

# Canada's Fiscal Constitution: A Necessary Restructuring?

*Peter Leslie*  
*Queen's University, Canada*

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## Map of Canada

**Canada Map** [Maps Main Index](#) • [Canada Web Listings](#)



Source: <http://listingsca.com/maps.asp>

## Introduction / Argument

### (1) Canada faces the need to restructure or reform its public finances

- Costs of financing public services, especially health care, are rising more rapidly than public revenues
- Competitiveness concerns, arising from continental economic integration, globalization
  - Pressure from business organizations to lower taxes
  - Need for new public investments in education, infrastructure
  - Implication: Shift fiscal resources from social programs & redistribution, to economic development?

### (2) The restructuring will, necessarily, take place within the confines of the "fiscal constitution" of the federation, or will entail changes to it

### (3) In order to understand the constraints of Canada's fiscal constitution, and to evaluate proposals for reforming it, I shall:

- outline the main features of Canada's fiscal constitution
  - at Confederation (the Constitution Act, 1867)
  - as it has since evolved, especially after World War II
  - commitments written into the Constitution Act, 1982
- identify current controversies relating to fiscal federalism in Canada
  - arguments about fiscal imbalance, vertical and horizontal
  - whether to further decentralize the tax system, so provinces obtain a larger share of public revenues
  - whether to increase, diminish, or otherwise restructure existing patterns of fiscal redistribution across provinces and territories
  - issues relating to institutions and processes of fiscal federalism
- review possible or proposed changes to Canadian fiscal federalism, implying the restructuring of the fiscal constitution, with reference to four perspectives on federalism in Canada

## ***The "Fiscal Constitution" of a Federation***

Some features of a fiscal constitution may be set out in written constitutional texts, while others may emerge or evolve in response to changing historical circumstances.

*Five elements of a fiscal constitution are:*

- (1) ***Assignment of tax fields*** to different orders of government  
(the power to tax: access to revenue sources)
  - tax fields assigned to a single order of government
  - tax fields jointly assigned to two or more orders of government
- (2) ***Revenue-sharing*** between orders of government, in the case of joint fields

**How centralized the federation is, on the revenue side, is determined by the assignment of tax fields and by revenue-sharing**

- (3) ***Intergovernmental transfers***
  - large intergovernmental transfers support the provision of public services at the provincial/state level, even if the revenue system is relatively centralized
  - more generally, intergovernmental transfers may "rebalance" a federation otherwise in fiscal imbalance, either vertically or horizontally, or both
  - unconditional (general-purpose) transfers – these support the autonomy of the provinces/states, accommodate diversity
  - conditional (specific-purpose) transfers – these aim to create or support national standards in public services, but undermine provincial/state autonomy
- (4) ***Regional Redistribution***
  - opposing principles: *juste retour*, and national citizenship (the federation as a sharing community) – striking a balance
  - redistribution through federal direct spending
  - redistribution through intergovernmental transfers: equalizing transfers, whether conditional or unconditional, can do a lot to ensure that public services of comparable quality are available in all provinces or states
- (5) ***Commitments / obligations / goals***, if any
  - Especially if written into a constitutional text, commitments/obligations/goals set ***benchmarks*** for evaluating governmental programs or practice

## **Canada's Fiscal Constitution: (1)**

### **Assignment of Tax Fields**

(1) Under the Constitution Act, 1867, Parliament (i.e., the federal government) was assigned unlimited powers of taxation, except

- inability to tax provinces or provincial property
- significance of this: provincial ownership of natural resources
- provincial rights of ownership strengthened under the Constitution Act, 1982

(2) In addition (1867): Limited provincial powers of taxation

- Customs duties (then the main source of government revenue)
- were denied to provinces
- Also: Provinces denied the power of indirect taxation
- Implication: A fiscally centralized federation

(3) During the twentieth century:

- Direct taxes became the main source of revenue for government
- Retail sales taxes were declared by the courts to be direct taxes, if levied in the right way
- Result: Today, both orders of government have access to all major revenue sources, except for resource revenues (provincial) and real estate taxes (in practice, mainly local or municipal)

## **Canada's Fiscal Constitution (2): Federal and Provincial Revenue Shares**

- (1) Sharing of revenues from joint tax fields has been driven in part by shifting expenditure patterns, as displayed in Figure 1
  - 1930s Depression: burden fell mainly on local governments and provinces
  - World War II: dramatic centralization
  - Post-war: building the welfare state (1950s to 1970s)
  - Retrenchment occurs earlier at the federal level than among provinces
- (2) No constitutionally-established mechanism exists in Canada to allocate revenue shares from joint fields, and attempts made to establish such a mechanism by political agreement were abandoned in 1966
- (3) In effect, the federal government is able to decide to what extent revenue from income taxes will be devolved upon the provinces, though the provinces may (under certain circumstances) be able to bargain quite effectively for added resources
- (4) During the postwar period the provinces acquired a substantially larger share of public revenues, and Canada moved towards decentralization on the revenue side (Figure 2), but less so than on the expenditure side
- (5) The most rapid growth in provincial-local revenue shares occurred between 1955 and 1970, and in 1977-78, as a result of the transfer of "tax points" to the provinces
- (6) Federal revenues fell behind provincial/local own-source revenues in 1977
- (7) Federal revenues as a percentage of GDP show no overall trend since 1950

