

Recent Trends in Canadian Federal-Provincial Financial Relations

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Canada basic facts

- 10 provinces ,3 territories, N aboriginal
- Important difference in population 1-100 and size 1-150 between provinces largest Ontario is 35-40%; Québec 20-25%; BC /Alberta 10-15% each
- Important differences in per capita income by provinces (GDP) 1-2
- Majority of unilingual francophones in Québec
- Weak internal market
- Monarchy; Westminster style ; weak upper house

T/GDP and G/GDP

Source Finance Canada

	1980	1990	2000	2007
Canada T%	37	43	44	40
USA T%	32	33	36	34
Canada G%	42	49	41	39
USA G%	34	37	34	37

Canada Spending –Composition

- Local spending on roads, protection ,...
- Provincial spending on
 - Health (public 7% of GDP; private: 3%)
 - Education; Social affairs (welfare); Roads
- Fed spending is
 - Transfers to Individual: Old age , Employment Insurance (regional differences)
 - Transfers to provinces(about 25% of spending)
 - Defence and Foreign matters

Share of spending main items, % 2005-All G, Canada

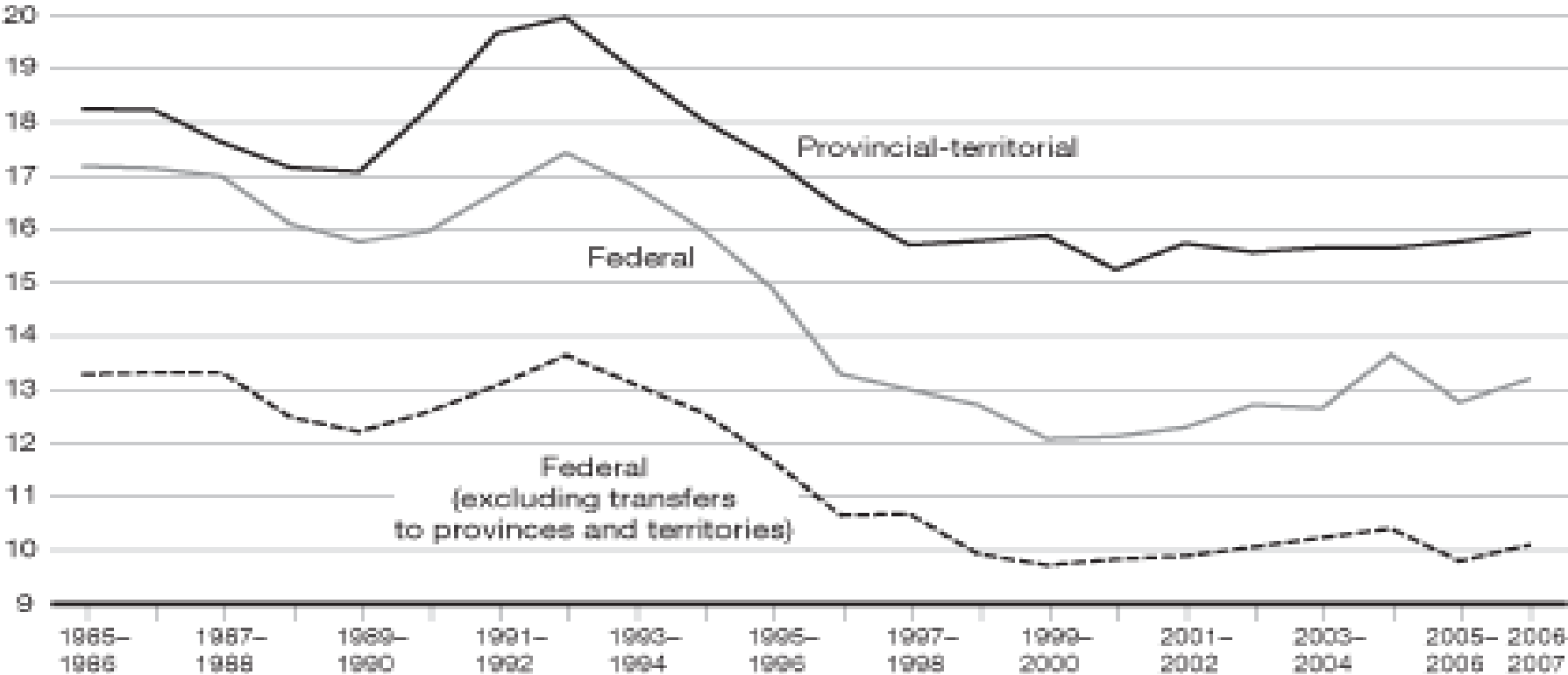
	Protecti on	Health	Educati on	Social services	Transpo rtation
Canada	8	20	15	25	3

Canada Spending Fed/Prov (Budget 2007)

Chart A1.4

Federal and Provincial-Territorial Program Spending (Public Accounts Basis)

per cent of GDP



¹ Projection.

