Forum of Federations
THE GLOBAL NETWORK ON FEDERALISM

Fiscal Federalism in Canada

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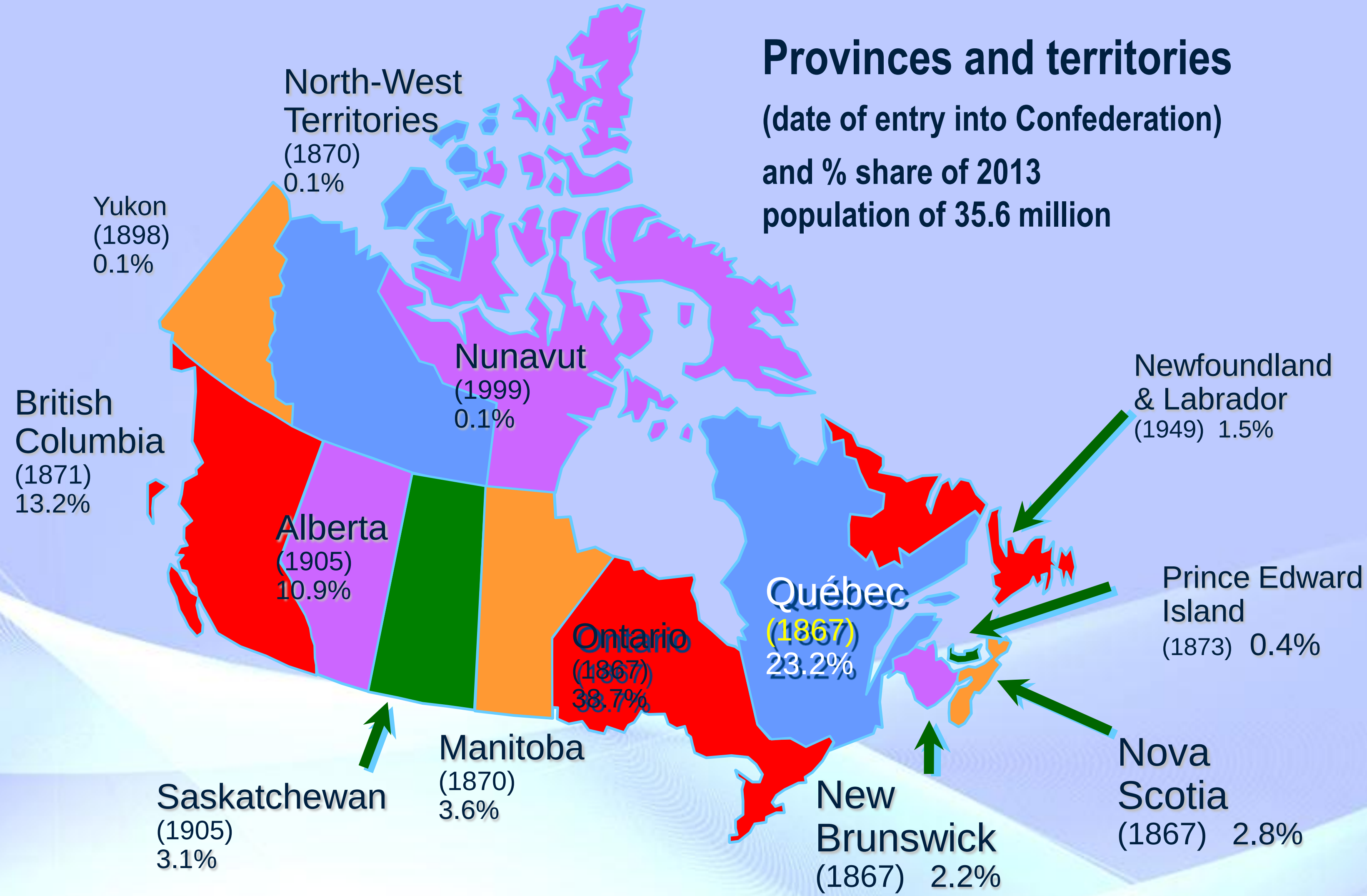
Provinces and territories

