

National Citizenship and Provincial Communities: A Review of Canadian Fiscal Federalism

D. G. M. ...

Canadian Cataloguing in Publication Data

Leslie, Peter M.

National citizenship and provincial communities : a review of Canadian fiscal federalism

(Research paper. Notes for a book. X997.0040.1600.00)

CONTENTS

PREFACE

v

ABSTRACT vii

ACKNOWLEDGMENTS ix

I Introduction 1

II — Criteria for Evaluating Federal Fiscal Relations 5

III — Citizenship and Community 9

SOMMAIRE

Le point de vue de l'Administration nationale

Le point de vue des Services centraux

Le point de vue des Services régionaux

Le point de vue des Services locaux

Le point de vue des Services particuliers

Le point de vue des Services généraux

Le point de vue des Services techniques

Le point de vue des Services administratifs

Le point de vue des Services financiers

Le point de vue des Services juridiques

Le point de vue des Services médicaux

Le point de vue des Services sociaux

Le point de vue des Services culturels

Le point de vue des Services sportifs

Le point de vue des Services artistiques

Le point de vue des Services éducatifs

Le point de vue des Services de jeunesse

Le point de vue des Services de la famille

Le point de vue des Services de la vieillesse

Le point de vue des Services de la santé

Le point de vue des Services de l'éducation

Le point de vue des Services de la culture

Le point de vue des Services de la jeunesse

Le point de vue des Services de la famille

Le point de vue des Services de la vieillesse

Le point de vue des Services de la santé

Le point de vue des Services de l'éducation

Le point de vue des Services de la culture

Le point de vue des Services de la jeunesse

Le point de vue des Services de la famille

Le point de vue des Services de la vieillesse

Le point de vue des Services de la santé

Le point de vue des Services de l'éducation

Le point de vue des Services de la culture

Le point de vue des Services de la jeunesse

Le point de vue des Services de la famille

Le point de vue des Services de la vieillesse

Le point de vue des Services de la santé

Le point de vue des Services de l'éducation

Le point de vue des Services de la culture

croisement de la diffusion des électrons et des ions

	1
	2
	3
	4
	5
	6
	7
	8
	9
	10
	11
	12
	13
	14
	15
	16
	17
	18
	19
	20
	21
	22
	23
	24
	25
	26
	27
	28
	29
	30
	31
	32
	33
	34
	35
	36
	37
	38
	39
	40
	41
	42
	43
	44
	45
	46
	47
	48
	49
	50
	51
	52
	53
	54
	55
	56
	57
	58
	59
	60
	61
	62
	63
	64
	65
	66
	67
	68
	69
	70
	71
	72
	73
	74
	75
	76
	77
	78
	79
	80
	81
	82
	83
	84
	85
	86
	87
	88
	89
	90
	91
	92
	93
	94
	95
	96
	97
	98
	99
	100

ABSTRACT

The extension of national citizenship rights, for example through the *Canadian Citizenship Act*, 1982, and other features of the *Constitution Act*, 1982, collides with a traditional aim of Canadian federalism, the protection of

1982, collides with a traditional aim of Canadian federalism, the protection of

scheme in 1977 has created problems of its own. There are three main

in the design of Canadian fiscal federalism today, reflecting the tension between
the goal of extending national citizenship rights and the

ACKNOWLEDGEMENTS

An earlier version of this paper was presented to the Berkeley Seminar on Federalism in October 1987. I should like to thank the seminar chairman, Harry Scheiber (Faculty of Law, University of California at Berkeley), for his en-

I
COMMUNITIES:
REVIEW OF CANADIAN FISCAL FEDERALISM

I — INTRODUCTION

c) recent and forecast trends in public finance in Canada

tween them must now be tipped away from equity and toward efficiency.³ By

Government holds that the two may be interdependent, and that to pur-

result of this combination of factors, the present equalization program is overburdened; it has reached its political limits.

- c) To retain or enhance its fiscal room for manoeuvre, the federal government has repeatedly insisted over the past 20 years or more, that the provinces must bear their fair share of federal fiscal restraint measures. Various open-ended expenditure programs, including equalization, have been "capped," and three major shared-cost programs have, under the Established P

not limited to "a modicum of economic welfare and security"], and an increase in the number of those on whom the status is bestowed.¹⁰

Marshall briefly describes the emergence of notions of citizenship in England, and outlines the parallel development of a national political community, which

"community" connotes a situation where the members of a group feel some af-

upon territories within their possession a status roughly equal to that of the original constituent units.

Thus it has happened that in both Canada and the US, the structuring of the

sioners probably expected that, as far as the design and standards of public services are concerned, differences among the provinces would probably diminish

package of public services at the national-average standard, without imposing higher-than-average taxes (for this is what it proposed to accomplish through a system of centrally-financed "National Adjustment Grants"), electoral pressures would probably force even the most reluctant among them to provide the

To enable the provinces to meet their obligations, the commission proposed two measures. The first of these, which was in response to the heavy indebtedness

concept of conditional grants because such grants necessarily infringe upon provincial autonomy and because they derogate from the principle that each government should bear full responsibility, both politically and financially, for its actions or programs.

