



Presentation to the House of Commons Subcommittee on Fiscal Imbalance

Winnipeg, Manitoba

April 18, 2005

**The Honourable Greg Selinger
Minister of Finance**





The Challenge of Federation

- Managing its internal fiscal arrangements
- Structural diversity
- Long-term trends
 - Demographics
 - Globalization





The Challenge of Federation

- Canada is fiscally out of balance
- Management tools need renewal
- Process needs to be strengthened





Guiding Principles for Fiscal Arrangements

- Adequacy and Sustainability
- Equity
- Efficiency
- Transparency and Accountability





The Scope of Fiscal Imbalance

- Two dimensions of Fiscal Imbalance
 - Vertical (VFI) and Horizontal (HFI)
- CHT and CST are the main tools to address VFI
- Equalization is the main tool to address HFI





Vertical Fiscal Imbalance

- The federal government has greater resources than program responsibilities
- Cost of meeting constitutional program responsibilities for provinces are greater than their capacity to raise revenue
- Not just a mismatch of responsibilities and resources
- The most costly program areas with the greatest cost pressures are under provincial jurisdiction





Major Program Spending - 2004/05

P/T Government (\$/Capita)

Health	2,655
Education	1,545
Social Services	725

Own-Source Revenue:	\$187 b
Program Expenditure:	\$202 b
Debt Servicing Costs:	\$22 b

Federal Government (\$/Capita)

Old Age Security	875
Employment Insurance	480
National Defence	435
CH/ST and Equalization	1,255

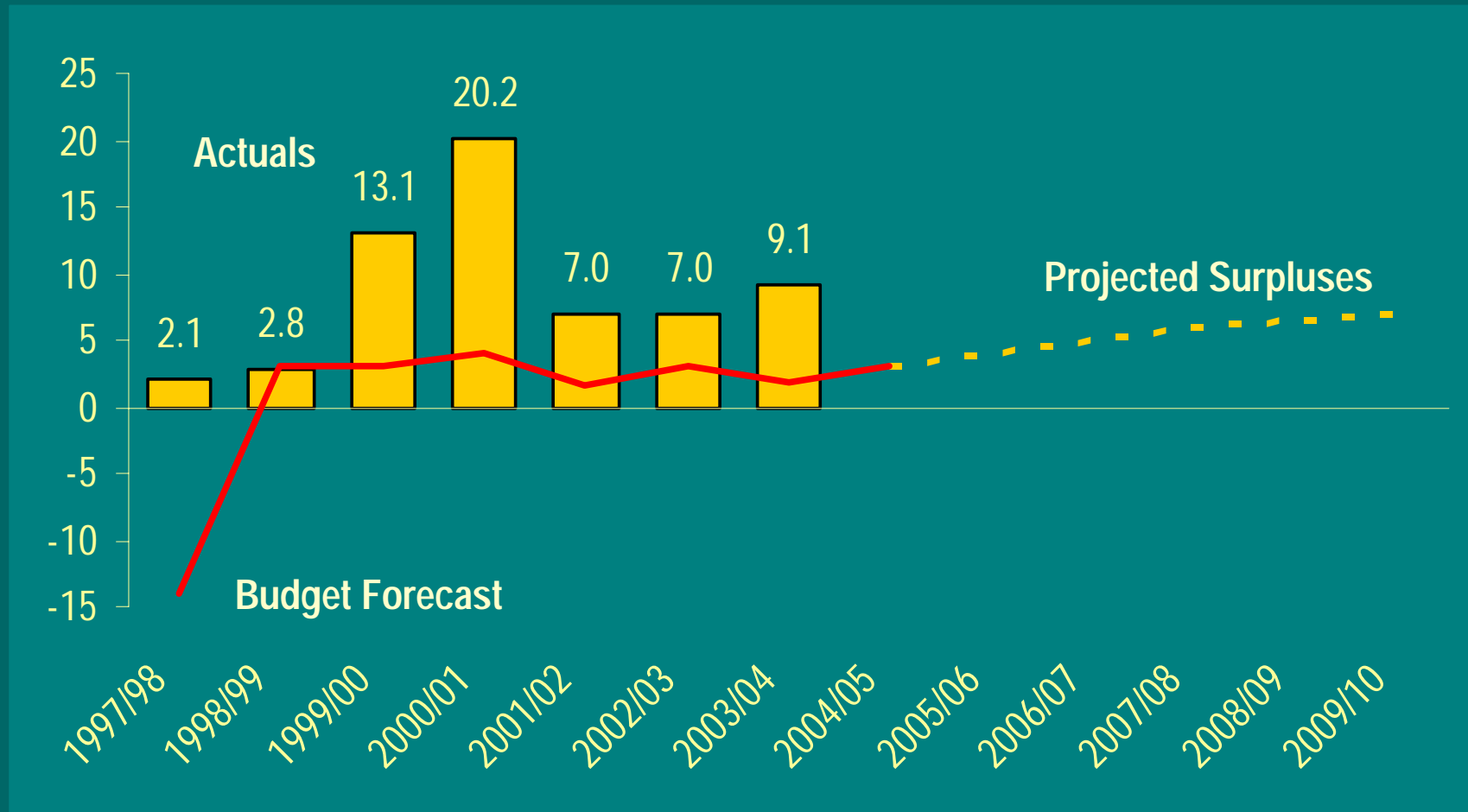
Revenue:	\$196 b
Program Expenditure:	\$158 b
Debt Servicing Costs:	\$35 b