(date of entry into Confederation)

and % share of 2013 population of 35.6 million



Key underpinnings of fiscal federalism in Canada

- Long history of uninterrupted <u>self-rule</u> from colonial times (1840s) through to the present:
  - provinces are Canada's original political units and still command significant (sometimes dominant) <u>allegiance</u> of residents
  - provinces have very substantial policy and administrative <u>capacity</u>
  - long-established habits of managing <u>high provincial autonomy</u>:
    - inter-governmental compromise / accommodation / cooperation
    - accountability to informed and engaged electorates and media
    - provincial spending (and borrowing) closely tied to provincial taxation

Centralized in theory, but not in practice

- Design of founding *Constitution Act, 1867* envisaged:
  - “watertight” federal and provincial powers (with few exceptions)
  - dominant federal government (both fiscally and legislatively)
- In practice, Canada has evolved toward:
  - typically overlapping (or “entangled”) legislation/regulation and (especially) spending powers
  - joint occupancy of all major direct and indirect tax fields
  - relatively “equal partnership” of federal and provincial governments (or “vertical competition between equally-matched competitors”?)

Three elements to Canadian fiscal federalism

- The federal government will provide “**tax points**” or “**tax transfers**” to the provinces and territories, which reduce federal tax room in order to make more room for provincial or territorial governments. Tax transfers are provided for in formal agreements between governments, and are often used as a means of federal support for provincial and territorial services (such as health care or education).

- In addition to taxation agreements, the federal government also provides **conditional and block grants** to the provinces and territories. These are sums of money which the federal government provides each year in support of provincially and territorially provided programs, such as health care, child care, education, and welfare.

- The final key element of fiscal federalism in Canada is the system **equalization payments**. First introduced in 1957, equalization payments are a system of unconditional grants provided by the federal government to “have-not” provinces based on provincial need. The purpose of these payments is to ensure that all provinces can offer a <u>comparable</u> standard of public services, regardless of their population or revenue base.

Entanglements are typically managed through elaborate structures of “executive federalism”

- In most policy areas, federal and provincial ministers and officials meet regularly:
  - many standing federal-provincial committees to discuss areas of common interest (sometimes meeting several times a year)

- Meetings on fiscal/budgetary and related matters (e.g. health care) are frequently high-profile and raise significant controversy:
  - both federal-provincial and inter-provincial tensions often surface
  - fiscal issues have on occasion been settled at the level of “First Ministers” (Prime Minister and provincial Premiers)

Social Union Framework Agreement

- While the provinces accept (and even encourage) federal spending in areas of provincial jurisdiction, this relationship often has conflicts. Some provinces, especially those that are more financially self-sufficient, often take issue with the conditions that the federal government places on them in order to receive federal funding.

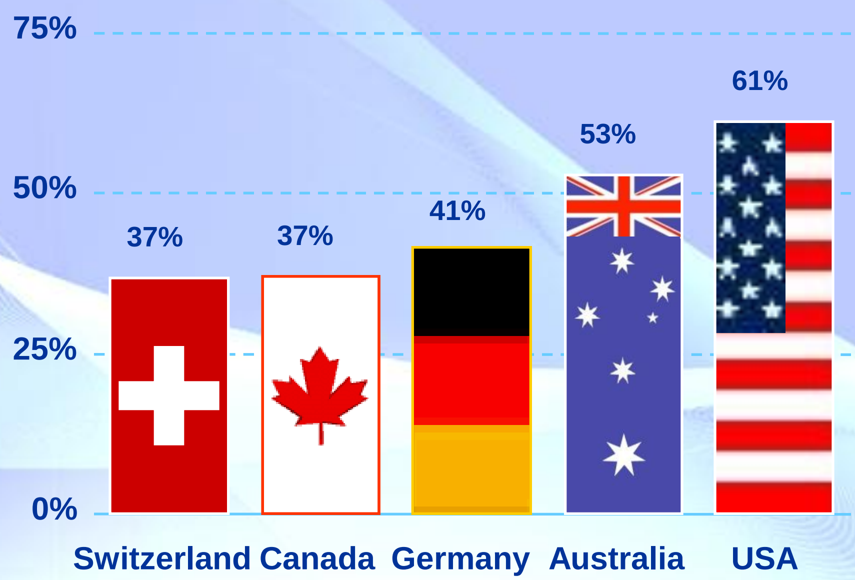
- This led to 1999 Social Union Framework Agreement (SUFA), signed by the federal and provincial governments (except Quebec). Under SUFA, governments agreed to give one another advance notice before implementing a major change in a social policy or program that would substantially affect another government. While this provision did not prohibit governments from developing and implementing social policy independently from one another, it did require them to provide some advance notice to other governments.