The financial burden assumed by the Dominion in taking over provincial

functions of a national state, which in an industrial age included a role in

choice to make? Is there any other way of making it possible to extend the social entitlements inherent in the concept of national, Canada-wide citizenship, and to equip the country with a governmental structure capable of performing the functions demanded of the modern state? And most basically: if citizenship is national, can community be in any significant sense provincial?

These questions require us to examine thematically, each in turn, the subjects

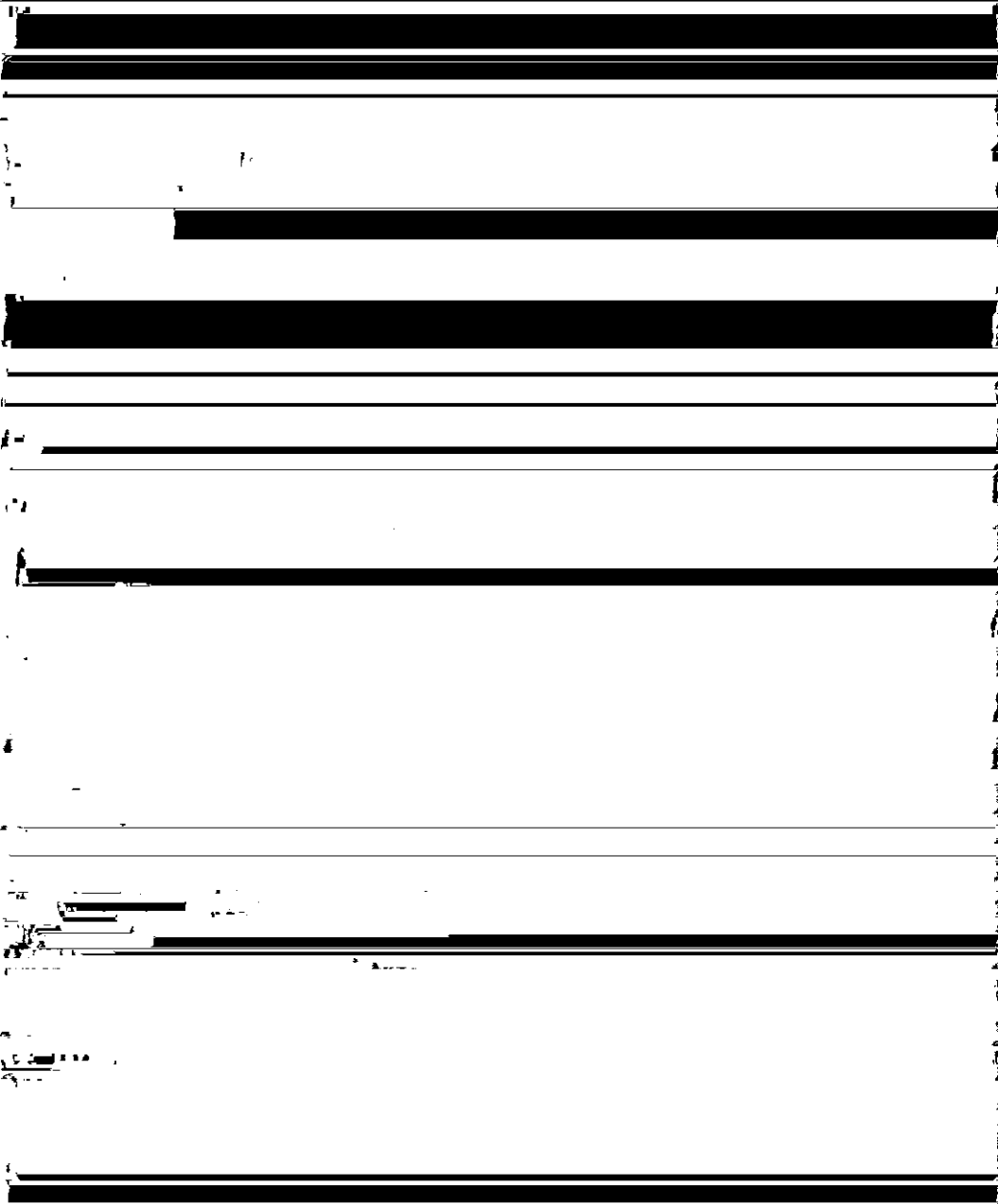
of the commission's major recommendations. The next three sections of the

1960, and 37% in 1971; but by 1985, it had bounced back to 42%. (Expenditure figures exclude grants to other governments.)

penditure increased sharply, notwithstanding most provinces' claim to having primary or even exclusive jurisdiction over social policy.

Reflecting on these trends, one can see that the Rowell-Sirois recommendations

entered the scheme only as regarded the personal income tax. When Quebec imposed its own personal income tax in 1954, there no longer seemed any point in maintaining the arrangement, and the arrangement was terminated.



collection agreements to achieve fuller harmonization of the tax system, but too aggressive a policy would risk wrecking the scheme altogether.

