



REPORT ON OUTCOMES

# A STRONG ONTARIO FOR A STRONG CANADA

A SUMMIT ON STRENGTHENING ONTARIO'S FUTURE AND OUR COUNTRY'S FISCAL ARRANGEMENTS



# 1 BACKGROUND

**“All provinces must have the funding we need to invest in the programs and services essential to our quality of life so we can make sure that Ontario and Canada remain great places in which to live, work, invest, and raise a family.”**

*Premier Dalton McGuinty*

**“It is clear that this issue is about more than simply money. It is about the kind of economy, society, province and country we are trying to build.”**

*Marie Bountrogianni, Minister of Intergovernmental Affairs*

On June 21, 2006, Ontario Premier Dalton McGuinty and Ontario Minister of Intergovernmental Affairs Marie Bountrogianni brought together 200 leaders from across the province to join them, Ontario cabinet ministers, and representatives of the official Opposition at *A Strong Ontario for a Strong Canada*, a summit on strengthening Ontario’s future and our country’s fiscal arrangements. Part of an ongoing dialogue, the summit was a unique opportunity for a range of Ontario leaders, stakeholders, and citizens to share their views on how Canada’s fiscal arrangements could better ensure our future prosperity.

Participants at this landmark event represented all the province’s regions, political orientations, and sectors, including business, health care, education, agriculture, municipal governments, community groups, and the academic world. Although they were dealing with a topic many consider dry and complex, the summit participants brought the issue to life by sharing their experiences of serving Ontarians and working to improve the quality of life of our people and the prosperity of our province and country.

Although diverse in background, participants shared a commitment to Canada and Ontario. Through their expertise, this group of leaders began to point the way toward new fiscal arrangements: arrangements that would be fair to all Canadians, would build prosperity for future generations, and would acknowledge and embrace the economic and social realities of today’s world.

Minister Bountrogianni opened the summit and welcomed participants to this historic event. She remarked on the importance of the summit and on the significance of hearing the views of Ontario leaders. Premier McGuinty then outlined his vision for fiscal arrangements that would benefit all Canadians, not just today but into the future. He focused on how greatly our province, country, and world have changed, while our fiscal arrangements have not kept pace. Participants then heard from a panel of experts who shared their knowledge and views. The remainder of the day was spent in small discussion groups, where participants discussed Canada’s fiscal arrangements and options for reforming them. Framing the dialogue was a discussion paper, available at <http://www.strongontario.ca/english/summit/DiscussionPaper.pdf>. The day ended with participants presenting a summary of their discussions to Premier McGuinty and Minister Bountrogianni.

As discussion of the fiscal arrangements continues over the coming months with other provinces and territories and with the federal government, we will look back on the summit as a key event in refining and strengthening Ontario’s position – and illuminating the national debate.

## 2 WHAT THE PANEL TOLD US

In the morning plenary session, a panel of experts shared a range of perspectives on the fiscal arrangements. Moderated by Frances Lankin from the United Way of Greater Toronto, the panel consisted of Don Drummond from the TD Bank Financial Group, David Lindsay from the Association of Colleges of Applied Arts and Technology of Ontario, Ilse Treurnicht from MaRS Discovery District, and Len Crispino from the Ontario Chamber of Commerce.

Panellists unanimously agreed that the current fiscal arrangements do not work as well as they should, and that they must change in order to promote Ontario's and Canada's competitiveness and a high quality of life in the 21st-century global economy.

These were the key conclusions of the panel:

- fiscal arrangements must encourage long-term economic growth, competitiveness, innovation, and prosperity;
- addressing the fiscal arrangements is an important national priority that has united political parties in Ontario; and
- dialogue must continue in order to find solutions to the fiscal imbalance that will benefit all Canadians.