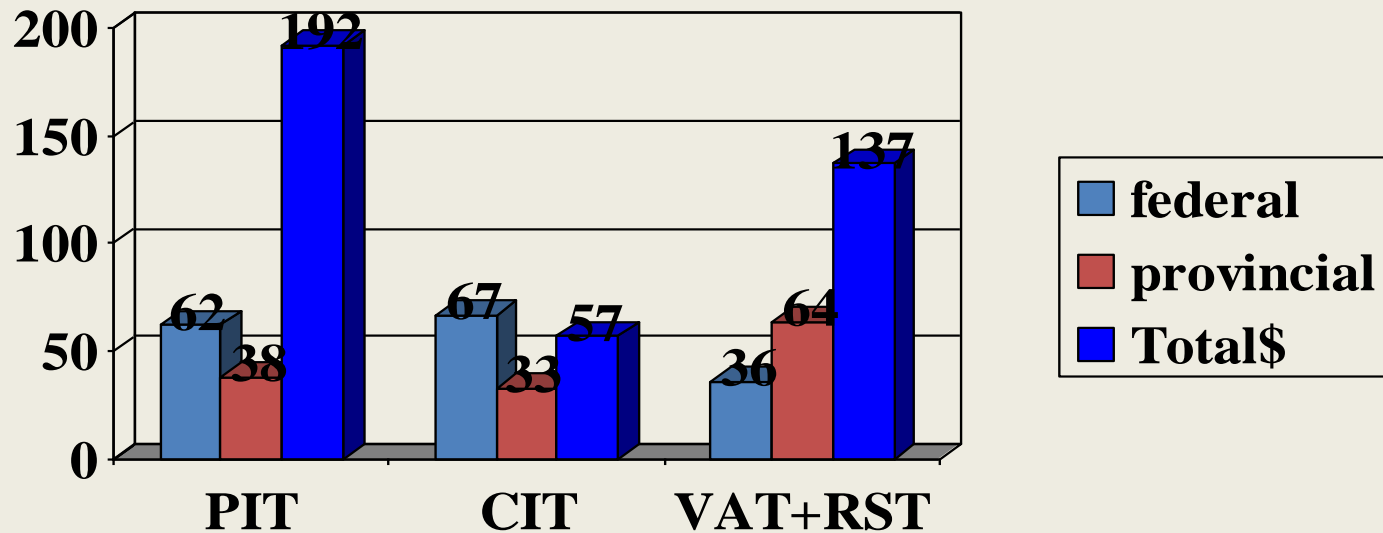
Sources: Federal and provincial-territorial Public Accounts and budgets.

Canada Fed/Prov Taxation Powers

- Customs duties are federal
- PIT/CIT/ Consumption taxes: Federal and provinces free to define base, set rates and collect own taxes
- Federal collection of PIT (9/10) and CIT(8/10)
- Québec collects GST+QST, federal collects HST (3 provinces +TWO more in 2010) and 5 provincial RST
- Local government use property taxes

Fed/Prov revenues-Importance

Federal and provincial shares of 3 major taxes, Canada ,2007 and total in billion \$