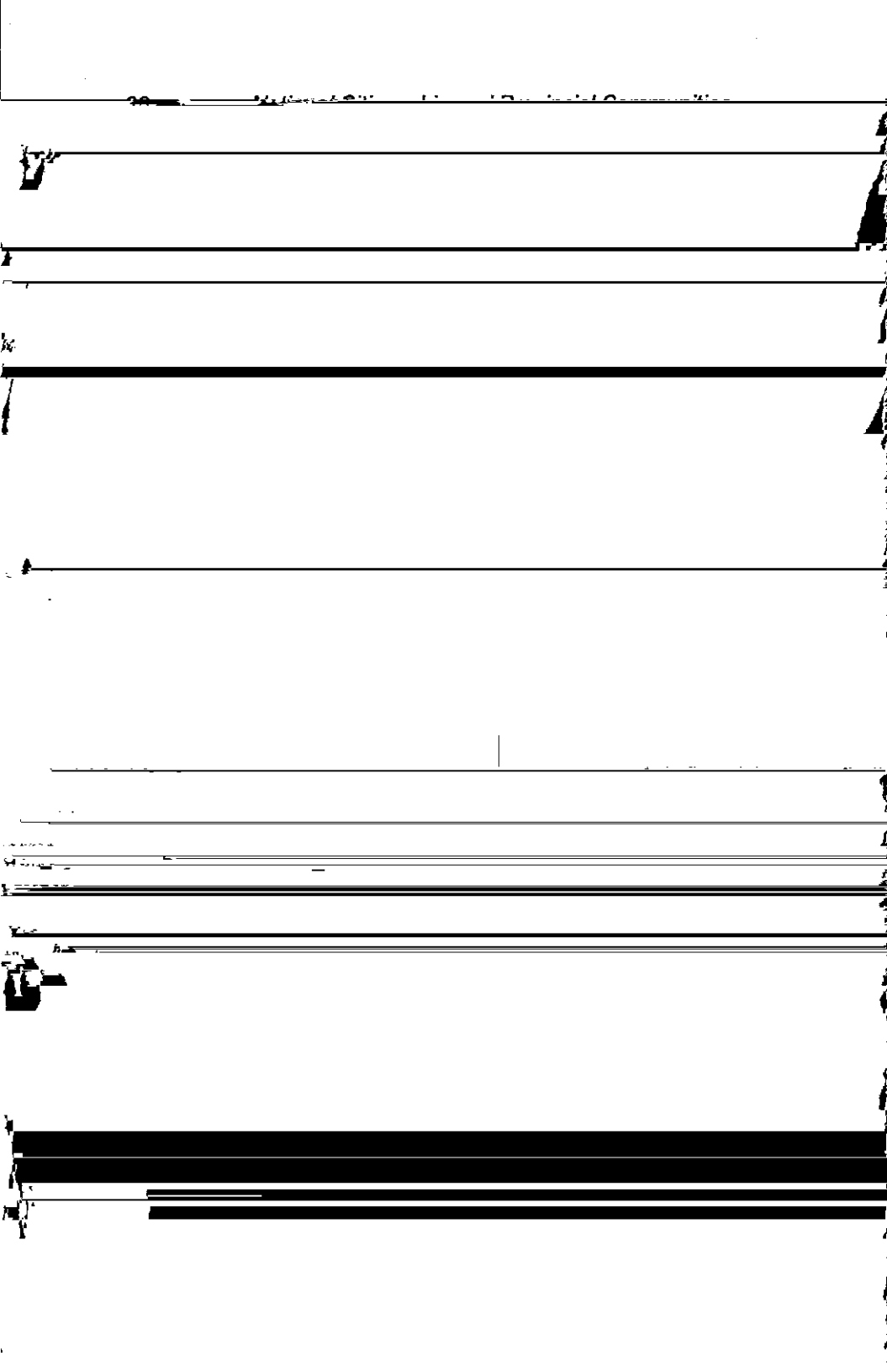


Table 1
 Government Revenue as a Percentage of GNP, 1926-85 (Selected Years)