- The most significant aspect of SUFA centred on the use of federal spending powers. The federal government agreed not to introduce new social programs that are funded through intergovernmental transfers without the agreement of a majority of provincial governments.

The particularly high degree of autonomy exercised by Canadian provinces reflects the high degree of fiscal decentralization in Canada.

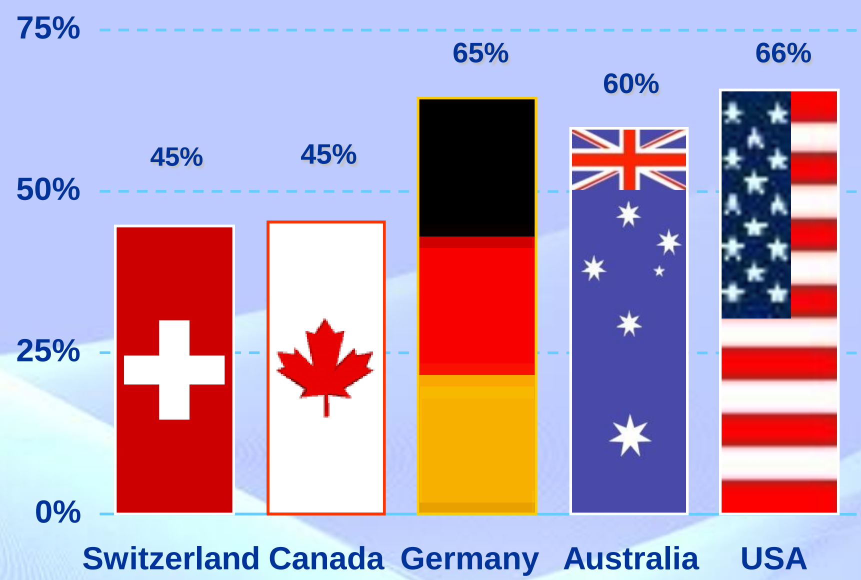
Expenditures

Federal share of direct spending



Revenues

Federal share of own-source revenues



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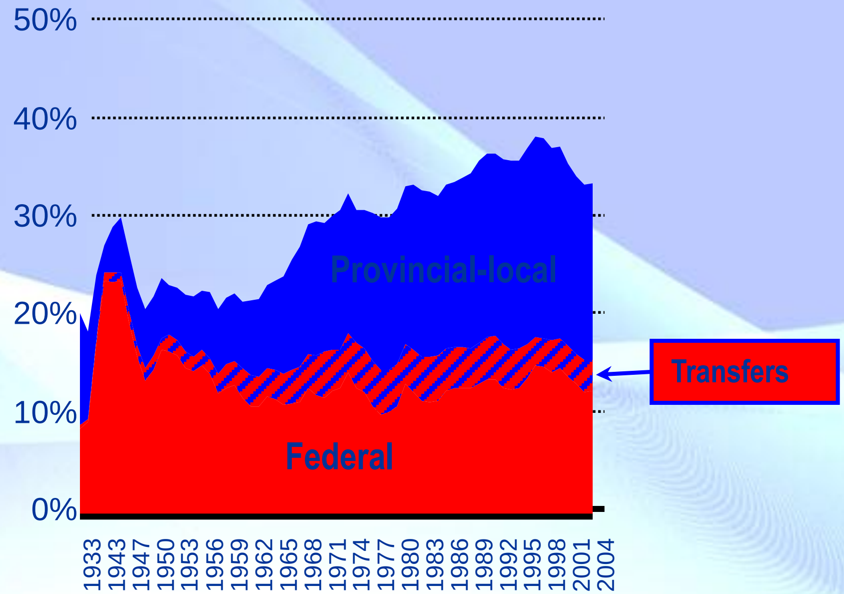
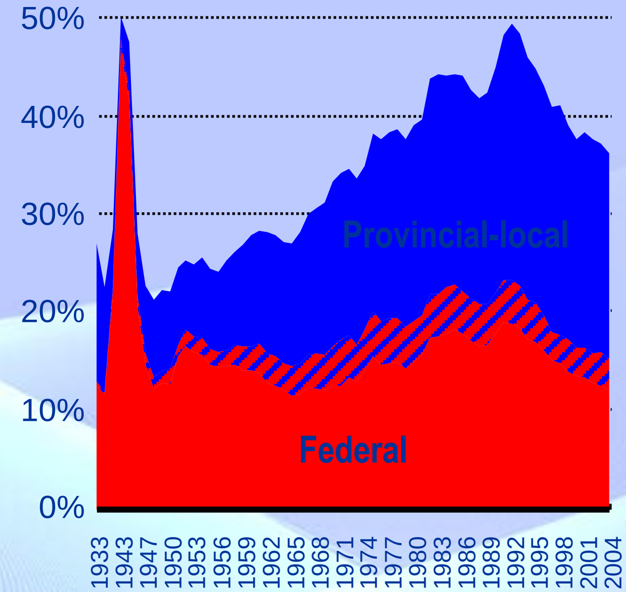
The particularly high degree of autonomy exercised by Canadian provinces reflects the <u>long history of fiscal decentralization in Canada</u>