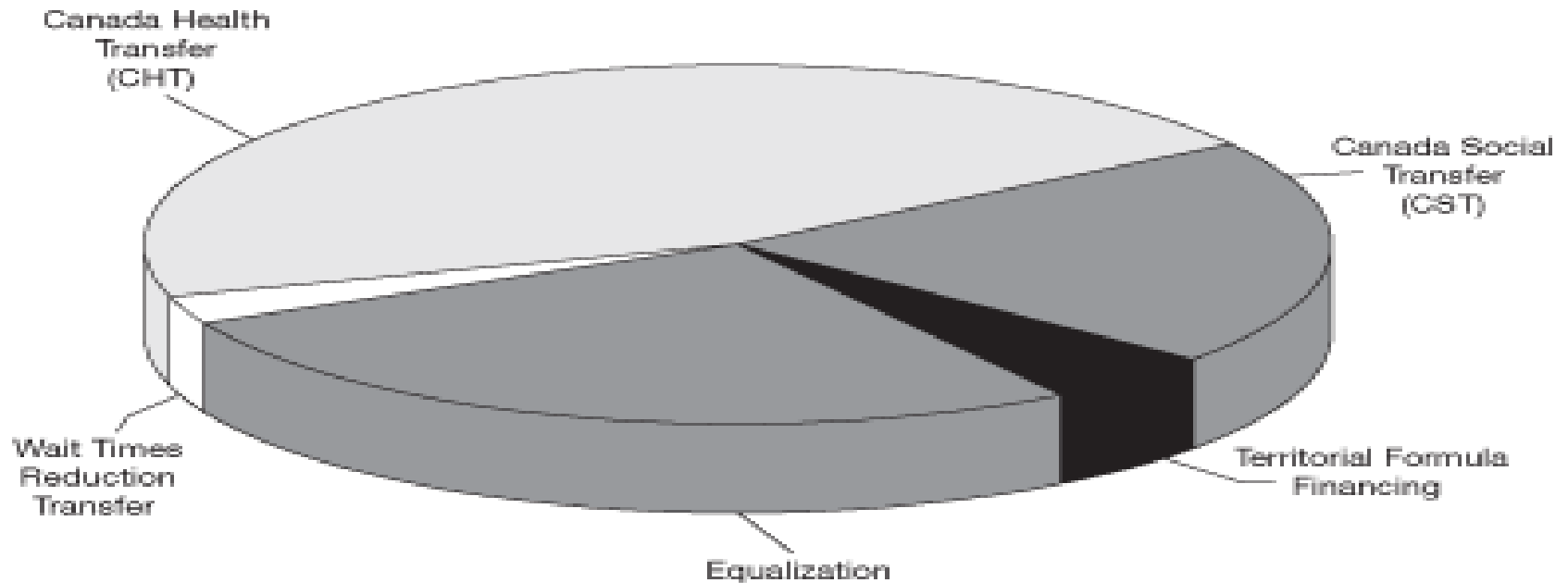
Canada Federal transfers 2007+

- Three main types:
 - CHT and CST: Health and Social -2-3% of GDP/10-15% fed G: spending power of federal government: equal per capita \$ transfer
 - Tax points *transfers*
 - Equalisation-about 1% of GDP/ 5-7% fed G: constitutional since 1982: unequal per capita
 - Minor (social housing, language, legal aid,...)- about ½% of GDP: cost sharing
 - Transfers mainly to provinces with some for infrastructure to local governments

Canada Federal transfers-Composition (Budget 2007)

Chart A4.1

**Total Major Federal Cash Transfers in 2007–08:
\$47 Billion to Provinces and Territories**



Note: Does not include approximately \$21.4 billion in equalized tax transfer support for provinces and territories through the CHT and CST.