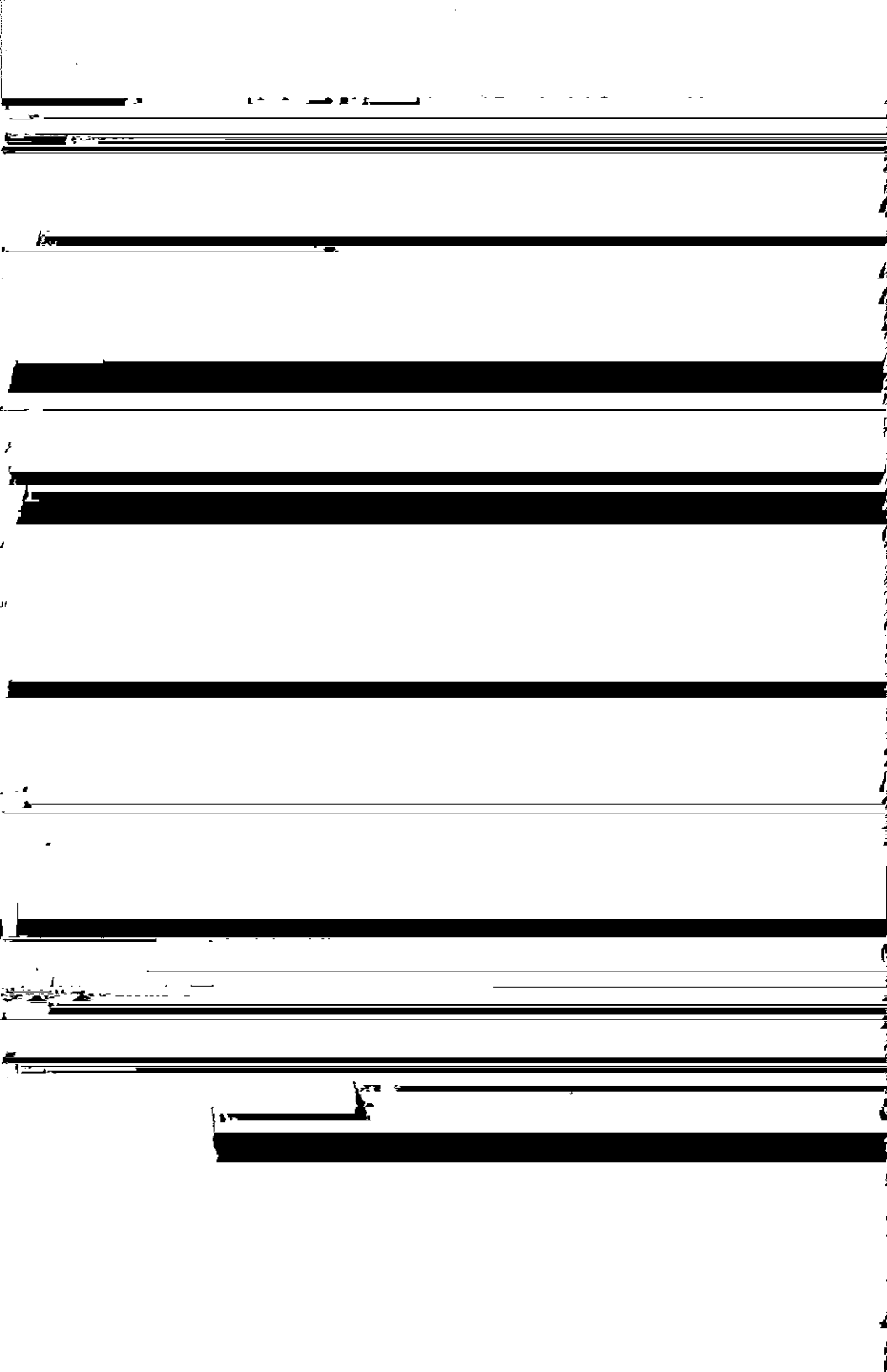
Year	Federal	Provincial Including Grants	<u>Revenues Excluding Grants</u>			Total
			Provincial	Local ^a	Pensions ^b	
1926	7.6	3.4	3.0	6.3	-	16.8
1929	6.8	3.8	3.4	6.1	-	16.3
1933	7.6	7.0	5.1	9.7	-	22.2
1939	8.6	7.1	5.5	6.6	-	20.7
1943	22.3	4.7	3.3	3.6	-	29.3
1946	22.1	6.1	4.6	3.7	-	30.4
1950	16.3	6.6	5.2	3.5	-	25.1
1955	17.6	6.5	4.8	3.8	-	26.1
1960	17.0	8.7	6.1	4.8	-	27.9
1964	16.6	10.8	8.3	4.9	-	29.8
1965	16.4	11.4	8.9	4.9	-	30.3
1966	16.1	11.9	9.4	4.9	1.2	31.6
1967	16.4	13.2	10.2	5.1	1.4	33.1
1968	16.8	14.2	11.0	5.1	1.4	34.4
1969	18.2	15.0	11.6	5.2	1.5	36.5
1970	18.1	16.2	12.3	5.3	1.5	37.3
1971	18.3	17.0	12.4	5.1	1.6	37.4

Table 2
Government Expenditure as a Percentage of GNP, 1926-85 (Selected Years)

Year	Federal expenditures including Grants	Expenditures Excluding Intergovernmental Grants					Total
		Federal	Provincial	Local	Hospitals	Pensions ^a	
1926	6.2	5.9	3.2	6.6	-	-	15.7
1929	5.9	5.6	3.8	6.7	-	-	16.1
1933	10.9	9.3	8.2	9.9	-	-	27.4
1939	8.6	7.2	7.8	6.5	-	-	21.4
1943	39.9	38.6	3.5	3.4	-	-	45.4
1946	24.2	22.7	4.6	4.2	-	-	31.6
1950	12.8	11.5	5.7	4.9	-	-	22.1
1955	16.8	15.3	5.2	5.8	-	-	26.3
1960	17.6	15.0	7.3	7.3	-	-	29.7
1961	15.8	12.4	6.6	7.7	2.1	-	28.6
1965	15.4	12.9	6.8	8.1	2.1	-	29.9
1966	15.8	13.1	7.3	8.2	2.2	-	30.9
1967	16.5	13.5	8.3	8.6	2.4	-	32.9
1968	16.8	13.6	6.7	8.8	2.6	0.1	33.7
1969	16.9	13.5	9.0	8.9	2.6	0.1	34.1
1970	17.8	13.8	10.2	9.4	2.8	0.2	36.4
1971	18.4	13.8	11.1	9.3	2.8	0.2	37.3
1972	19.1	14.8	11.0	8.9	2.8	0.3	37.8
1973	18.1	14.3	10.7	8.6	2.7	0.3	36.5
1974	19.6	15.4	11.1	8.3	2.8	0.4	37.9
1975	21.5	16.8	12.2	8.8	3.0	0.5	41.3
1976	20.2	15.7	12.0	8.7	2.9	0.6	40.0
1977	20.8	16.1	12.5	8.0	2.0	0.8	41.7