Revenues (% of GDP)



Expenditures (% of GDP)

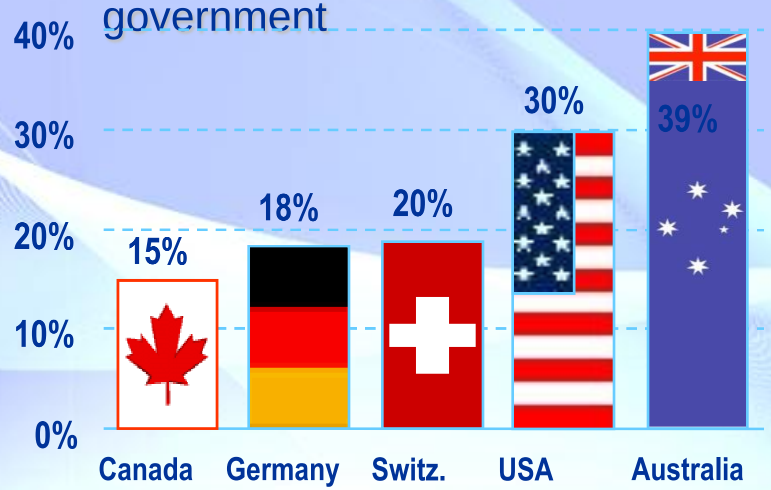


<u>Source</u>: Statistics Canada

The particularly high degree of autonomy exercised by Canadian provinces reflects:

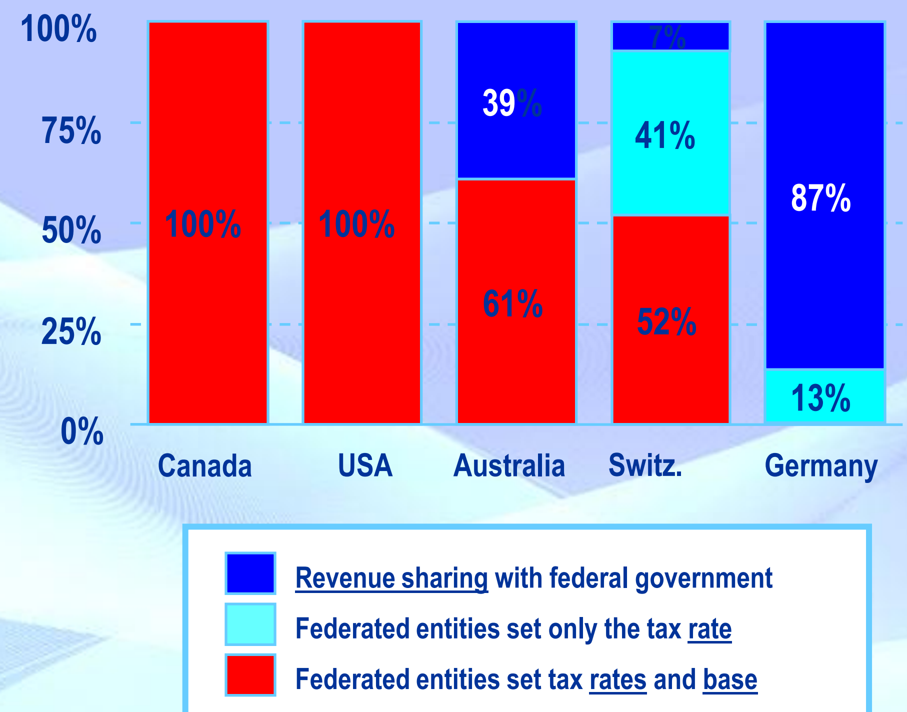
Their low dependence on federal transfers…