## Canada's Fiscal Constitution (3): Intergovernmental Transfers

- (1) Federal conditional transfers to provincial governments (under "shared-cost programs") were a major instrument for creating the postwar welfare state. The role of government (federal plus provincial) in income security, health care, and education increased hugely between 1945 and 1975
- (2) Post-war trends in federal transfers to provincial governments reflect this
  - Overall federal transfers increased from around 1% of GDP in the late 1940s, to 3% in 1961, to 4.8% in 1971, stayed in the 4% range until 1995, then declined to 3% in 2000, but are on the upswing again – see Figure 3
  - Not only the amounts have changed – there was a dramatic shift from "general purpose" transfers to conditional transfers during the 1950s and early 1960s, indicating that money became available to the provinces only when provincial spending supported federal program priorities
  - Since the late 1970s, and particularly after 1995, federal conditions were relaxed somewhat, and it is now more appropriate to use the term "specific-purpose transfers" rather than "conditional grants"
  - However, there is still a great deal of controversy over the sorts of conditions that should be imposed on provincial programs, especially in health care
- (3) Transfers are an important source of revenue for provincial governments, and dramatically so for the territorial governments. Taken as a group, the provinces and territories obtain about 20 per cent of their revenues from federal grants.
  - provincial dependency on federal transfers varies enormously (Table 2)
  - this suggests that transfers do much more to redistribute public funds among the regions, than to equip the provinces, as a group, to meet their program responsibilities as they see them
- (4) Repeatedly, since 1977, the federal government has unilaterally reduced its financial obligations to the provincial governments, in order to keep its own fiscal house in order
  - The most dramatic instance of this was the 1995 federal budget. Between 1995 and 1997, federal cash transfers fell 24%. They reached their 1995 level again in 2001, and are now rising quite rapidly again.
  - The Supreme Court has rejected attempts by provinces to force the federal government to live up to fiscal commitments it had earlier made.
  - Thus, for the provinces, federal transfers represent a variable and insecure form of funding. No mechanisms or processes exist to create stability or predictability in this area. All decisions, whether to reduce or to increase fiscal transfers to the provinces, reflect political calculation by the federal government.

## Canada's Fiscal Constitution (4): Regional Redistribution – Extent and Mechanisms

- (1) Fiscal disparities among the provinces and territories are far greater than differences in per capita incomes (Tables 1 and 3)
- (2) Compensating for this, the federal government has become the agent of very substantial regional redistribution (i.e. across provinces and territories) – see Table 4.
  - One federal program, fiscal equalization, exists specifically in order to redistribute money from richer provinces to poorer ones
  - Its aim is to enable all provinces to provide a reasonably comparable level of public services, if all levy taxes at approximately the same rates
  - For the territories, a different form of equalizing transfer, Territorial Formula Financing, applies
  - However, by no means all regional redistribution is achieved through equalization and TFF
    - Transfers for health care (the Canada Health Transfer, CHT), and for social assistance (welfare) and post-secondary education (Canada Social Transfer, CST) are slightly higher per capita in poorer provinces than in wealthier ones
    - More significantly, regional redistribution is built into federal programs for income security (transfers to persons)
    - Most controversial is the Employment Insurance program, which has different rules (eligibility and payout) in different regions, according to differences in rates of unemployment
    - Federal expenditures on goods and services also vary widely on a per capita basis, though not necessarily with *intent* to redistribute wealth across provinces
  - The rules for equalization (described below) are now being reviewed by a federal advisory panel, which is to report in December 2005
  - However, it does not appear that the panel will be addressing the broader question of redistribution among provinces and territories, or reviewing in a general way the issue of "horizontal fiscal imbalance"



## Canada's Fiscal Constitution (4): Regional Redistribution – Equalization

- (1) Equalization has traditionally been based on calculations of fiscal capacity for all major provincial revenue sources (33 in all). The formula has aimed to prevent any province from affecting its entitlement by raising or lowering its tax rates
  - payments are made to 8 of the provinces, in varying amounts per capita (Figure 3)
  - up to and including the fiscal year 2004-05, there was an equalization formula that determined both the total amount of money going into the program, and its distribution among recipient provinces
  - the formula was based on an estimate of the sum of money each province would collect in taxes, if its taxes were levied at national-average rates
  - an "equalization standard" was established, based on hypothetical yields of the 33 revenue sources, assuming equal "tax effort" in all provinces
    - in calculating the standard, only five provinces were taken into consideration
    - Alberta was excluded because its natural resource revenues were too high, and the program would have been too costly, as well as having unpredictable and undesirable redistributive effect
    - the Atlantic provinces (the four poorest ones, with a total population about equal to Alberta's) were also excluded
    - the "five-province standard" was based on provinces that included nearly 80% of the population of Canada
  - provinces with a hypothetical tax yield below the "five-province standard" on a per capita basis received an equalization payment bringing them up to the standard
- (2) The equalization formula produced some undesirable results – for example, entitlements varied with the health of the economy, and the recipient provinces lost substantial revenues in an economic downturn (especially in Ontario)
- (3) In October 2004, the federal government announced that the formula would be suspended, and the total amount of money committed to equalization would increase by 3.5% annually until 2009-10
  - In consequence of this, equalization became a "zero-sum game" – there was a fixed equalization pool, and any increase in payments to one province automatically reduced the payments made to the others
  - Special deals were struck, bilaterally, with Newfoundland and Labrador and with Nova Scotia, so that their oil revenues would not affect their equalization entitlements – a move deeply offensive to other provinces
  - These events have given impetus to the review of equalization being conducted by an Expert Panel appointed by the federal government

## Canada's Fiscal Constitution (5): Commitments under the Constitution Act, 1982

- (1) The first four elements in a fiscal constitution, already outlined as they apply to Canada, are:
  - the assignment of taxing powers
  - revenue-sharing in joint fields
  - the design of a system of intergovernmental transfers, which in Canada's case includes grants reflecting the implied existence of a federal spending power
  - interregional redistribution through a variety of mechanisms
  
- (2) All these elements of a fiscal constitution either:
  - are contained in – or are to be inferred from – formal constitutional texts as interpreted over the years by the courts: in Canada, the relevant provisions are set out in the Constitution Acts of 1867 and, in minor degree, of 1982
  - have not been found to be inconsistent with such formal constitutional texts, and have arisen by practice, responding to events and by evolving notions of the public good
  