that thrust upon them full responsibility for all tax increases. In 1950 provincial own-source revenues (i.e., revenues excluding federal grants) amounted to

5.9% of GND. in 1967 10.9% in 1992 1.1% in 1993 1.1% in 1994 1.1%



funded. The overall effect of this division of responsibility is that the provin-

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

\$432 at national-average rates in 1985/86 to \$209 in 1987/88)—all figures, again, per capita.²¹

These figures give a rough impression of the difficulty of living up to the promise contained in section 36 of the Constitution Act, 1982, cited earlier. It will be recalled that this section reads in part: "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

Table 3

Interprovincial Disparities in Fiscal Capacity

*Hypothetical per capita yields from selected revenue sources, taxed at National**Average Rates.*

	<i>Personal Income Tax</i>		<i>Corporation Income Tax</i>					
	1985/86		1987/88					
	dollars	index	dollars	index				
Nfld.	429	(52)	545	(52)	84	(51)	95	(47)
P.E.I.	458	(56)	606	(59)	66	(40)	144	(68)
N.S.	618	(75)	792	(77)	67	(41)	101	(50)
N.B.	521	(62)	694	(66)	57	(47)	127	(53)

Table 3 (con't)

*Natural Resource
Revenues*

*All Revenue Sources in
Equalization Formula*

dollars index	dollars index	dollars index	dollars index	
70 (25)	66 (41)	1,886 (58)	2,213 (60)	Nfld.
1 (0)	0 (0)	1,965 (60)	2,402 (65)	P.E.I.
12 (4)	8 (5)	2,344 (72)	2,804 (76)	N.S.
36 (13)	54 (32)	2,178 (69)	2,593 (70)	N.B.
42 (15)	48 (28)	2,610 (80)	3,151 (85)	Que.
21 (7)	21 (12)	3,271 (101)	3,985 (108)	Ont.

Payments have been scaled down occasionally outside the regular quinquennial cycle. This has happened when the formula produced unanticipated consequences, or simply when the federal deficit seemed out of hand. In addition, the

law has recently stipulated that total payments may not exceed a given percentage of GNP. Payments were "capped" at the then-existing levels in 1982 and again in 1987 (1.34 per cent of GNP, and 1.14 per cent, respectively.)²⁴

The first formula, introduced in 1957, was simply an extension of the implicit equalization that had been built into the tax-central government

per cent (i.e., it treated them as if they were only half as large as they really were); it also limited the natural resources element in equalization to one-third of total entitlements, and excluded the sale of oil and gas leases as a revenue source to be equalized. Even so, application of the formula would have

