technical schools, and the particular challenges faced by students and their families without having to transfer money to provinces/territories first. However, provinces/territories would still need to find the funds for infrastructure and operating costs especially if enrollments increase.

There are different principles underlying these different approaches. The focus of your afternoon discussion will be to think through how the federal government should increase access to PSE and the principles that support your beliefs. What trade offs are you prepared to support in making these choices and why?

Case Study #2 – The Equalization Program
- Focusing discussion horizontal fiscal imbalance

The Canadian economy is very diverse and, over time, different regions of Canada have prospered while other regions have not done as well. As these regional economies rise and fall, so do the revenues available to provincial/territorial governments. It was to anticipate and address these differences that the Equalization Program was initiated in the late 1950s.

The purpose of Equalization is to enable each province to provide "reasonably comparable levels of services at reasonably comparable levels of taxation", as set out in the Constitution.

Equalization is very important because it makes yearly payments to provinces who are eligible. This year, it accounts for:

- approximately 21% of all revenue for the Atlantic provinces,
- 9% for Quebec,
- almost 20% for Manitoba, and
- approximately 2% for BC.

As noted earlier, the federal government has recently changed the Equalization program. Beginning this year, payments to a given province are no longer tied to provincial revenues. Instead, the overall Program has an allocation of over $10 billion which will grow at 3.5 % a year. What remains to be decided is how to allocate the Equalization pie among the eligible provinces.

The Equalization Program (and by extension Territorial Formula Financing) described above are examples of the importance that Canadians place on equity, so much so, that the Constitution says that:

> "Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

The following outlines some of the questions being discussed in the current debate about Equalization including how to allocate the Equalization pie among the eligible provinces.

- If disparities among provinces are growing because of oil and gas revenues in a few provinces, should the Equalization program be changed so that all provinces can benefit from these revenues?

- While it may be fair to redistribute wealth from the relatively wealthy parts of the country to the relatively less well off ones, how much redistribution should there be? How much fairness can we afford? Should we be concerned about a possible impact on the regions that generate most of the wealth?

- A key principle of Equalization is to raise all provinces to a national financial standard. But if this standard is raised (so that the less well off provinces receive more dollars) it would cost the federal government more money. Should we be as concerned about affordability as we are about ensuring that less well off provinces receive more funds? In other words, do we need to be concerned about controlling costs? Should Equalization be capped at a certain amount?

There are three different approaches the federal government could use in deciding the size and allocation of the Equalization program. Each emphasizes different principles:

1. ***A higher national financial standard than currently exists to equalize even more.*** This would mean more money in the Equalization program as all revenues from natural resources in all ten provinces would be included. Receiving provinces would gain more than currently from these higher oil and gas revenues. This would help provinces receiving Equalization to improve their public services. However, it would cost the federal government more and would strain federal/provincial relations for those provinces with natural resource wealth as the Constitution gives the provinces control of natural resources.

2. ***A higher national financial standard <u>with</u> the condition that the federal government would determine affordability and only some natural resource revenues would be included.*** As with Approach # 1, this would mean a higher national standard than currently exists. It would also mean that the federal government would set a cap on how much Equalization was paid out each year based on what it felt was affordable. Regardless though this approach would lead to higher payments for provinces receiving Equalization than the current approach, helping them to provide better public services. However, there would be uncertainty each year about how much money each would get.

3. ***The current approach with special arrangements for some provinces.*** This would mean a basic Equalization program as it is now for all provinces, but with special arrangements for certain provinces (as has been done with Nova Scotia, Newfoundland/Labrador because of their natural resource situation and what is being sought by Saskatchewan). This would mean that some provinces could receive more Equalization payments than others depending upon their natural resource wealth. However, the overall national standard would be lower than in the other two approaches. It would also be less expensive for the federal government.

There are competing principles underlying the different ways that equalization can be structured. During this discussion, you will think through what you want equalization to do. What trade offs are you prepared to support in making these choices and why?

The Purpose of Today's Meeting

- The purpose of today's meeting is for you, as Canadians, to define the values and principles that you believe should guide the sharing of public funds between governments to help each to provide quality public services to citizens. You will spend most of the day discussing the values you would like to be reflected in the principles that underline different ways that governments can share funds. Your discussions will result in your best advice to the Advisory Panel on Fiscal Imbalance about what it puts in its report to the Premiers.

