

**Solving the “Fiscal Imbalance”—  
Good Idea Fraught with Inherent Conflict over  
the Details and a Risk of Harming the Economy;  
Newfoundland’s Position on Resource Income Repudiated**



**COMPAS Inc.  
Public Opinion and Customer Research  
July 4, 2006**

## **1.0 Introduction**

The COMPAS CEO panel was consulted on federal-provincial financial arrangements during a period in which inter-governmental discussions have been heating up.

CEOs and business leaders on the panel believe that stable agreement is inherently difficult to achieve.

They see the devil as being in the details. On the one hand, a majority rejects the idea that transfer should only be to individuals and not governments while a plurality believes transfer agreements to be an essential part of the Canada's national character.

On the other hand, pluralities perceive some negative aspects of transfer agreements:

- poor people in rich provinces may indirectly subsidize rich people in poor provinces,
- the flow of intergovernmental money reduces the authority of voters in have-not provinces over the policy decisions of their governments, and
- Ontario carries an unreasonable burden because transfer formulas ignore the higher costs of providing services in Ontario than elsewhere (a position articulated by AIMS, the Atlantic Institute for Market Studies).

These are the key findings from the current web-survey of the COMPAS panel of CEOs and business leaders undertaken for the *Financial Post* under sponsorship of BDO Dunwoody LLP. Despite the Newfoundland Premier's strong opposition, panelists believe that the value of resource income should be factored into calculations.



## **2.0. Stable Agreement for Federal-Provincial Transfers Not Easy and Not Likely**

Clear majorities believe that there will always be conflict over federal-provincial transfer formulas and that no single solution will satisfy all provinces, as shown in table 2.

*Table 2: (Q1) “As you know, there's renewed talk about intergovernmental transfer payments and what some call a fiscal imbalance. Please score your agreement with the following opinions on a 5 point scale where 1 means disagree strongly and 5, agree strongly.” [RANDOMIZE]*

	MEAN	5	4	3	2	1	DK
There may be a short-term achievable consensus but any significant change in a province's economic circumstances will trigger renewed conflict.	3.7	27	34	20	15	2	2
There is no single objective solution to satisfy all governments so there will always be conflict.	3.6	27	30	20	16	5	1
There is potentially a long-term solution that will satisfy all governments.	2.7	8	20	25	27	18	2

## **3.0 Ambivalence about Any Transfer System and Strong Opposition to Newfoundland Premier’s Position**

Panelists are ambivalent about the desirability of transfers. On the one hand, a majority repudiates the idea that transfer payments should only be to individuals and never to governments while a plurality believes that transfers are essential feature of Canada and should not be diluted, as shown in table 3. On the other hand, pluralities agree with the following serious reservations:



- ❑ A serious problem with intergovernmental transfers is that poor people in rich provinces help subsidize rich people in poor provinces.
- ❑ Transfers between governments are undesirable because they remove voters' ability to hold their governments accountable by making unclear where tax revenue comes from.

Meanwhile many share the reservation expressed by AIMS about a formula that requires payments from Ontario without taking into consideration the unusually high costs of providing services in that province.

The CEO of an engineering firm captured the panel's commitment to the principle of equalization in the following words: "Equal access to a certain level of health care and education should be universal. That is what equalization should be for. If this was clear and transparent, there would be less fuss. And by the way, don't listen to Ralph Klein. I'm from Alberta and a lot of us know that he knows even less about the equalization formula than I do, and I don't know very much."

The CEO of a technology firm captured the panel's reservations for reasons of voter accountability in the following words: "The concept is badly flawed as it reduces accountability. If we have to keep it, then limit transfers to five provinces in any one year. It would be better if every level of government stuck to areas of their jurisdiction only and taxed accordingly."

The CEO of a transportation firm "oppose(s) any 'government transfer' to other governments because it gives too much political power to the government with the money. It would be O.K. for one agency to collect taxes on behalf / as an agent of another government, but we should know exactly how much is being collected for which level(s) of government(s)."

Several panelists volunteered concern that equalization was harming the economy by encouraging counter-productive behaviour. As one put it, "Transfer payments encourage people to stay in regions where job and economic prospects are poor. Alberta needs workers and it seems better to have people move to Alberta and pay them to work than...to pay them to stay at home...Canada should provide equality of opportunity, not equality of outcome." Added the CEO of an energy firm in central Canada, "What's the big deal about moving within Canada to where the jobs are?" According to another, "Canada's



*BDO Dunwoody CEO/Business Leader Poll by COMPAS  
in the Financial Post for publication July 4, 2006*

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massive inter-provincial transfers inhibits what should otherwise be the natural mobility of people (labour) from regions with low economic activity to regions with high economic activity...inter-provincial transfers should be cut by 50%.”

*Table 3: (Q2) “Please also score your agreement with the following opinions about the desirability and nature of an agreement on a 5 point scale where 1 means disagree strongly and 5, agree strongly.” [RANDOMIZE]*

	MEAN	5	4	3	2	1	DK
Any agreement should factor in 50 percent of the value of resource income despite the Newfoundland Premier's strong disagreement on this matter.	3.6	32	26	15	10	13	5
Transfers between governments are undesirable because they remove voters' ability to hold their governments accountable by making unclear where tax revenue comes from.	3.3	23	24	23	17	11	2
A serious problem with intergovernmental transfers is that poor people in rich provinces help subsidize rich people in poor provinces.	3.2	19	26	21	17	15	3
Transfers from have to have-not provinces are an essential feature of Canada's character and should not be diluted.	3.1	17	23	25	18	15	2
The concept of intergovernmental transfers is a good idea that is implemented poorly, harming Ontario by not factoring in the far higher costs of providing services in that province and extracting too much money from that province.	3.0	17	21	25	21	14	2



	MEAN	5	4	3	2	1	DK
Transfers should be to individuals only; it's individuals who have rights and human challenges, not governments.	2.3	8	13	14	22	38	5

## **4.0. Methodology**

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted June 28-30. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 113 are deemed accurate to within approximately 9.3 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb.