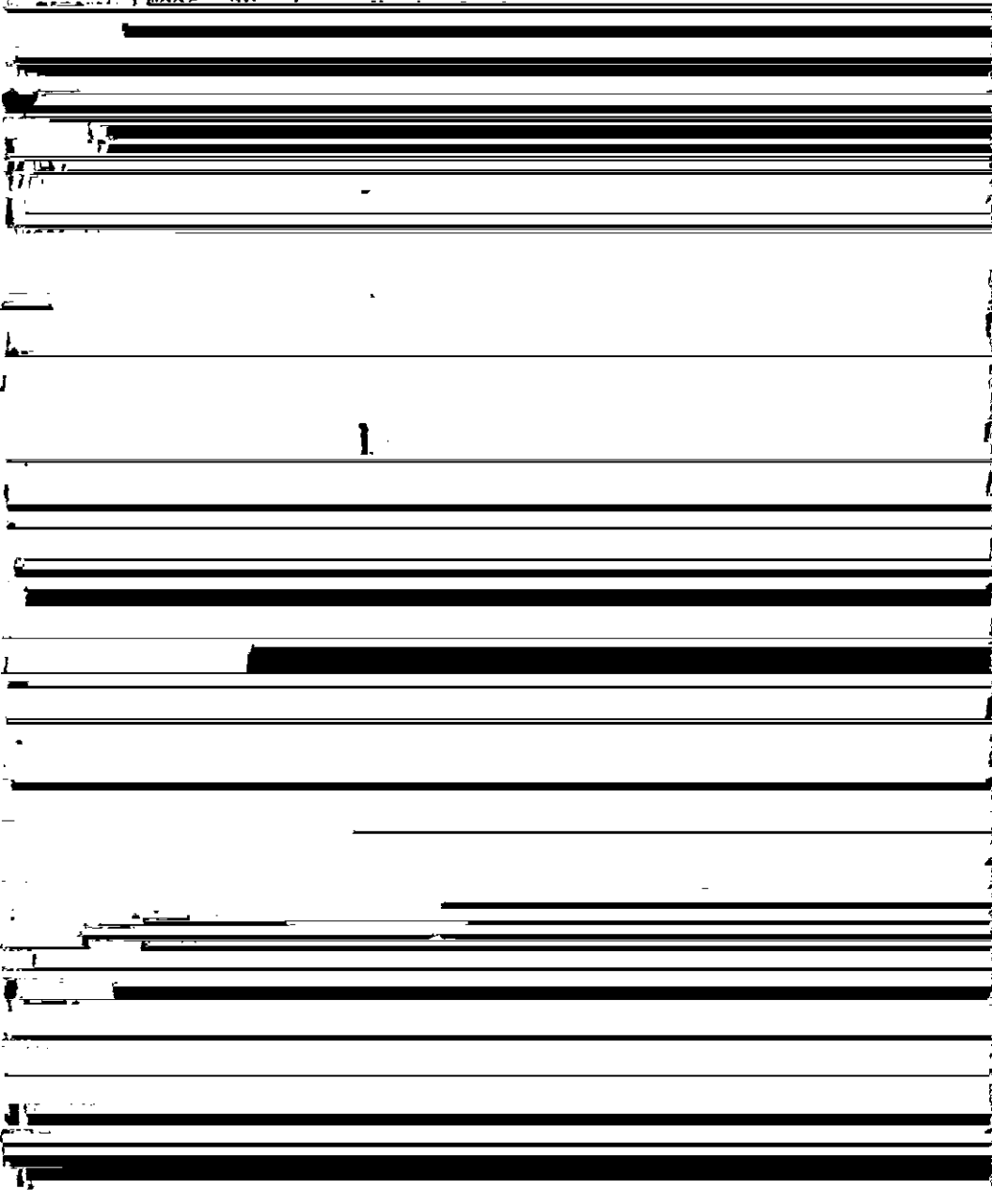


Table 4
Equalization Entitlements

Entitlements by province and revenue source (simplified), 1987/88. All figures except per capita (column 8) are in millions of dollars.

	<i>Personal Income Tax (1)</i>	<i>Corporate Income Tax (2)</i>	<i>Sales & Excise^a (3)</i>	<i>Natural Resources^b (4)</i>
P.E.I.	57	9	23	10
N.S.	231	98	59	58
N.B.	264	75	106	17
Que.	1,181	155	667	180
Ont.	-1,666	-534	-696	497
Man.	218	86	63	33
Sask.	266	99	36	-287
Alta.	-187	9	-604	-2,582
B.C.	336	195	-70	-423
Receiving Provinces	2,507	589	1,109	16

Notes:

^aGeneral sales taxes, tobacco and alcohol taxes, gasoline and diesel fuel taxes, and motor

*Property
Taxes^c*
(5)

Other^d
(6)

Total
(7)

*Amount Paid Per
Capita (dollars)*
(8)

151

132

799

1,406

Nfld.

32

24

155

1,217

P.E.I.

153

116

716

814

N.S.

The niceties of the equalization formula²⁷ are less important for our purposes than the broad characteristics of the program and the political forces that sustain and shape it. A striking indication of the extent to which attitudes toward interregional redistribution have changed over the past generation is provided by the contrast between the reception given the Rowell-Sirois proposals for a National Adjustment Grant—it will be recalled that the three non-recipient

present-day attitudes. Today, most people, even in those provinces that receive no equalization grant, apparently support the equalization principle. When that

[The remainder of the page is obscured by heavy black redaction bars.]

are consistent with the constitutionally mandated objective of ensuring that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Obviously, the question is raised into

Table 5
Comparison of 1983 Personal Income Taxes Levied by Provincial Governments

*Average
Per Capita
Income*

Total Provincial Government Income 1983

Table 6
 Net Inter-Regional Redistribution, 1976-77: Income Security and Equalization

	<i>Net Income Security Benefits Per Capita</i>	<i>Net Equalization Grant Per Capita</i>
	\$	\$
Newfoundland	378	364
P.E.I.	413	434
Nova Scotia	209	296
New Brunswick	330	277
Quebec	110	98
Ontario	-117	-111
Manitoba	6	79
Saskatchewan	65	14
Alberta	155	104
B.C.	-39	-116