- (3) Quite different from these elements in a fiscal constitution are (or may be) formally adopted goals or commitments, also written into constitutional texts
  - such features of a fiscal constitution, if they exist, differ from the others by virtue of their *normative* character
  
- (4) For the first time in Canada's history, such a normative element was injected into Canada's fiscal constitution through Section 36 of the Constitution Act, 1982
  - this Section reflected and enshrined existing practice, notably as built up over approximately 40 years, beginning relatively early in World War II
  - Section 36 constitutes a benchmark, however vaguely worded, by which subsequent practice may be evaluated, and (I believe) *should be evaluated*

## Commitments under the Constitution Act, 1982 (Cont'd)

(5) *Section 36(1) reads in part:*

...Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to

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

- This section balances economic and "social" objectives, with particular attention to achieving development and prosperity in all regions
- It is obvious that the range of public services considered to be "essential" and "of reasonable quality" can only be determined by political decision, and in light of changing historical circumstances and economic conditions
- However, the section appears to impose on the federal government and the provinces *joint responsibility* for fulfilling public obligations to citizens in every part of Canada
- It seems to imply that, under the Constitution of Canada, fiscal imbalance (discussed below) should be as much a concern of the federal government as of the provinces and territories

(5) Section 36(2), which has received far more attention than 36(1), reads

*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*

- Thus, in 1982, the objectives but not the precise content of the federal equalization program received constitutional mandate. They became a constitutional obligation – not of provinces, only of the federal government
- Unlike in the equalization program as it then existed, and exists today, the focus in Section 36(2) is not on comparability of fiscal capacities and resources, but on comparability of *levels of public services*.
- Section 36(2) thus implies a constitutional obligation to see that *fiscal need*, or fiscal capacity *relative to the cost of providing public services in each province*, is reflected in the equalization program – but in practice this is
- *not done, and never has been*
- Section 36(2) also invites one to examine interprovincial differences in levels of taxation, and to consider whether reasonably comparable levels of public services could be provided throughout Canada, if such interprovincial differences (which are considerable) were narrowed.

## Controversies (1): Vertical Fiscal Imbalance ?

- (1) Among the provinces, Quebec has taken the lead in proclaiming the existence of *vertical fiscal imbalance (VFI)* in Canada.
- Quebec's position on this issue was developed in 2002 by a Commission on Fiscal Imbalance (Séguin Commission), appointed by the *indépendantiste* Parti Québécois. The existence of fiscal imbalance is a constant theme in the present Quebec Liberal government's rhetoric and policy on federalism
  - A series of studies by the Conference Board of Canada, a business organization, project recent budgetary trends (federal and provincial) into the future
    - The Board's conclusion is that if neither the federal government nor the provinces change their policies, there will be, over the next few years, a series of large federal budget surpluses, and of large provincial deficits
    - The cost of providing public services at the provincial level will continue to outstrip increases in revenue
    - These projections presume that all, or part, of federal surpluses will be used to reduce the accumulated federal debt
    - While future changes in policy at either level could change budgetary outcomes considerably, the Board argues that all fiscal "room for manoeuvre" exists on the federal side, not with the provinces
  - Other provinces too are vocal in denouncing vertical fiscal imbalance
  - The Council of the Federation, consisting of the premiers of the provinces and territories (but without federal representation), has created an advisory panel on fiscal imbalance, both vertical and horizontal, which is to report by March 2006 (see the panel's terms of reference, Document 1)
  - In June 2005 a parliamentary committee issued a report that endorsed the provinces' position that the federation is in vertical imbalance
    - However, a dissenting view was recorded by the Liberal Party members of the committee
  - The federal government denounces VFI as "a myth"
    - A paper (2002) by Stéphane Dion, then Minister of Intergovernmental Affairs, refutes the argument of the Séguin Commission, and denounces its recommendation that the federal government hand over the Goods and Services Tax (a value-added tax) to the provinces
    - Dion's argument rests heavily on the fact that "all governments have access to the revenues they need to fund their spending"
    - It disregards the question whether the provinces are faced with a choice between degrading standards of public services, or raising taxes to a level that would impair economic performance

## Controversies (1) (Continued): Possible ways of redressing Vertical Fiscal Imbalance

### (1) Some conceptual points:

- If federal revenues are greater than federal expenditure requirements, and provinces' own-source revenues do not meet their needs, that indicates **a vertical fiscal gap**
- **Imbalance** arises when transfers are not large enough to close the gap. Transfers are a **balancing mechanism**, or have the potential to be
- Implications:
  - Budgetary surpluses and deficits do not, in themselves, indicate that a federation is in vertical fiscal imbalance
  - VFI is a slippery concept, because it implies normative judgments about "expenditure requirements", "program responsibilities", and "needs"
  - VFI has no meaning, except on the basis of judgments about public needs, and such judgments are necessarily subjective
  - However, such judgments need not be private, or personal – rather, they can be made collectively, through political means (the "right" institutions, and the "right" processes)
  - The challenge, then, where VFI is thought to exist, is to look for solutions that focus on public needs, and on the rights and obligations of citizens
  - In debates on VFI, governments should be seen as agents of the public, not as the interested parties. The focus should be on what they can do, together, to meet public needs

### (2) Some conclusions about possible responses to VFI, if it exists in Canada today:

- One possible response is to reassign tax fields
  - This, as noted, was the recommendation of Quebec's Séguin Commission. Its aim was not only to eliminate VFI, but also to minimize the **fiscal gap**. The Commission argued that if the federal government has too much money in its pockets, it will invade areas of provincial jurisdiction, and curb provincial autonomy
- A second possible response is to transfer more "tax points" to the provinces, increasing their share of joint tax fields, mainly the personal income tax
  - This would be advantageous only to the wealthier provinces
- A third possible response is to increase transfers to the provinces
- A fourth possible response is to increase direct federal spending, on its own programs, *in ways that reduce the financial burdens upon the provincial governments* (example: a federal pharmacare program?)