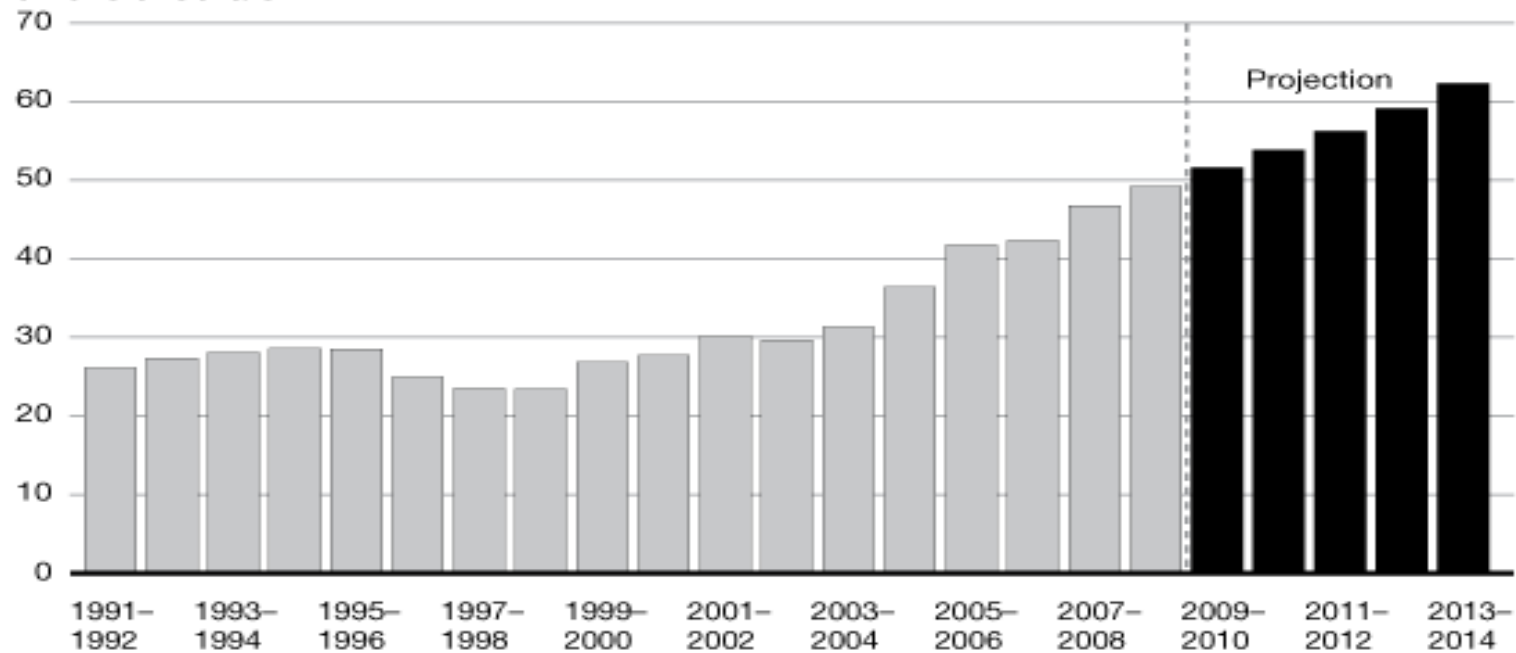
Source: Department of Finance.