capita contributions, through the tax system, to the financing of equalization

Interregional Redistribution, 1981

Allo Equazione dell'anno precedente

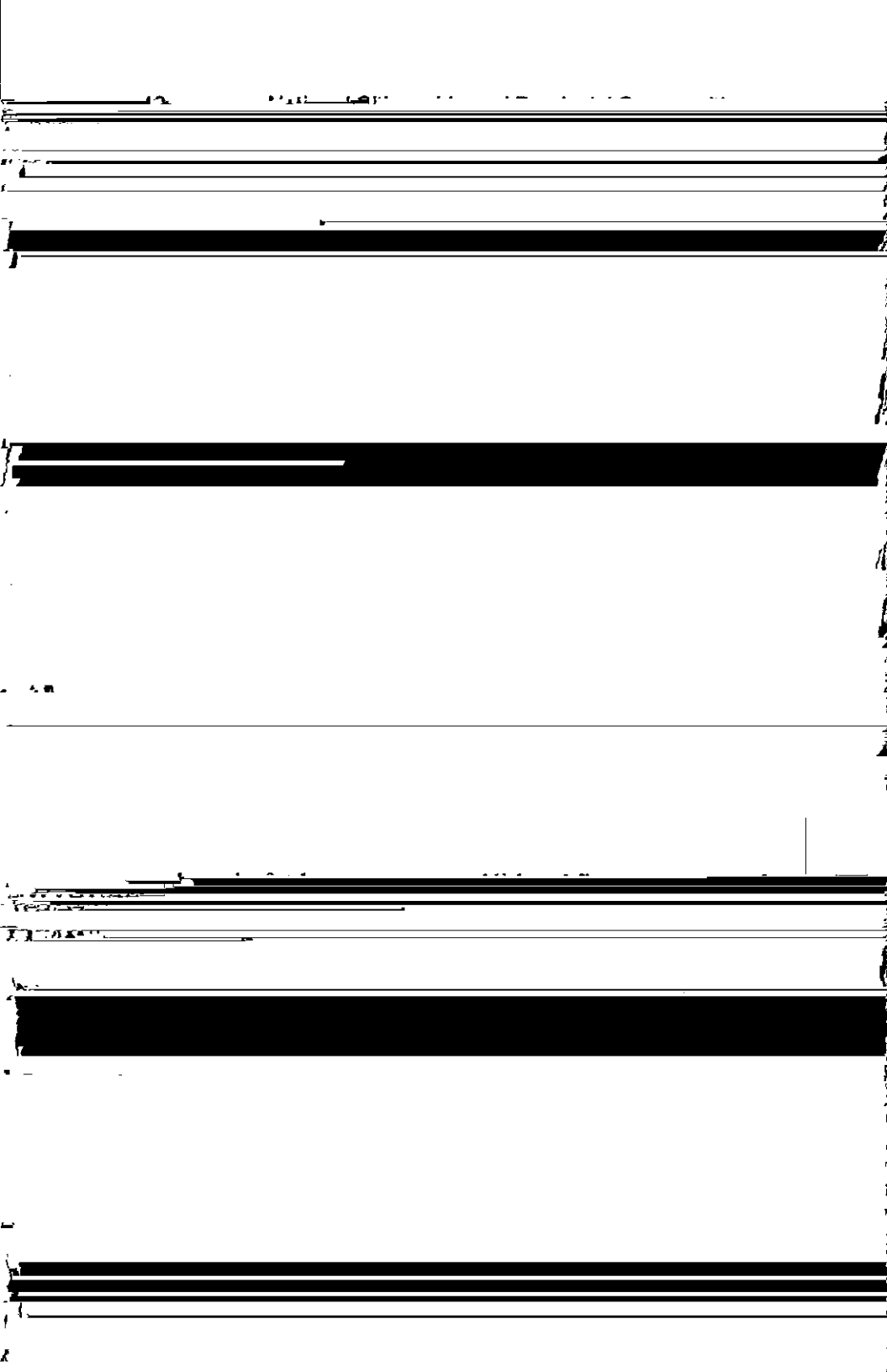
Table 8
 Provincial Revenue and Expenditures, 1984-85

All figures are dollars per capita

<i>Equal- ization (1)</i>	<i>Health and Post-Sec. Education^a (2)</i>	<i>Social Assis- tance^b (3)</i>	<i>all cash transfers^c (4)</i>	<i>provincial- local own- source revenues (5)</i>	<i>(4) as a per cent of (5)^d (6)</i>	<i>Provincial- local expenditure excluding debt charges (7)</i>
-----------------------------------	---	--	---	---	---	---

poorer provinces to provide services at a standard comparable to the standards obtaining in the richer ones. Still, the transfers do not eliminate interprovincial disparities or even succeed in bringing up the poorest provinces to the average level. In short, there remains—with the critically important exceptions of Ontario and Quebec, which together make up more than half the Canadian popula-

capita. Quebec, as noted earlier, has expenditure levels second only to Alberta; the difference is that (as indicated in Table 5) Quebec has to transfer a significant



be linked.³² In other areas too, notably in the fields of industrial assistance, ex-

the other three programs, two (hospital insurance and medical insurance, both universal public programs administered by provincial governments), were first introduced on a basis that saw Ottawa paying half the total cost. However, in