## Controversies (2): Horizontal Fiscal Imbalance?

- (1) A federation in **horizontal fiscal balance** meets the objective of the equalization program set out in the Constitution Act, 1982 in Section 36(2)
  - Horizontal fiscal *imbalance* (HFI) indicates failure, in practice, to meet that objective
  - To determine whether or not a federation is in horizontal imbalance requires empirical study and subjective judgment in two areas:
    - first, as regards *policy performance*: are there, or are there not, comparable ("national") standards in public services?
    - second, as regards *tax effort*: must some provinces tax at substantially higher rates than others do, if they are to achieve national standards in public services?
- (2) In Canada today, the loudest complaints about HFI come from the wealthiest provinces, Ontario and Alberta, which say that they are contributing more than their fair share to federal finances and federal programs
  - Implicitly – indeed, often *explicitly* – they are saying that Canada engages in *too much* regional redistribution
  - Ontario, which is worried that future employment and growth are at risk, complains that its economic performance is seriously undermined by the net outflow of \$23 billion to the federal treasury, and thence to other provinces (the data in Table 4 support the \$23 billion figure, at least as an approximation)
- (3) Thus, HFI may exist either as *under-funding the poorer provinces*, or as *taking too much from the wealthier ones*
  - The traditional concern, which still has to be taken seriously, is that the rights and entitlements of citizens are unequal across the country, and that Canada does not meet the constitutionally-mandated objectives of equalization
  - A contemporary concern is that there is so much redistribution, that Canada is digging itself into a hole economically, and becoming uncompetitive on a continental and global scale

## Perspectives on Fiscal Federalism in Canada

- (1) Current debates and controversies over fiscal imbalance, both vertical and horizontal, are not just about dollars, and deficits, and taxes
  - Those debates are about the kind of country Canada is, and can be
  - They are about the needs of citizens, and their rights, and their obligations towards each other – in short, about what it means to be a citizen of Canada
  - They are also about diversity within the federation, and the role appropriately played by provincial governments in the development of provincial communities
  - A useful reference point in such debates is the set of commitments made in Section 36 of the Constitution Act, 1982 –
    - "...essential public services of reasonable quality to all Canadians"
    - "...reasonably comparable levels of public services at reasonably comparable levels of taxation"
  - "reasonable quality" has implicit reference not just to needs, but to affordability – and that means, compatibility with the development of a flourishing economy
- (2) "Fiscal federalism" is about the fiscal arrangements, or the evolving fiscal constitution, that makes federalism itself a workable and desirable form of government
- (3) It is useful to think about possible directions for the future evolution of fiscal federalism, or the fiscal constitution, in the context of overall perspectives on federalism, or federalism in Canada. I identify *four* such perspectives – interpretations of what "federalism" is, and (for Canada) should be:
  - A **classical** perspective, but **updated** to suit the conditions of the twenty-first century
  - A **pan-Canadian** perspective
  - A **provincial primacy** perspective
  - A perspective that emphasizes **sharing**, and at the same time respects provincial autonomy, and **policy diversity**
- (4) The main features of each of these four perspectives are summarized in Table 5
- (5) Table 5 brings out – or so I hope – what is really at stake in debates over Canada's fiscal constitution, and current controversies over fiscal imbalance

**Table 1**  
**Provinces and Territories of Canada in 2004**

Province/Territory	Population (thousands)	Population (per cent of total)	GDP per capita (dollars)	GDP per capita (index)
Newfoundland and Labrador	517	1.6	37,837	93
Prince Edward Island	138	0.4	29,014	72
Nova Scotia	937	2.9	32,057	79
New Brunswick	751	2.4	31,101	77
Quebec	7543	23.6	35,402	87
Ontario	12393	38.8	41,768	103
Manitoba	1170	3.7	34,407	85
Saskatchewan	995	3.1	40,643	100
Alberta	3202	10.0	58,537	145
British Columbia	4196	13.1	37,289	92
Yukon Territory	31	0.1	45,628	113
Northwest Territories	43	0.1	98,295	243
Nunavut	30	0.1	34,510	85
Canada	31946	100.0	40,483	100

Disparity in incomes per capita between Alberta and Prince Edward Island: \$29,523

Ratio, incomes per capita in Alberta to those in Prince Edward Island: 2.018

Source: Calculated from Statistics Canada, CANSIM Table 380-0022



**Table 2**  
**Federal Transfers as Percentage of**  
**Total Provincial/Territorial Revenues**  
**2004**

<b>Newfoundland and Labrador</b>	41.2
<b>Prince Edward Island</b>	36.9
<b>Nova Scotia</b>	30.7
<b>New Brunswick</b>	33.1
<b>Quebec</b>	17.0
<b>Ontario</b>	13.8
<b>Manitoba</b>	30.0
<b>Saskatchewan</b>	16.4
<b>Alberta</b>	11.0
<b>British Columbia</b>	13.0
<b>Yukon Territory</b>	81.9
<b>Northwest Territories</b>	99.7
<b>Nunavut</b>	91.6
<b>All provinces and territories</b>	17.5

Source: Calculated from Statistics Canada, CANSIM Table 380-0022

**Table 3**  
**Interprovincial Disparities in Fiscal Capacity, 2004-05**

**Hypothetical per capita yields from selected revenue sources, if taxed at national average rates**

	Personal Income Tax Revenues		Business Income Revenues		General Sales Taxes		Natural Resource Revenues		Total of 34 Revenue Sources	
	\$	Index	\$	Index	\$	Index	\$	Index	\$	Index
N & L	989	61	198	43	950	90	560	126	4914	75
P.E.I	980	61	237	51	901	85	4	1	4436	68
N.S.	1219	76	272	59	933	88	57	13	4977	76
N.B.	1081	67	248	54	917	87	76	17	4655	71
Que	1357	84	505	109	984	93	113	25	5729	88
Ont	1880	116	521	113	1061	100	40	9	6669	102
Man	1197	74	271	59	923	87	83	19	5011	77
Sask	1152	71	311	67	1028	97	1074	241	6155	94
Alta	2042	127	653	141	1390	131	2716	610	10472	160
B.C.	1471	91	284	61	1049	99	609	137	6114	93
<b>All Prvs</b>	<b>1614</b>	<b>100</b>	<b>463</b>	<b>100</b>	<b>1058</b>	<b>100</b>	<b>445</b>	<b>100</b>	<b>6543</b>	<b>100</b>
Disparity, lowest to highest, in \$	1062		455		489		2712		6036	
Ratio, lowest to highest	48		30		64		.1		42	