Federal Government Budget Balances

\$ Billions





2004 Health Agreement

- Unanimous, signed agreement that provides for a significant increase in the federal contribution
- In real per capita terms, it is higher than when the current federal administration took office





Federal Major Social Program Transfers

Real Per Capita Transfers





2004 Health Agreement

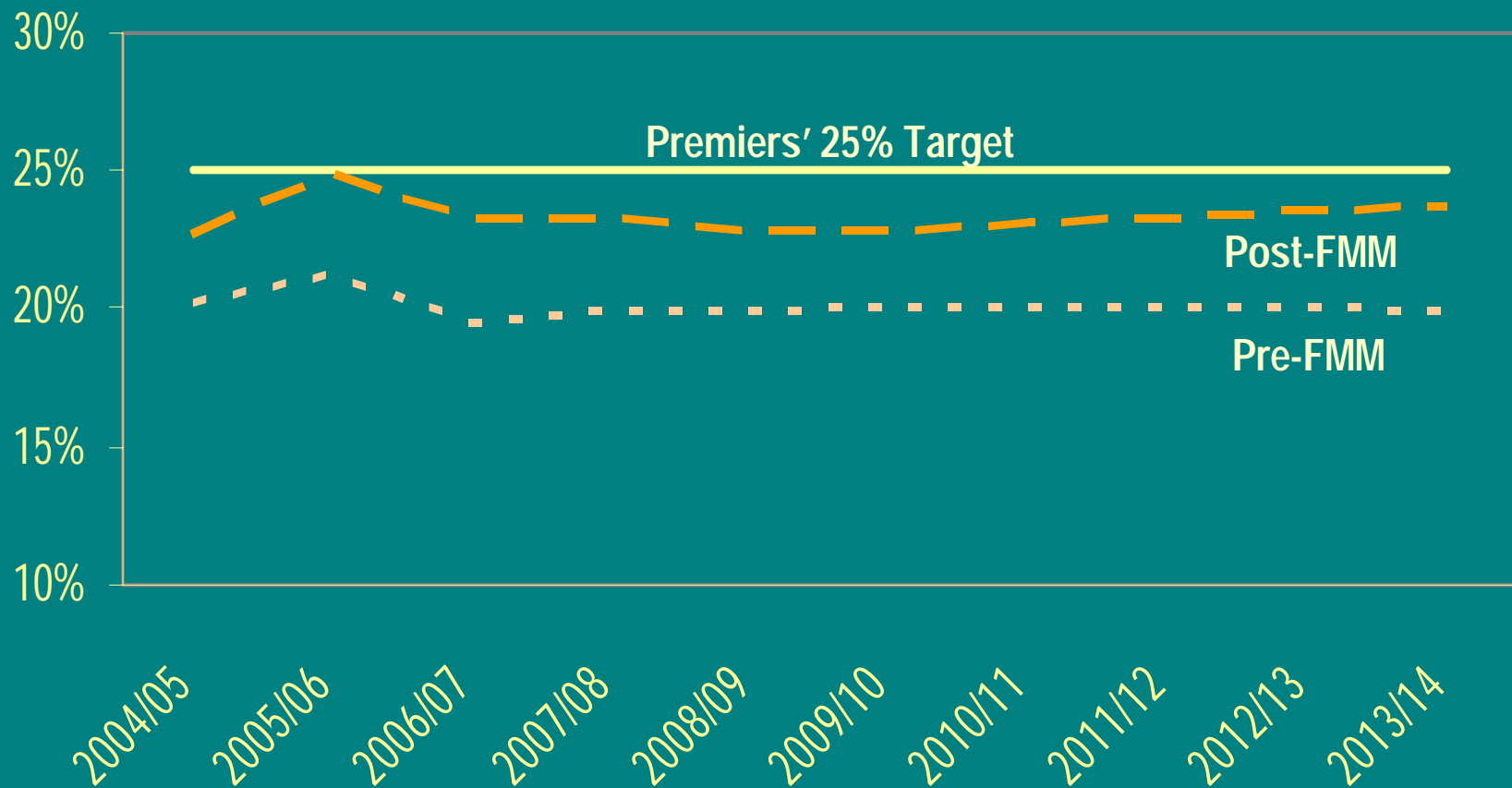
- Example of effective negotiations
- Gets close to the goal of restoring federal health care funding to 25%
- Adds, on average, 3 percentage points to the federal share of funding
- Virtually all health care funding is in the base