**“We must correct the fiscal imbalance so that Ontario is optimally positioned to compete in this brave new world ... We must focus our investments, our talents, our creative resources strategically and relentlessly on this task.”**

*Dr. Ilse Treurnicht, CEO, MaRS  
Discovery District*

**“The debate about fiscal arrangements is not just about abstract issues of tax points between governments. It is an issue of fairness for individual citizens of this country and this province.”**

*David Lindsay, President and CEO,  
Association of Colleges of Applied  
Arts and Technology of Ontario*

## 3 WHAT THE PARTICIPANTS TOLD US

Participants at the summit had a keen understanding of the challenges and opportunities facing Ontario. Like the panellists, they agreed that renewed fiscal arrangements are vital for Ontario and Canada. In particular, participants:

- endorsed a principles-based approach;
- agreed that Ontario deserves equitable treatment in federal transfers and programs;
- argued that addressing the vertical fiscal imbalance to benefit provinces, territories, municipalities, and all Canadians is essential;
- concurred that our fiscal arrangements must meet the opportunities and challenges posed by global trade, urban growth, growing diversity as a result of immigration, high commodity prices, and a high dollar; and
- stressed the need to ensure that our fiscal arrangements help Ontario and Canada to remain competitive and thrive in the 21st-century global economy.

**“The natural way of looking at something is tinkering around in the edges. I think we need to go back along the lines of what the Premier outlined and look at the transformation of the Canadian economy since the present regime of fiscal arrangements were put in place, and then see if the fiscal arrangements don't need to be modified.”**

*Don Drummond, Senior Vice-President and Chief Economist, TD Bank*

Participants echoed Premier McGuinty's call for a comprehensive review and fundamental reform of Canada's fiscal arrangements. They emphasized that such reform would require the development of a shared national vision involving all levels of government – federal, provincial/territorial, and municipal – including an examination of the roles and responsibilities of each level.

These views, as well as some specific ideas, were explored in the discussions on principles, objectives, and options for reform.

### PRINCIPLES

The discussions on reforming Canada's fiscal arrangements started with an examination of the principles-based approach put forward by the Ontario government. The principles – fairness, transparency, accountability, adequacy, affordability, and durability – were supported by participants. Participants agreed that the government should continue to pursue this principles-based approach in its discussions with other provinces, the territories, and the federal government.

Participants made a number of suggestions to clarify and strengthen the six principles, and they added some new ones. Two of the new principles most widely discussed were effectiveness and competitiveness.

## EFFECTIVENESS

The principle of effectiveness was raised throughout the day: by panellists in the morning, during discussion groups, and by the Premier in his closing remarks. Different aspects of effectiveness were discussed.

Participants suggested that, first, fiscal arrangements must effectively promote and foster economic growth across Canada. Second, they concluded that objective measures are needed to assess the effectiveness of our fiscal arrangements in meeting program goals. In particular, participants called for measures to determine whether the Equalization program, at its current size and with its existing method of operation, is meeting its constitutional objective: providing Canadians with access to reasonably comparable services at reasonably comparable levels of taxation.

## COMPETITIVENESS

The principle of competitiveness had broad support at the summit. Participants saw it as a requirement to ensure that our fiscal arrangements foster the innovation and creativity needed to strengthen all Canadians. This principle was seen as key to ensuring that provinces, territories, and the country as a whole are better positioned for continued success and prosperity in the future.

## OBJECTIVES AND OPTIONS

Participants were asked to respond to the four objectives for reforming fiscal arrangements put forward by the Government of Ontario: equitable treatment, correcting the vertical fiscal imbalance, improving the Equalization program, and pursuing fundamental reforms.

## EQUITABLE TREATMENT

Discussion groups agreed that Canada's fiscal arrangements must provide equitable treatment to all Canadians, including those who live in Ontario. Participants supported addressing this inequity by providing Ontario with the same per capita cash funding in federal transfers that other provinces receive.

Participants took the notion of equitable treatment a step further, noting that all Canadians should have comparable access to programs and services of comparable quality. Measuring the achievement of "comparable access" and "comparable quality" of programs was seen as fundamental. This theme was more fully explored in the context of discussions on the Equalization program.

**"Our members... want a transportation system that's capable of helping our province grow, and that'll bring jobs to our economy. They also want to be able to spend less time in traffic and more time with their families... We need the federal government to come to the table with municipalities and with the provincial government so we can realize those goals."**

*Kris Barnier, Canadian Automobile Association*

**“Cities and municipalities are a lot more important to our success in the world economy than they were 10 or 15 or 20 years ago, and that means they have more responsibilities and they require more resources. And until the federal-provincial gap or imbalance is addressed, we won’t see the province having a fiscal capacity to fund municipalities the way they should be funded.”**

*Robert Maclsaac, Mayor,  
City of Burlington*

### **CORRECTING THE VERTICAL FISCAL IMBALANCE**

In these discussions, participants expressed a preference for a coordinated transfer of tax room from the federal government to the provinces and territories, as opposed to increased cash transfers. This preference was linked to the view that the roles and responsibilities of each level of government must be clarified. Participants reasoned that the responsibilities of each level of government should match its revenue-generating capacity; coordinated tax room transfers are the most suitable approach for achieving this purpose.