eligibility requirement is "need" which the provinces must determine through an

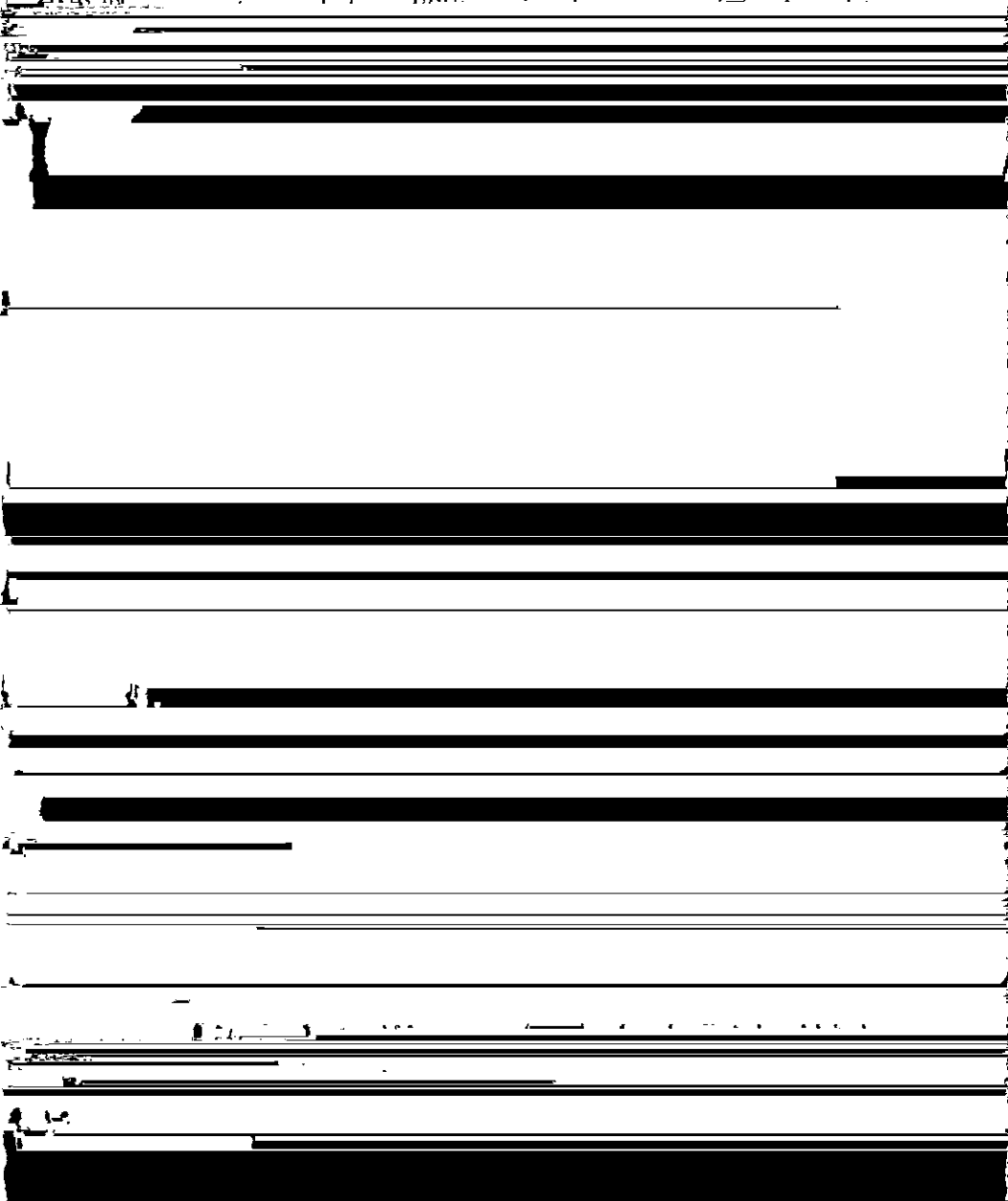
Table 9
 Monthly Benefits to Welfare Recipients by Province, 1986^a
 (Canada Assistance Plan)

	<i>Single, Employable</i>	<i>1 Adult 1 Child^a</i>	<i>2 Adults 2 Children^b</i>
Newfoundland	282	708	819
Prince Edward Island	526	723	1060
Nova Scotia	386	668	804
New Brunswick	190	571	617
Quebec	171	619	835
Ontario	402	730	902
Manitoba	378	593	925
Saskatchewan	355	728	1022
Alberta	474	702	1050
British Columbia	359	644	875

Notes:

^athe figures contained in this table are estimates, but not of average payments. The estimates are based on inferences drawn from the rules; to do the calculations it was necessary according to the authors of *Welfare in Canada* (see "Sources" below) to make

long as cost increases could be limited to a rate no greater than increases in



Act (1966) stipulated four conditions: that coverage be universal, that access to it be on "uniform terms and conditions" (in other words, if there were

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

17

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

has become an increasingly serious one over the 11-year life of EPF. Accordingly, it seems likely that Ottawa will soon have to decide where national standards are important enough to justify direct federal participation in the provision

VIII — CONCLUSION

in order to improve economic performance. This will strengthen the hand of the federal government in social affairs, but may also weaken Canadians' commitment to maintaining national standards in public services, to the extent that

List of Titles in Print

Robert M. Ugelio, *Rebuilding the Relationship: Quebec and its Confederation*

14. Delia Opekokew, *The Political and Legal Inequities Among Aboriginal Peoples in Canada*, 1987. (\$7)

13. Jan B. Cowie, *Future Issues of Land Rights in Canada*, 1987. (\$7)

ment: *Problems and Prospects*, 1986. (\$7)

Bibliography

English Department, University of California, San Diego, La Jolla, California 92037