Federal Contribution to Health Care

Per Cent Share of Total P/T Expenditure





Social Program Funding

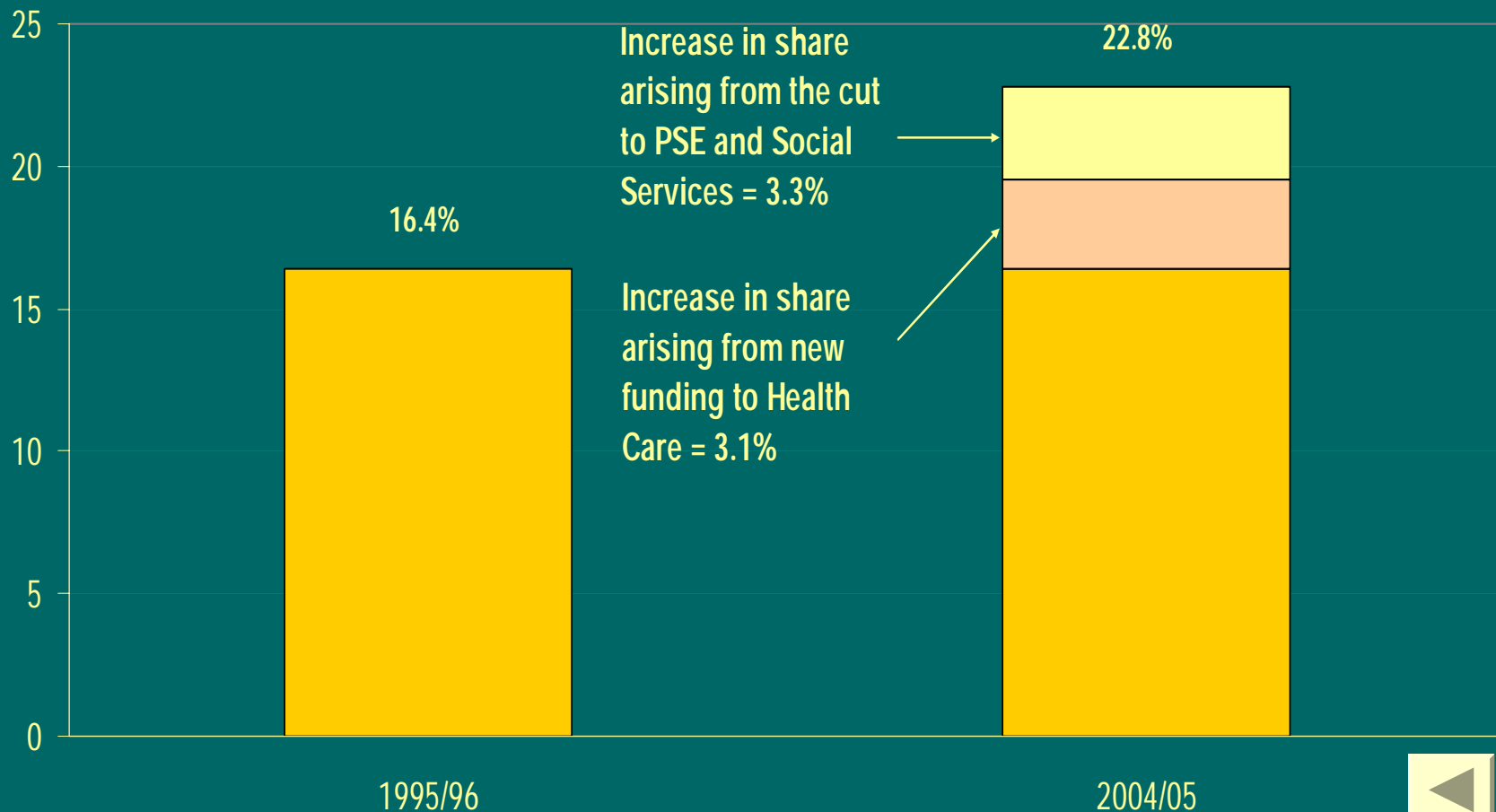
- The federal government has to re-establish its funding role for PSE and Social Services
- Federal transfers declined drastically under the CHST and the subsequent split - by \$2.7 billion between 1995/96 and 2004/05, more than 30%