In addition, participants said coordinated tax room transfers would conform to the principles of accountability and transparency, with the level of government raising the revenue also being responsible for delivering the associated programs and services. In this context, participants felt a discussion on vertical fiscal imbalance must also look at the role of municipalities.

Summit participants also recognized the need for provinces and territories to invest in physical and social infrastructure, postsecondary education and training, and innovation. They noted that Ontario has the lowest per capita funding for postsecondary education and pointed out that fiscal arrangements that support a knowledge-based economy will enhance our future competitiveness and prosperity.

### **IMPROVING THE EQUALIZATION PROGRAM**

There was considerable discussion about the specific options for improving equalization, but participants wanted to focus the debate on achieving the results deemed necessary for successful wealth redistribution. The options in the discussion paper moved the debate forward, but participants did not feel any single option on its own would achieve the desired outcomes.

Some of the options – including abatements and caps, a broader definition of fiscal capacity, and cost-of-living analysis – were seen to be promising and consistent with principles such as accountability and fairness.

Participants expressed concern about moving to a so-called ten-province standard for equalization. They said such an approach would not help achieve the desired outcomes of the program and would be punitive to Ontario’s economy, its residents, and Canada’s ability to invest in the future prosperity, competitiveness, and quality of life of all provinces and territories.

Participants noted that there has been no attempt to measure the effectiveness of the Equalization program. They recommended measures to determine whether the program is achieving reasonably comparable levels of service at reasonably comparable levels of taxation, as specified in the Constitution.

## FUNDAMENTAL REFORMS

Many discussion groups focused on fundamental reforms to the fiscal arrangements and echoed the Premier's call for a national commission including all levels of government: federal, provincial/territorial, and municipal. Participants recommended developing a shared national vision and comprehensive solutions, rather than focusing on short-term stopgap measures. Participants found it remarkable that our fiscal arrangements, mostly designed for interprovincial redistribution in a closed economy half a century ago, have not been updated to reflect today's networked world of open economies and the free flow of people across provincial/territorial and national borders. Although participants agreed that fundamental reforms should be made, there was no consensus about which options to pursue. They supported looking at all the options presented in the discussion paper as well as developing new ones in the quest for fundamental reform.

Several groups suggested clarifying and communicating the roles and responsibilities of each level of government. Participants felt this exercise would be useful in ensuring that the responsibilities of each level of government match its revenue-generating capacity, thereby clarifying lines of accountability and increasing transparency. As mentioned earlier, a coordinated tax room transfer was identified as one suitable mechanism.

The idea of uploading programs such as pharmacare or income support (as part of Employment Insurance reform) to the federal government generated healthy discussion. Although there were varying opinions on this issue, it was seen to be worthy of more consideration and consistent with many of the agreed-upon principles for reform.

**“Our Chamber will continue to play our part to assist the government because we believe this is a non-partisan issue and we'll be there to support the Premier and this government on this quest.”**

*Len Crispino, President, Ontario Chamber of Commerce*



## 4 NEXT STEPS

**“How can we reconfigure, reconstruct our fiscal architecture in a way that meets the needs not of Parliament Hill, not of Queen’s Park, and not of City Hall? How will we configure it in a way that meets the needs of Canadians at the beginning of the 21st century?”**

*Premier Dalton McGuinty*

*A Strong Ontario for a Strong Canada* was an important turning point in Ontario’s contribution to the national discussion on fiscal imbalance. The experience and insight shared over the day brought us significantly closer to ensuring both fairness for Canadians living in Ontario and long-term Canadian prosperity.

These goals can be accomplished only through goodwill and dialogue. The Ontario government will continue to take the messages it heard at the summit and deliver them across the country during discussions on the fiscal imbalance.

We will also continue to ask all Ontarians to continue the dialogue – to share their experiences and to document how Canada’s current fiscal arrangements fail to meet the needs of Ontarians and Canadians to invest in people and prosperity. Most importantly, we will continue to ask Canadians who live in Ontario to share their ideas on how to build fiscal arrangements that build a stronger Canada.