- By the end of the day you may think that the principles underlying one approach capture your views better than others; you may identify a different set of principles; or you may end up sharply divided. At the very least you will have had a good discussion and you will come away with a better understanding of how federal and provincial/territorial governments share funds to help them to provide public services.

- What should you expect the day's dialogues to produce?

  You have been invited as a randomly chosen group of Canadians because we want to hear about your values and points of view.

  We are not expecting you to be an expert on how governments share funds so you won't be asked to make a decision on policy details. Experts know about technical information, but they need your help to understand the basic values and principles that you believe should guide governments.

  It is only you, as citizens, who can say what values you want to see reflected in how governments share funds to help them to provide services for yourselves, your children and future generations.

Agenda for the Day

Opening comments

Initial thoughts (questionnaire)

Introducing ourselves

AM: Large group discussion

What values and principles do Canadians believe should guide the sharing of funds between governments to enable each to provide public services to citizens?

Lunch

PM: Small group discussion of case studies

Access to Post-secondary Education

The Equalization Program

Final thoughts (questionnaire)

Voicing key messages to decision makers

Identifying the most important insights from the day

Closing comments

Summary of Four Approaches

Approach 1
Provinces/territories get tax points

The first approach is for the federal government to reduce the amount of tax it collects so provincial/territorial governments can collect more tax to help pay for the services they provide. This does not change the amount of tax Canadians pay.

Approach 2
Provinces/territories get federal cash transfers <u>without</u> conditions

The second approach is for the federal government to transfer more cash to provincial/territorial governments to help them provide reasonably comparable (similar but not identical) services to all Canadians as they see fit.

Approach 3
Provinces/territories get federal cash transfers <u>with</u> conditions

The third approach is for the federal government to transfer funds to provinces/territories with specific targeted conditions to enable them to provide reasonably comparable (similar but not identical) services under certain rules and aimed at certain results.

Approach 4
Federal Government provides more direct spending to citizens and institutions

The fourth approach is for the federal government to increase its own direct spending to provide supports and services directly to individuals and institutions and not to transfer more funds through provinces/territories.

USING DIALOGUE

Debate vs. Dialogue

The discussion that you and your fellow citizens will be having today is designed to be a dialogue. Dialogue is a special kind of conversation that involves learning together and working to understand different points of view to try to build on common ground. Dialogue is very different from debate, as shown in the chart below.

Debate	Dialogue
Assumes that there is one right answer (and you have it)	Assumes that others have pieces of the answer.
Attempts to prove the other side wrong	Attempts to find common understanding
Objective is to win	Objective is to find common ground
Listening to find flaws	Listening to understand
Defend your personal assumptions	Explores and tests personal assumptions
Criticizes the others' point of view	Examines all points of view
Defends one's views against others	Admits that others' thinking can improve one's own
Searches for weaknesses and flaws in the others' position	Searches for strengths and value in the others' position
Seeks an outcome that agrees with your position	Seeks an outcome that creates new common ground

PRINCIPLES & GROUND-RULES FOR DIALOGUE

1. The purpose of dialogue is to understand and to learn from one another (you cannot "win" a dialogue).

2. All dialogue participants speak for themselves, not as a representative of others' interests.

3. In a dialogue everyone is treated as an equal: leave role, status and stereotypes at the door.

4. Be open and listen to others even when (<u>especially</u> when) you disagree, and suspend judgment.

5. Identify and test assumptions (especially your own).

6. Listen carefully and respectfully to the views of others: acknowledge you have heard the other <u>especially</u> when you disagree.

7. Look for common ground.

8. Express disagreement with ideas, not with personalities or motives. (Disagree without being disagreeable)

9. Keep dialogue and decision-making as separate activities (dialogue should always come before decision-making).

10. Respect and record all points of view (without attribution).

4 Approaches to Sharing Public Funds

Approach 1
Provinces/territories get more tax points

The first approach is for the federal government to reduce the amount of tax it collects so provincial/territorial governments can collect more tax to help pay for the services they provide. This does not change the amount of tax Canadians pay.