Increase in the Federal Share of Funding for Health Care

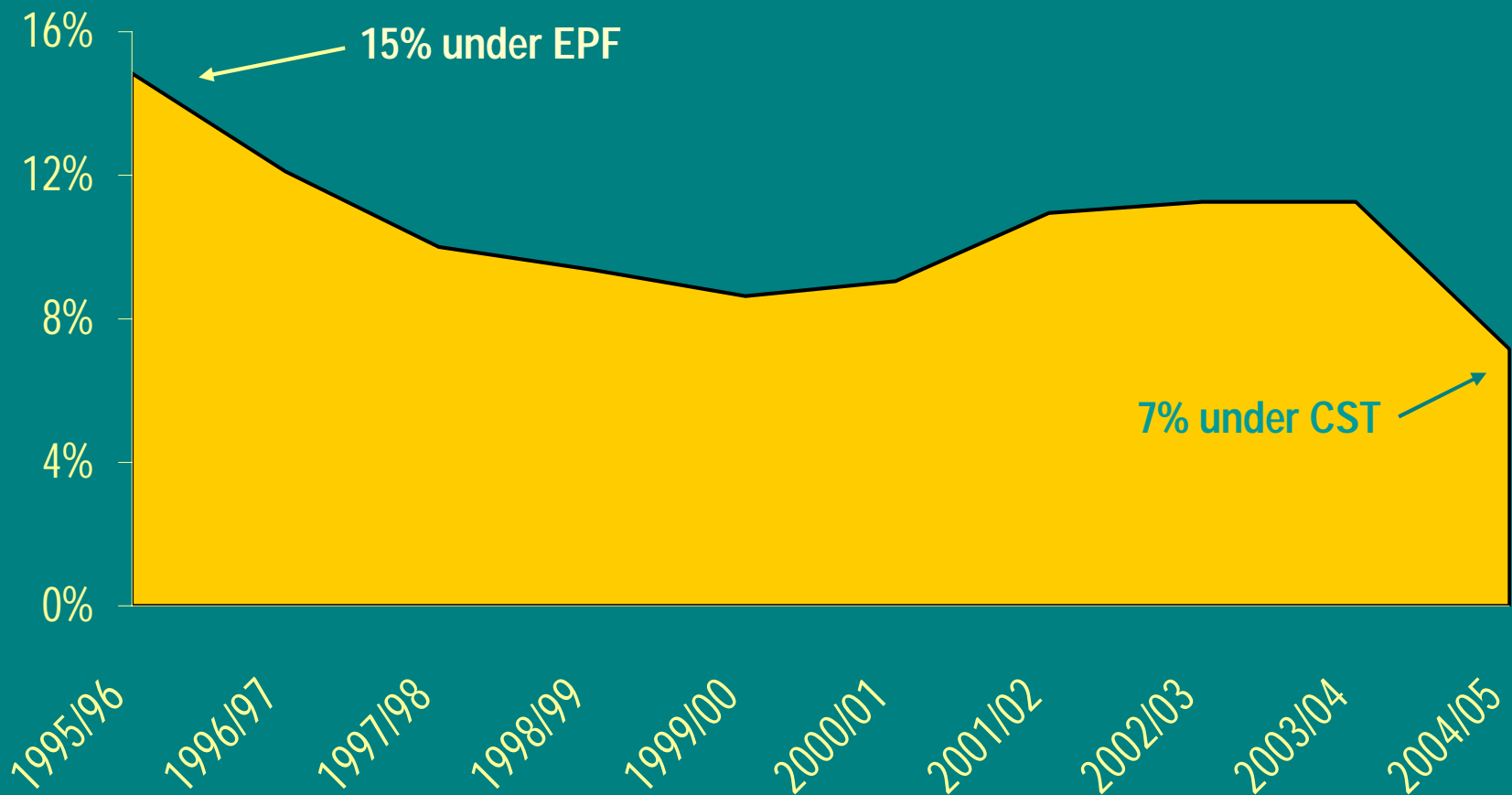
Per Cent Share of Total P/T Expenditure





Federal Contribution to PSE

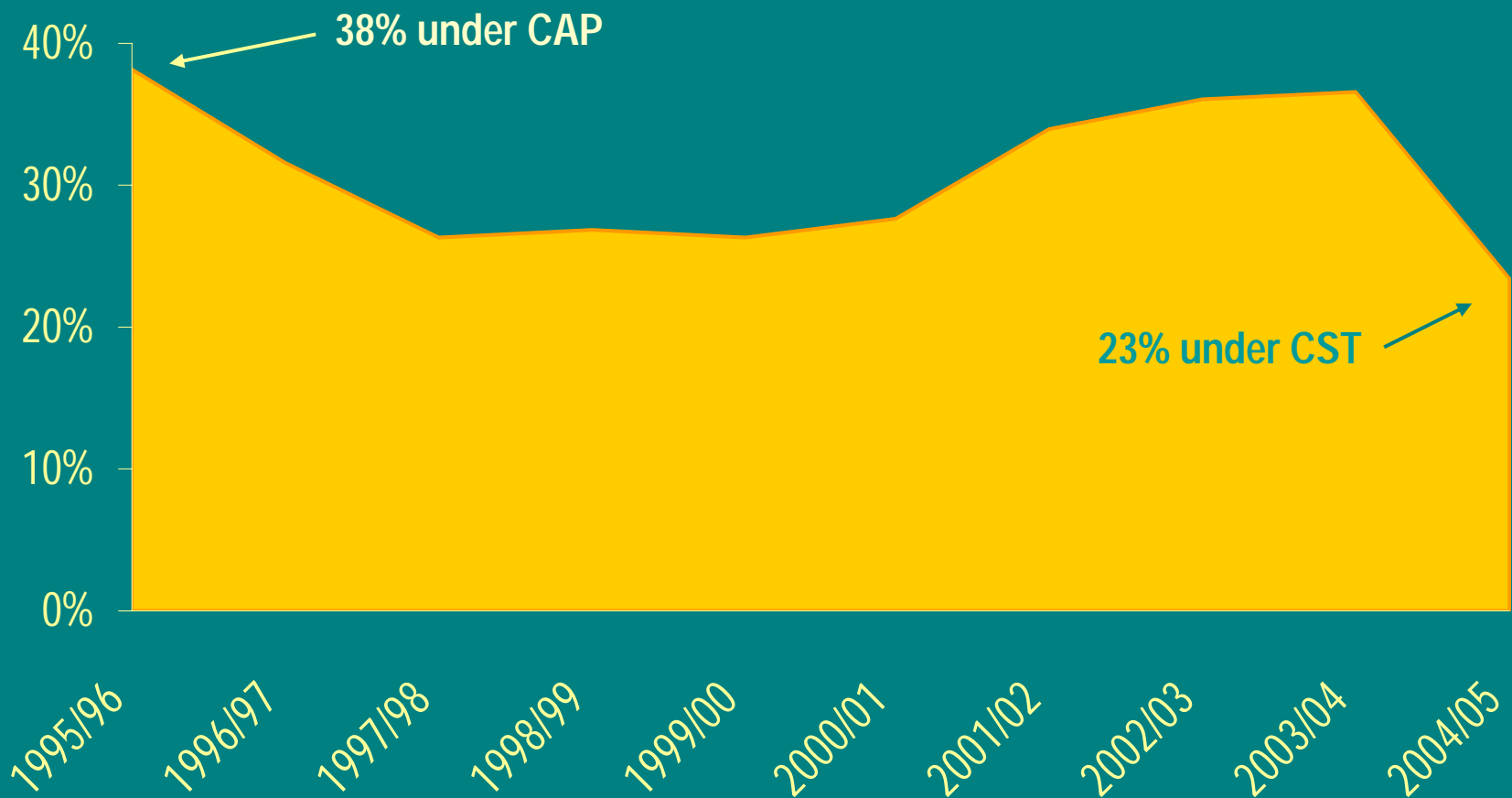
Per Cent Share of Total P/T Funding





Federal Contribution to Social Services

Per Cent Share of Total P/T Funding





Horizontal Fiscal Imbalance

- Equalization is the main tool Canada uses to deal with fiscal disparities among provinces
- Historical context speaks to the very nature of the federation and is enshrined in the in section 36(2) of the Constitution





New Federal Equalization Plan

- The Equalization plan provides significantly higher funding in the short-term
- An expert panel to review the Program, make recommendations with respect to allocation and the merits of an independent commission
- Future allocation uncertain and the “floor” may really be “ceiling” in the long term
- Adequacy and responsiveness to economic developments remain major issues





