Ms. Rose Caterini  
Deputy City Clerk/Manager of Legislative Services  
City of Hamilton  
71 Main Street West  
Hamilton, ON  L8P 4Y5

Dear Ms. Caterini:

Thank you for your correspondence of February 23, 2006 regarding the Hamilton City Council’s resolution supporting the Government of Ontario’s position and its efforts to address the federal/provincial fiscal imbalance. Please excuse the delay in replying.

As a former provincial Minister of Finance, I appreciate the fiscal challenges faced by the Province of Ontario. While the people of Ontario have made great contributions to the federation, they also receive many benefits and have thrived within our country.

Regarding the difference between federal revenues and federal spending in Ontario, I agree that this difference exists. However, I do not agree with the Government of Ontario’s interpretation of this balance. The difference between federal taxes paid by individuals and companies in Ontario and what they receive in federal services (which amounted to $18.2 billion in 2003, according to the latest data from Statistics Canada’s Provincial Economic Accounts) is largely a consequence of Ontario’s prosperity and the progressive nature of Canada’s tax and transfer programs.

Our new Government supports a tax system and social programs designed to treat all Canadians equitably and to provide the greatest benefits to those in greatest need. Because incomes are, on average, higher in Ontario than in most other provinces, the Government of Canada inevitably collects higher revenues per capita in Ontario than in these other provinces. The province’s relatively strong economy also means that proportionally fewer residents of Ontario than of other provinces use federal social programs. Therefore, the fact that federal revenues exceed federal expenditures in Ontario is a natural result of the province’s relative prosperity.
The Government of Ontario has raised concerns with respect to certain federal programs. The 2005 Canada-Ontario Agreement, however, addressed many of the Government of Ontario's concerns by providing $6.9 billion over 6 years in additional funds to Ontario for immigration settlement, labour market development and training, infrastructure, post-secondary education, housing, and environmental measures.

As outlined in the Budget 2006 companion paper Restoring Fiscal Balance in Canada, we are committed to a transparent, principle-based approach to our transfers to the provinces and territories — an approach that provides equitable treatment and predictable support for all the provincial governments. I invite you to access the paper outlining our approach going forward on this issue on the Finance Canada website at www.fin.gc.ca/budget06/fp/fptoce.htm.

We are also studying the recommendations of several reports and are undertaking broad consultations with a view to putting forward proposals for a renewed Equalization and Territorial Formula Financing program.

Our consultation process continues, including my continuing discussions with the Ontario Minister of Finance. Several of my federal Cabinet colleagues are also consulting with their provincial colleagues particularly in the areas of post-secondary education and infrastructure. This consultation process was outlined in Budget 2006.

I look forward to moving forward to proposals and implementation in Budget 2007, but only after the consultation process is fully completed.

Thank you for communicating your Council’s resolution.

Sincerely,

James M. Flaherty