Source: Calculated from data supplied by Canada, Department of Finance, "Provincial Fiscal Equalization, Second Estimate 2004-2005, October 12, 2004" (calculations used for determining equalization entitlements by province)

**Table 4**

**Redistribution across Provinces and Territories, 2002 – Various measures**

	Federal Revenue as % of P/T GDP (1)	Federal Expenditure as % of P/T GDP (2)	Federal redistribution as % of P/T GDP (nonadjusted) (col 2 - col 1) (3) <sup>a</sup>	Redistribution per capita (nonadjusted) (\$) (4) <sup>a</sup>	P/T contribution to federal surplus per capita (\$) (5) <sup>b</sup>	Adjusted redistribution per capita (\$) (col 4 + col 5) (6) <sup>a</sup>
N & L	13.2	28.1	15.0	4788	156	4944
PEI	17.7	36.3	18.6	5095	179	5274
NS	16.1	31.7	15.6	4535	174	4709
NB	15.6	29.4	13.8	3887	163	4050
Que	15.7	17.1	1.4	446	191	637
Ont	16.9	12.5	-4.4	-1749	249	-1500
Man	14.7	23.5	8.7	2785	174	2959
Sask	13.8	19.2	5.4	1858	177	2035
Alta	14.8	9.6	-5.2	-2492	265	-2227
BC	16.1	14.9	-1.1	-377	201	-176
Yukon	13.8	50.4	36.6	15500	218	15718
NWT	17.6	28.1	10.5	7756	482	8238
Nunavut	11.7	75.4	63.7	20690	141	20830
All P/Ts	16.0	15.4	-0.6	-220	220	0

**Notes**

Figures may not add up due to rounding

a – In columns 3, 4, and 6, positive figures indicate those provinces and territories that were beneficiaries of redistribution in 2002; negative figures indicate those provinces whose taxpayers contributed to redistribution; the negative figures for Canada as a whole reflect the federal surplus of \$6.8 billion, equivalent to 0.6% of GDP, or \$220 per capita.

b – Column 5 is included in order to neutralize, in terms of interregional redistribution, the effect of the federal surplus. It is assumed that each province contributes to the federal surplus on a per capita basis proportionately to its contribution to federal revenues. The figures thus correlate with column 1.

**Table 5 – Perspectives on Canadian federalism**

	<b># 1 – classical – updated</b>	<b># 2 – pan-Canadian</b>	<b># 3 – provincial primacy</b>	<b># 4 – sharing, plus policy diversity</b>
<b>policy roles</b>	distinct federal and provincial roles, with substantial federal powers, especially in economic matters, and provincial primacy in social affairs; little need for policy coordination	shared/overlapping federal and provincial roles, with substantial or pervasive policy coordination achieved through federal leadership, influence, or control	distinct federal and provincial roles, with strong emphasis on extensive and exclusive provincial powers (social + economic); perhaps some horizontal policy coordination	distinct federal and provincial roles, with emphasis on provincial autonomy in social policy and some aspects of economic policy; cooperation in economic policy, and some horizontal coordination in social policy
<b>symmetry/ asymmetry</b>	asymmetry issue is unlikely to arise	intolerant of asymmetry	may allow for asymmetry	may allow for asymmetry
<b>revenue system: centralization / decentralization</b>	federal government and provinces both have access to all major tax fields, but fiscal gap/ imbalance may persist	centralized system, except for resource revenues; large fiscal gap	transfer of tax fields to the provinces; small fiscal gap; fiscal balance; provincial activities financed out of own taxes	joint federal/provincial sharing of revenues from major tax fields; small fiscal gap; fiscal balance
<b>interprovincial redistribution – extent</b>	not specified, but may imply "juste retour", except for equalization	heavily redistributive: provinces are enabled and induced to implement similar policies with similar standards	slight: for the most part, "juste retour" applies	heavily redistributive, to allow provinces to set comparable standards of public services if they choose to do so
<b>interprovincial redistribution – mechanisms</b>	federal spending for economic development, plus unconditional transfers	federal program spending plus extensive transfers to provinces, conditional as well as unconditional	few if any transfers other than federal regional development grants and/or equalization	revenue sharing has comprehensive equalizing effect; few transfers needed, except equalization

**COUNCIL OF THE FEDERATION**  
**ADVISORY PANEL ON FISCAL IMBALANCE**  
**(to report in March 2006)**

**TERMS OF REFERENCE**

**Purpose**

Recognizing that Canada is a federation in which federal, provincial and territorial governments are each responsible for their own respective areas of jurisdiction;

And recognizing the importance of ensuring that there is a balance between each order of government's constitutional responsibilities and its capacity to raise revenue to provide services to citizens;