New Federal Equalization Plan

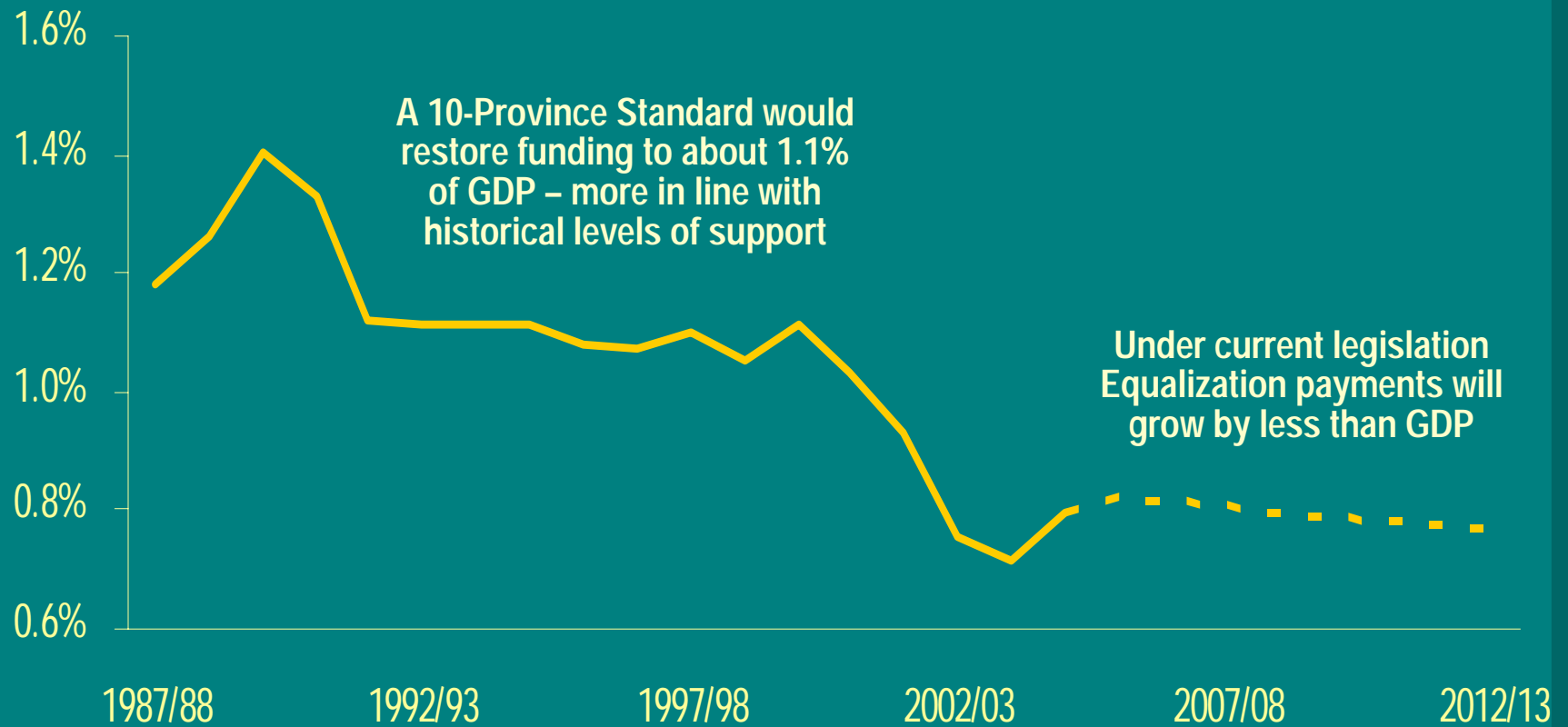
- Historically Equalization was about 1.1% of GDP
- Under current legislation Equalization payments will grow by less than GDP over the next decade
- Equalization payments will effectively remain in the range of 0.8% of GDP