Federal transfers as a % of total revenues of other levels of government



…and significant control over their own-source revenues

Non-federal own-source revenues, by degree of fiscal control



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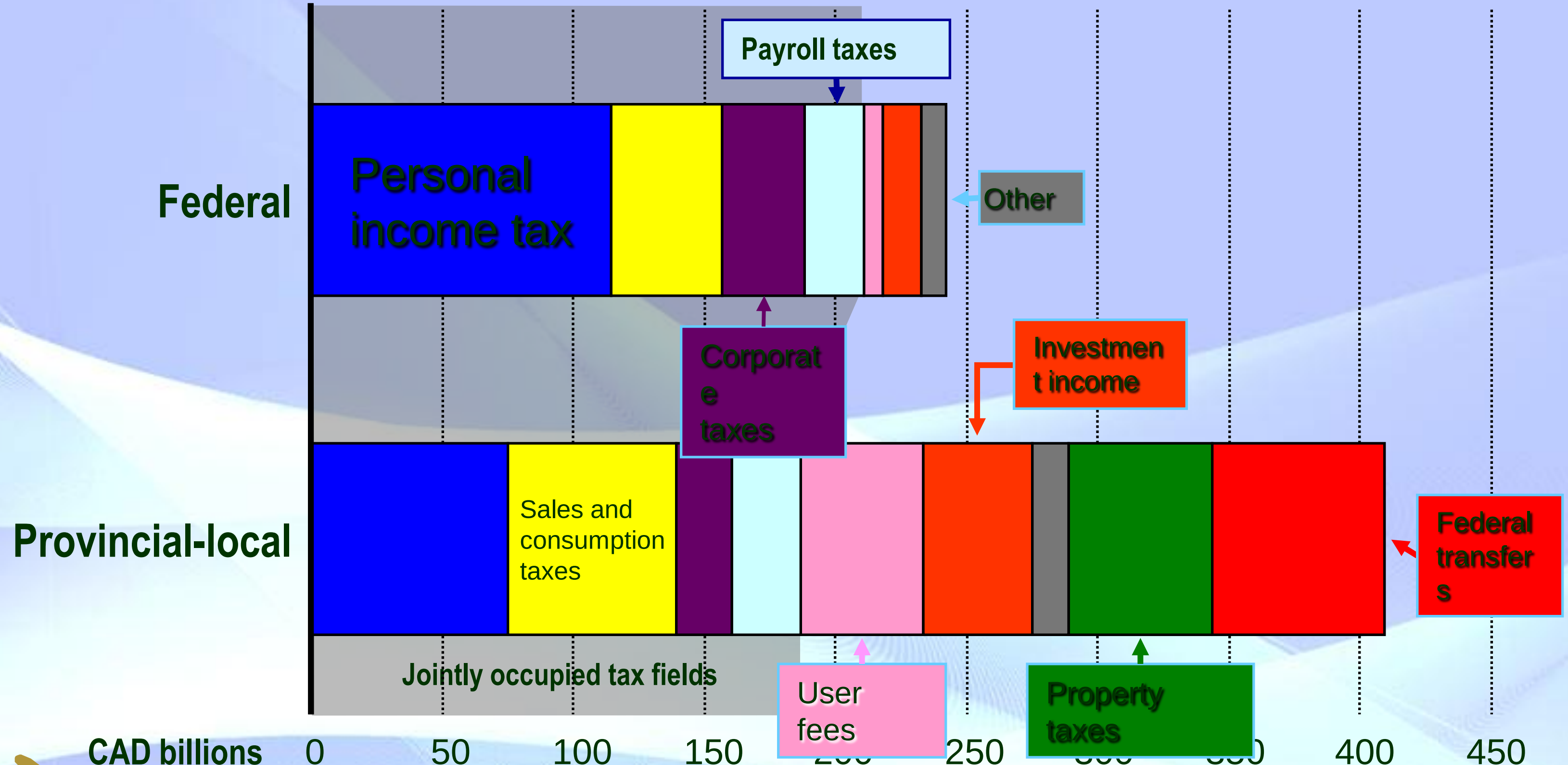
The particularly high degree of autonomy exercised by Canadian provinces reflects:

… as well as joint occupancy of major tax fields



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Source: Statistics Canada (2009)