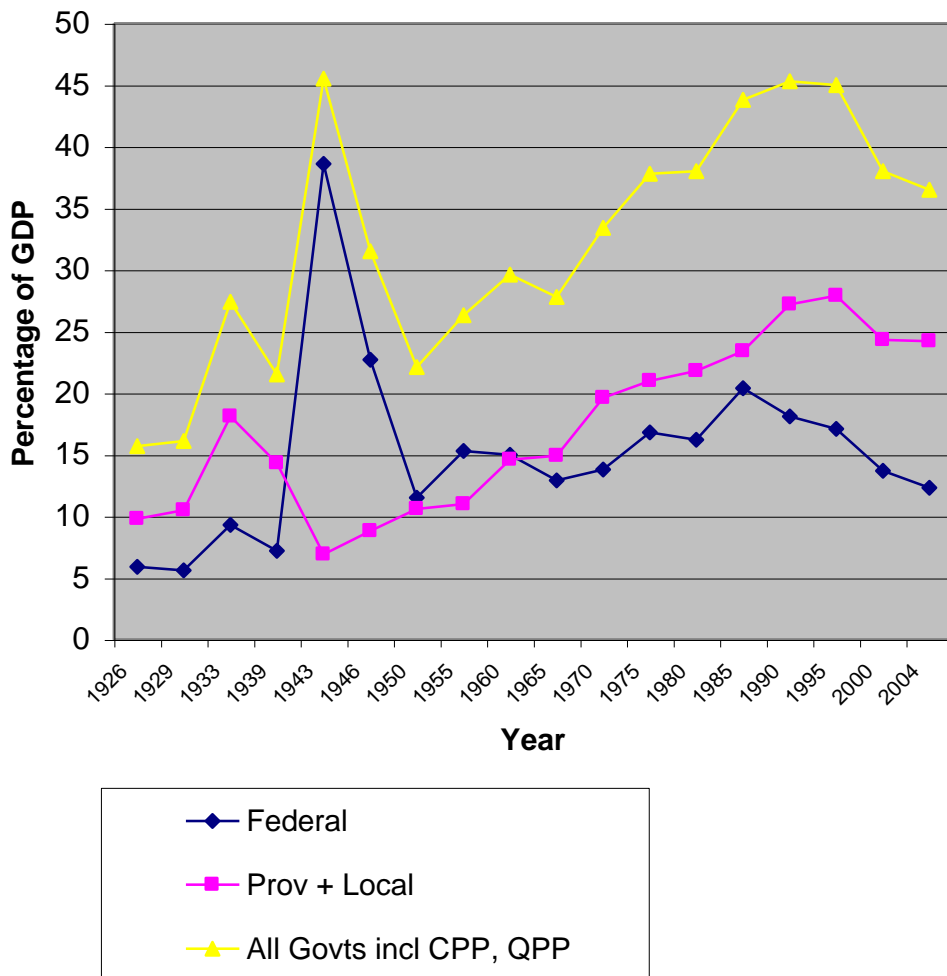
PREMIERS HAVE AGREED to establish an independent panel to examine the vertical and horizontal fiscal balances among federal, provincial and territorial governments in Canada, and to make recommendations as to how any fiscal imbalances that exist should be addressed.

**Mandate**

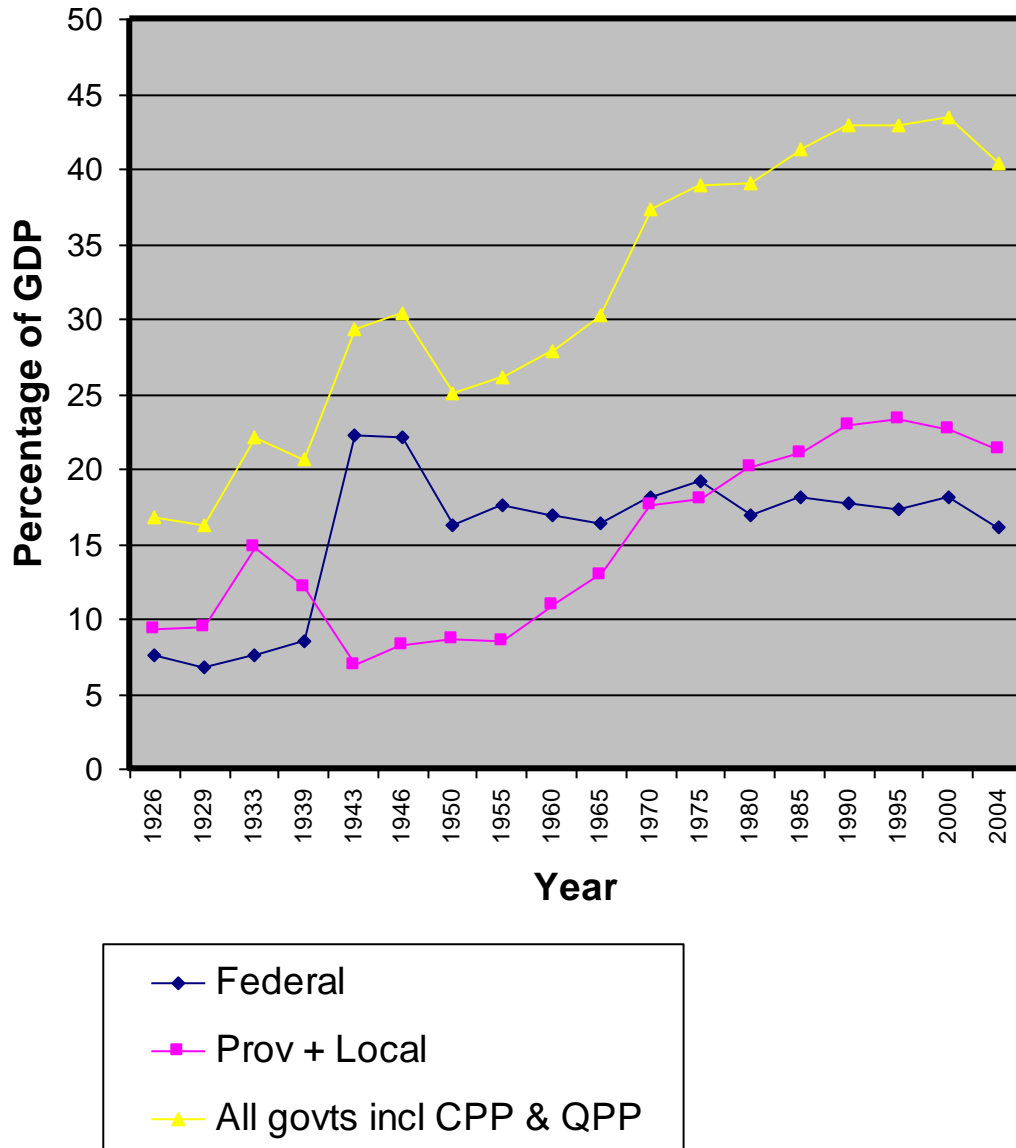
Without limiting the scope of the panel's inquiries, the panel will:

- review the full range of issues that underlie fiscal imbalance;
- review federal programs and policies that affect the fiscal capacity of provinces and territories including, but not limited to, the Equalization program, Territorial Formula Financing, the Canada Health Transfer, the Canada Social Transfer (transfers in respect of post-secondary education and social services) and other major programs, such as transportation infrastructure programs;
- review other mechanisms that affect the fiscal imbalance including, but not limited to, tax point transfers and the realignment of tax fields;
- review options for Equalization for the fiscal year 2006 and beyond, consistent with Section 36(2) of the Constitution Act 1982;
- review options for Territorial Formula Financing for the fiscal year 2006 and beyond, consistent with the principle that territorial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation; and
- review a full range of mechanisms to address fiscal imbalance and make recommendations.

**Figure 1 - Expenditures excluding Intergovernmental Transfers 1926-2004**



**Figure 2 - Own-Source Revenues 1926-2004**



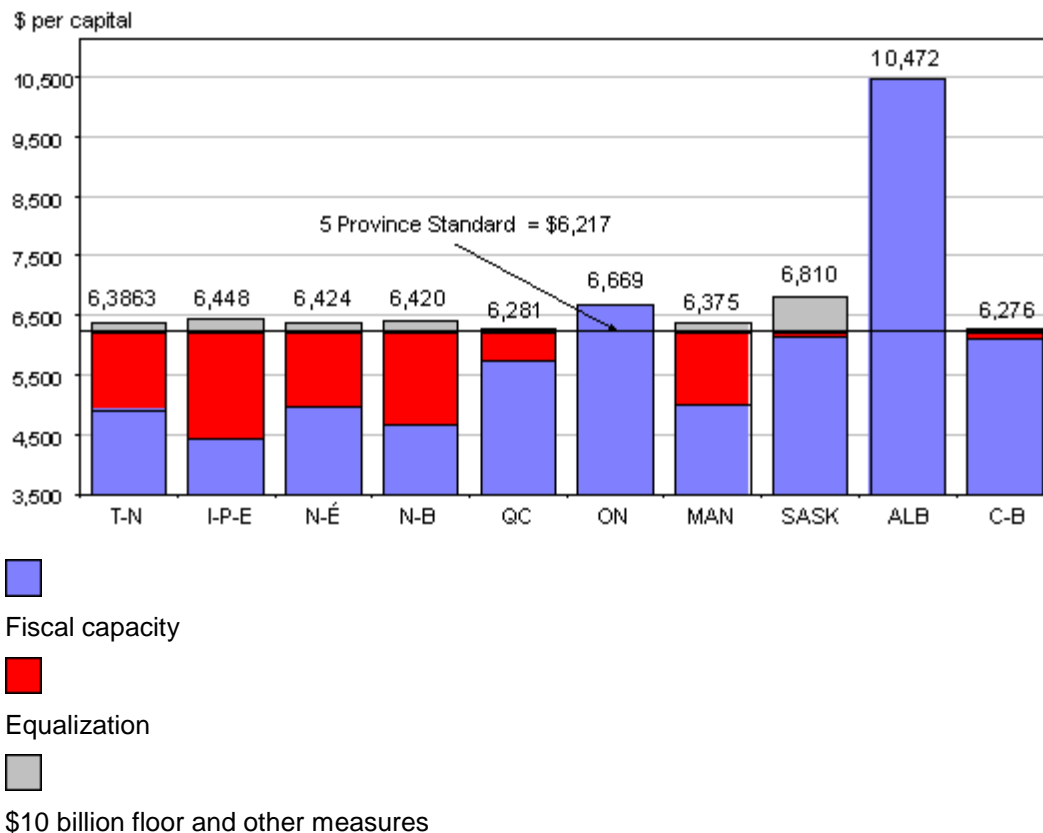
**Figure 3**

**A "New Framework" for Equalization and TFF,  
October 2004 – Equalization by province 2004-05**

**Summarizing the *New Framework***

- A funding floor of \$10 billion for Equalization and \$1.9 billion for TFF for 2004-05.
- Protection for provinces and territories against declines in payments from the amounts set out in Budget 2004.
- A guaranteed increase in funding for 2005-06 to \$10.9 billion for Equalization and \$2 billion for TFF.
- An assured growth rate of 3.5 per cent per year from that base for the next 10 years, with a mid-term review point in 2009-10.
- An independent panel to advise on the allocation of the legislated funding levels among provinces and territories.