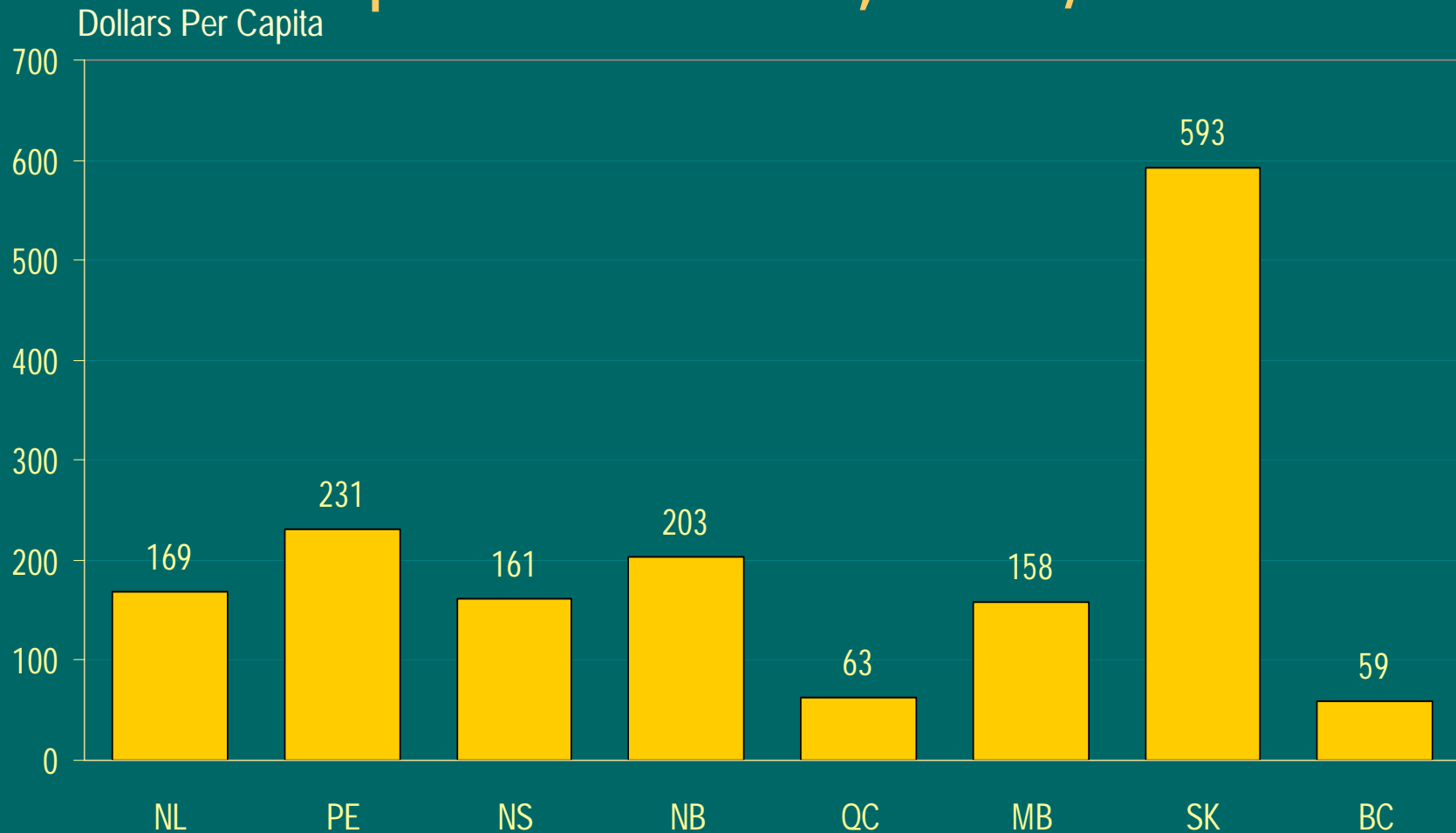
New Federal Equalization Plan

Per Cent of GDP





Benefit from the New Federal Equalization Plan, 2004/05





Equalization Reform

- Address the adequacy of the standard, revenue coverage and volatility around resource revenue
- The theoretical underpinnings of the Program are sound and should be maintained





Recommendations

- Reassess the responsibilities of each order of government along with their tax authority
- Split CST into separate transfers in respect of PSE and social services
- Create a new block transfer for children's programs
- Reform Equalization to address adequacy, comprehensiveness, responsiveness to changes in fiscal capacity, and resource price volatility





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