Canada federal transfers forecast

Chart 3.5

Major Federal Transfers Will Continue to Grow

billions of dollars

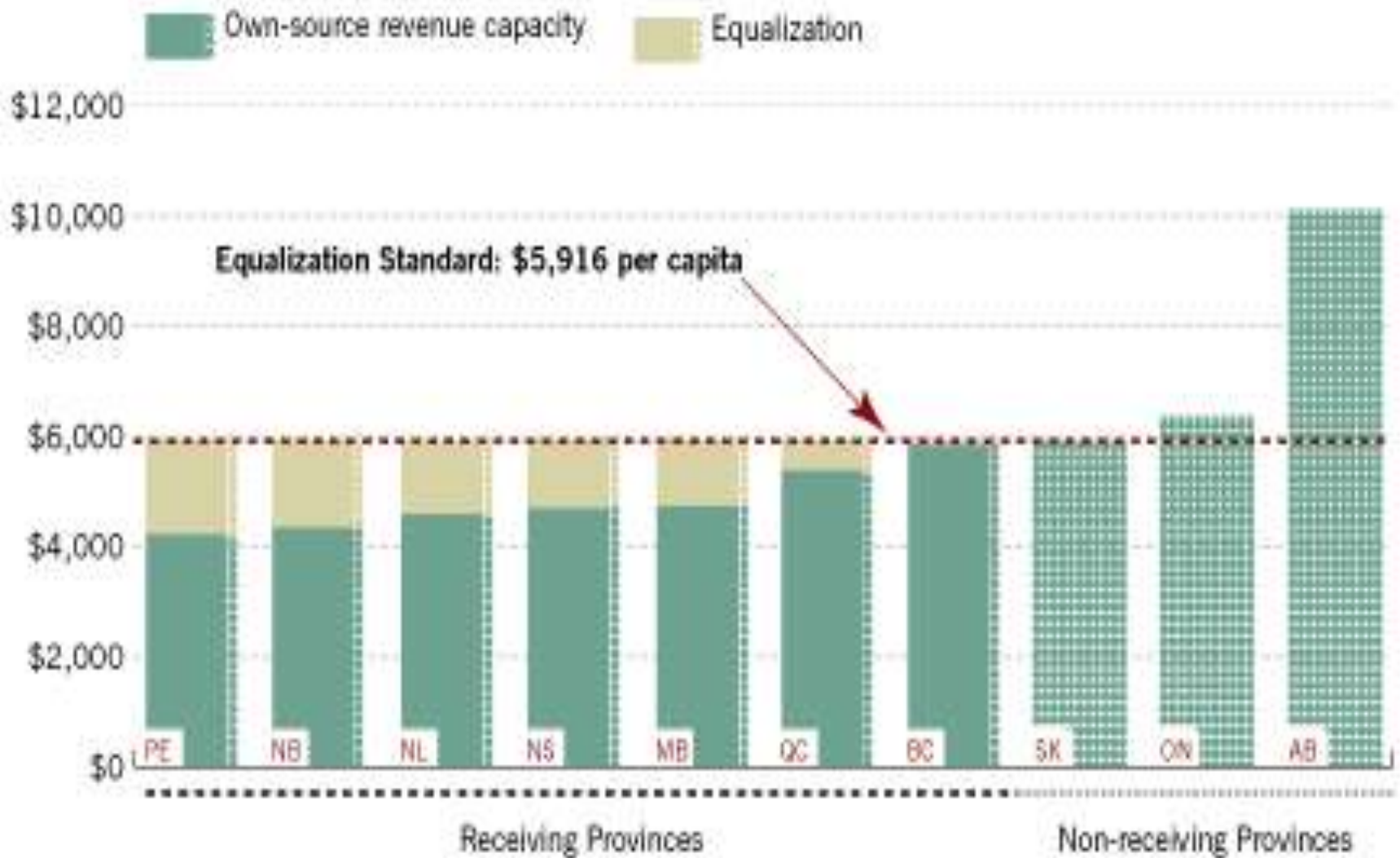


Notes: For 1991-92 to 2008-09, major federal transfers include CHT, CST, TFF, Equalization and predecessor programs (Canada Health and Social Transfer, Established Programs Financing and Canada Assistance Plan). For 2009-10 to 2013-14, major federal transfers include CHT (6-per-cent escalator), CST (3-per-cent escalator), TFF and Equalization (assume growth at GDP). Does not include statutory subsidies, transfers for infrastructure, and adjustments for Alternative Payments for Standing Programs and Youth Allowances Recovery.

Equalisation-Canada 2007+

- Equalisation: Representative Tax System:
- No Expenditures/Needs/ Costs dimension
- Centrally funded from general revenues
- Gross equalization: If Total > 0 => 0
- Standard: Average of 10 (5 before-Q, O, M S, BC)
- Five revenues sources 2007(33 before)
- 14 billions\$ per year(2009)/about 1% of GDP
- No overtaking of non-receiving by receiving province
- Cap on growth-2009

Canada The Impact of equalisation 2004-2005 on fiscal capacity (O'Brien report)



Debt net % GDP and deficits

	1980	1990	2000	2007	
Canada	14.4	43.3	46.6	23.3	
USA	26.3	43.1	32.0	36.9	

- Full freedom to borrow domestically and abroad for all three levels
- No federal anti deficit law and weak provincial ones

Challenges-Five criteria-1

- Geography:
 - Impact of climate change on North and Prairies
 - Impact of global/US policies on Alberta oil sands
- History
 - Historical compact between Anglos and Francos (Québec) becoming less relevant-impact on support for transfers
 - Historical differentiation from USA becoming less relevant

Challenges-Five criteria-1

- Demography
 - Aging of population differentiated by province; increased needs differences
 - Drop of relative importance of east-poor: impact on support for transfers
- Economy
 - Next door neighbour is running high deficit + unfunded Social Security + aging population with high health costs

Challenges-Five criteria-1

- Economy
 - Canada as tax haven for Americans ?
 - Canada as impoverished supplier to contracting economy?
- Politics
 - Sovereignist movement in Québec dormant (40-45%);could it awaken again?

Conclusion

- How can federally funded equalisation account for natural resource (oil and gas) provincial royalties revenues –Alberta as a sheikdom.
- Can one NAFTA partner have equalisation when the other does not-Ontario as a region
- Can Atlantic Canada survive without it-the NB initiative