**Fiscal Capacity, Equalization and Benefits from the New Equalization Framework 2004-05**

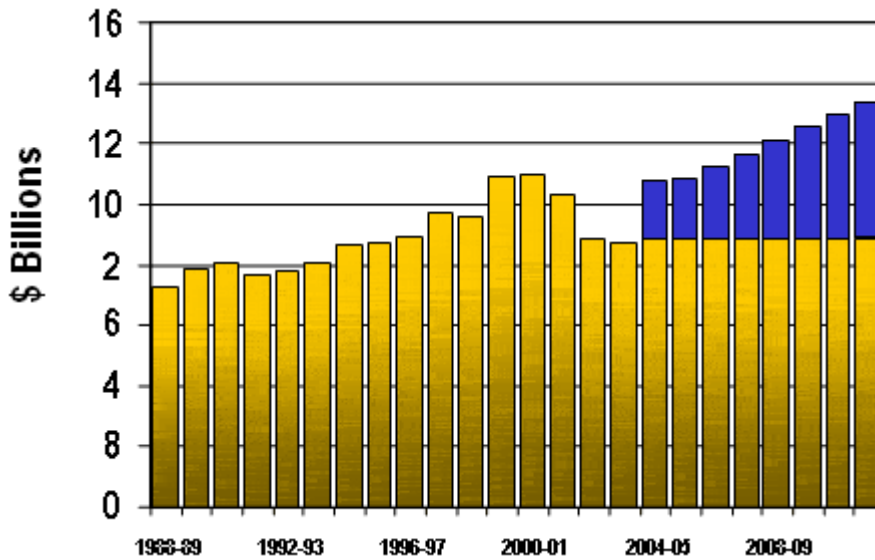




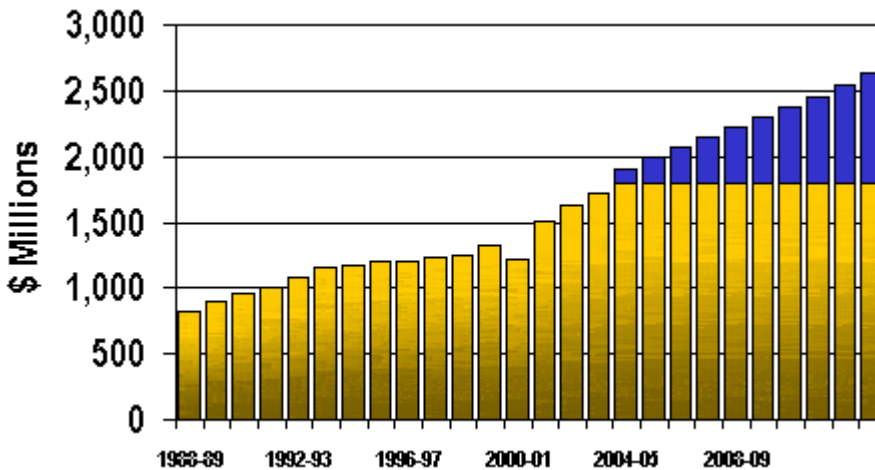
**Figure 4**

**Equalization and TFF Payouts, 1988-89 to 2011-12**

**Equalization 1988-89 to 2011-12**

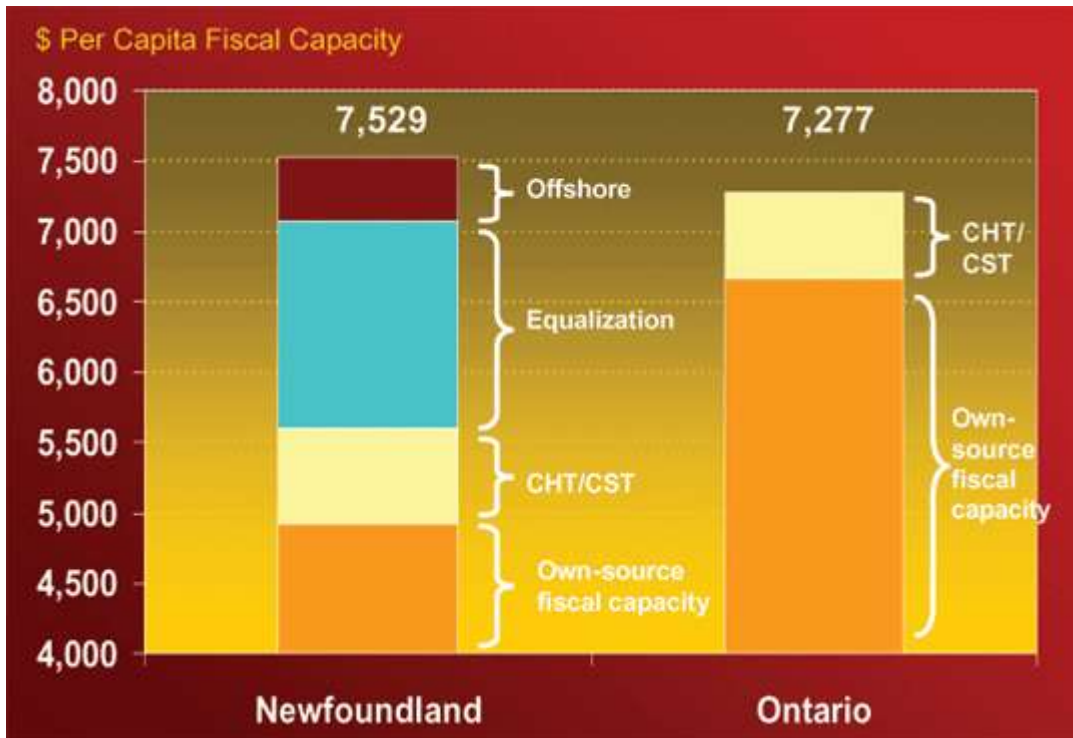


**Territorial Formula Financing 1988-89 to 2011-12**



Source: Canada, Expert Panel on Equalization and Territorial Formula Financing, website [http://www.egtff-pfft.ca/english/issuespaper5.asp#5\\_1](http://www.egtff-pfft.ca/english/issuespaper5.asp#5_1), accessed 2005/11/02

**Figure 5 – Ontario's "fair shares" argument**  
**Equalization isn't equal anymore**



Source: Presentation by Ontario Finance Minister Greg Sorbara, to House of Commons Sub-Committee on Fiscal Imbalance, 2005 March 11, website <http://www.fin.gov.on.ca/english/media/2005/sl03-finimb.html> accessed 2005 2 November