Example: The federal government could transfer tax points to provincial/territorial governments which governments could use to expand access to Post-secondary education in their province/territory. However, provincial/territorial governments could choose to use these additional tax points to lower other taxes or invest in other priority areas.

PROS: Arguments in favour of Approach 1

- Provincial/territorial governments would have greater flexibility to provide services their citizens want and need.
- Resources would better match responsibilities.
- There would be greater stability and predictability for provinces/territories.

CONS: Arguments against Approach 1

- Would mean greater differences and disparities in social and economic programs across Canada as provinces/territories make different choices.
- Would discourage shared national purpose as the Federal government has less ability to achieve national goals.
- Would distort business investment decisions and set up competition for investment among provinces/territories with greatly differing tax rates.

Approach 2
Provinces/territories get federal cash transfers without conditions

The second approach is for the federal government to transfer more cash to provincial/territorial governments to help them provide reasonably comparable (similar but not identical) services to all Canadians as they see fit.

Example: It could transfer money directly through increased unconditional payments to all provinces/territories or increased Equalization payments to eligible provinces. This would allow the provinces/territories to spend more on PSE. However, these would be unconditional transfers which means that provinces/territories could use this revenue to fund other priorities, if they so desired. And if Equalization was the only mechanism used, not all provinces would benefit as some do not receive funds.

PROS: Arguments in favour of Approach 2

- Would reflect fundamental Canadian values about sharing and autonomy.
- Would allow provinces/territories greater flexibility to design services to meet changing needs for their own residents.
- Would respect provincial/territorial jurisdictions as they are closer to home and best suited to deliver certain types of public services.

CONS: Arguments against Approach 2

- Would mean greater differences and disparities in social programs across Canada as provinces/territories make different choices.
- Would mean that the federal government has less ability to achieve national goals.
- Would mean less predictability for provinces/territories as the federal government could unilaterally change the amount of cash it transfers.

Approach 3
Provinces/territories get federal cash transfers <u>with</u> conditions

The third approach is for the federal government to transfer funds to provinces/territories with certain conditions to help them provide reasonably comparable (similar but not identical) services but under certain rules and aimed at certain results.

Example: The federal government could increase the amount of the existing Canada Social Transfer and/or make a new dedicated transfer for PSE with new conditions, These conditions could, for example, require provincial governments to guarantee access to all Canadians (e.g. no higher fees for out-of-province students) or the conditions could require the province to use the funds to increase access to PSE (e.g, lower or limit the increases in tuition fees.) These conditional transfers could be made to **all** provinces/territories - not just those receiving equalization. However, some provinces/territories may argue that the conditions do not fit their own educational priorities.

PROS: Arguments in favour of Approach 3

- Conditions would give the federal government the opportunity to promote shared national objectives.
- Would provide more comparable standards across the country.
- Would improve accountability between levels of government.

CONS: Arguments against Approach 3

- Provincial/territorial governments would have less autonomy in deciding the best use of funds.
- Accountability to citizens by both levels of government for the same programs would be confusing to citizens. It’s never really clear who is responsible for what.
- Enforcement of conditions would lead to more wrangling among federal, provincial/territorial governments.

Approach 4

Federal Government provides more direct spending to citizens and institutions

The fourth approach is for the federal government to increase its own direct spending to provide supports and services directly to individuals and institutions and not to transfer more funds through provinces/territories.

Example: The federal government could transfer more money to individual students or individual universities and colleges by means of grants, student loans and scholarships. This would build on existing federal programs such as the Registered Education Savings Plan, the Canada Student Loans Program and/or the Canada Millennium Scholarship Fund). This program would help address the specific needs of universities, colleges, technical schools, and the particular challenges faced by students and their families without having to transfer money to the provinces/territories first. However, provinces would still need to find the funds for infrastructure and operating costs especially if enrollments increase.

PROS: Arguments in favour of Approach 4

- Would maximize equity across the country - all citizens would be treated alike regardless of where they live.
- Would be more efficient as the federal government could deliver programs to all citizens or target specific groups of citizens through the tax system.
- Federal government would fill a perceived need.

CONS: Arguments against Approach 4

- Would not respect provincial/territorial jurisdictions.
- Governments would be working at cross purposes unless programs are carefully designed, coordinated and implemented.
- Would undermine provincial/territorial autonomy by distorting provincial / territorial priorities and preferences.