



Canadian federalism : key features and issues in 2018

by

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Outline

- Facts, Map, Governance, Internal markets, Spending, Taxes, Debt/deficit
- Key issues
 - Pipelines
 - Carbon tax
 - Migration
 - Equalisation
- Tax Administration

Canada basic facts

- 10 provinces ,3 territories, 634 *First nations* aboriginal units, two Official languages(60+ FN)
- Population: 35,5 millions
- GDP 2017:1950 billions\$;**pc** 55 000\$=35 000 euros
- Important difference in population 1-100 between provinces: Ontario, Québec, BC Alberta
- Important differences in **pc** GDP by provinces 1-2
- Majority of unilingual francophones (immobile) in Québec





Canada governance arrangements

- Monarchy: QE II => Governor general
- House of Commons- seats allocated according to population with minimum (PEI)
- Senate : appointed ,unequal across provinces ,ineffectual(?) since 2015 non partisan senators are becoming more important
- No *regional* upper house
- Provinces in Constiution but not municipalities



Internal markets in Canada: a recurring theme

- 13 SECs: pressure for change is building with *national* SEC proposed-still not done
- Labour: some barriers to mobility:
AIT/SUFA/MRA improve it
- Trade: some barriers to internal trade :
CUFTA/NAFTA (1989/1993),AIT(1994)
TILMA(2007) reduce them
- Supreme court *Beer* decision 04/2018
maintains internal trade barriers

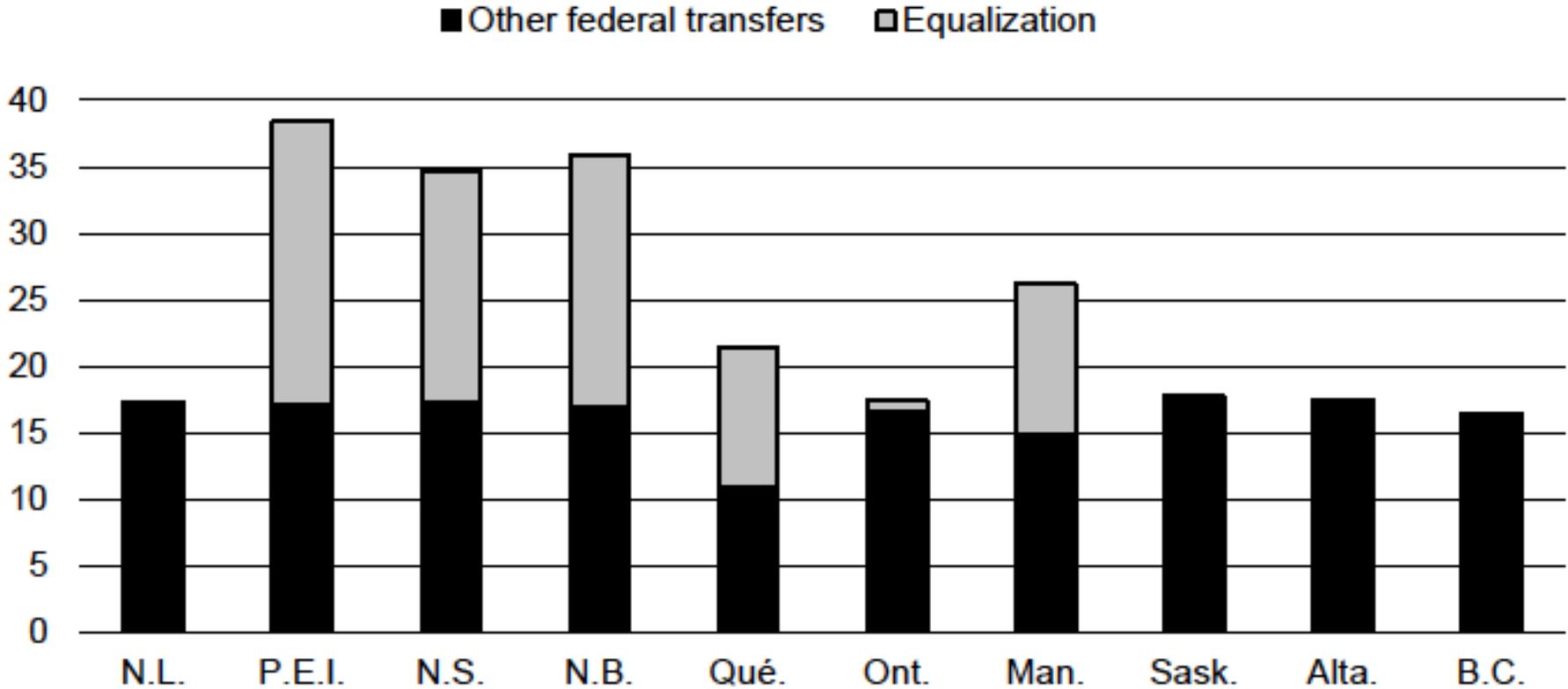
Government spending-2017

- Total G: 43% of GDP
- Federal 33% of total G; Prov 50%; local 17%
- Fed transfers % total fed G :35% to individuals (pension+ unemployment) ; 27% to provinces (6% equalisation)
- Provincial spending: health (30%), education (15%), welfare (10%)

Government revenues

- Fed and prov occupy same fields (except customs) different %
- Personal income tax: 50% Fed and 22% prov revenues
- Taxes on consumption: 19% fed 22% prov
- Fed transfers = 18% of prov revenues
- The sharing of gambling (provs pay Fed to keep out) is unique(?) in federations

Federal transfers as a proportion of provincial budgets – 2017-2018 (per cent)



Note: In the case of Québec, federal transfers excluding equalization are reduced by the value of the special Québec abatement.

Sources: Data drawn from the provinces' budgets and budget updates.



Deficit and debt

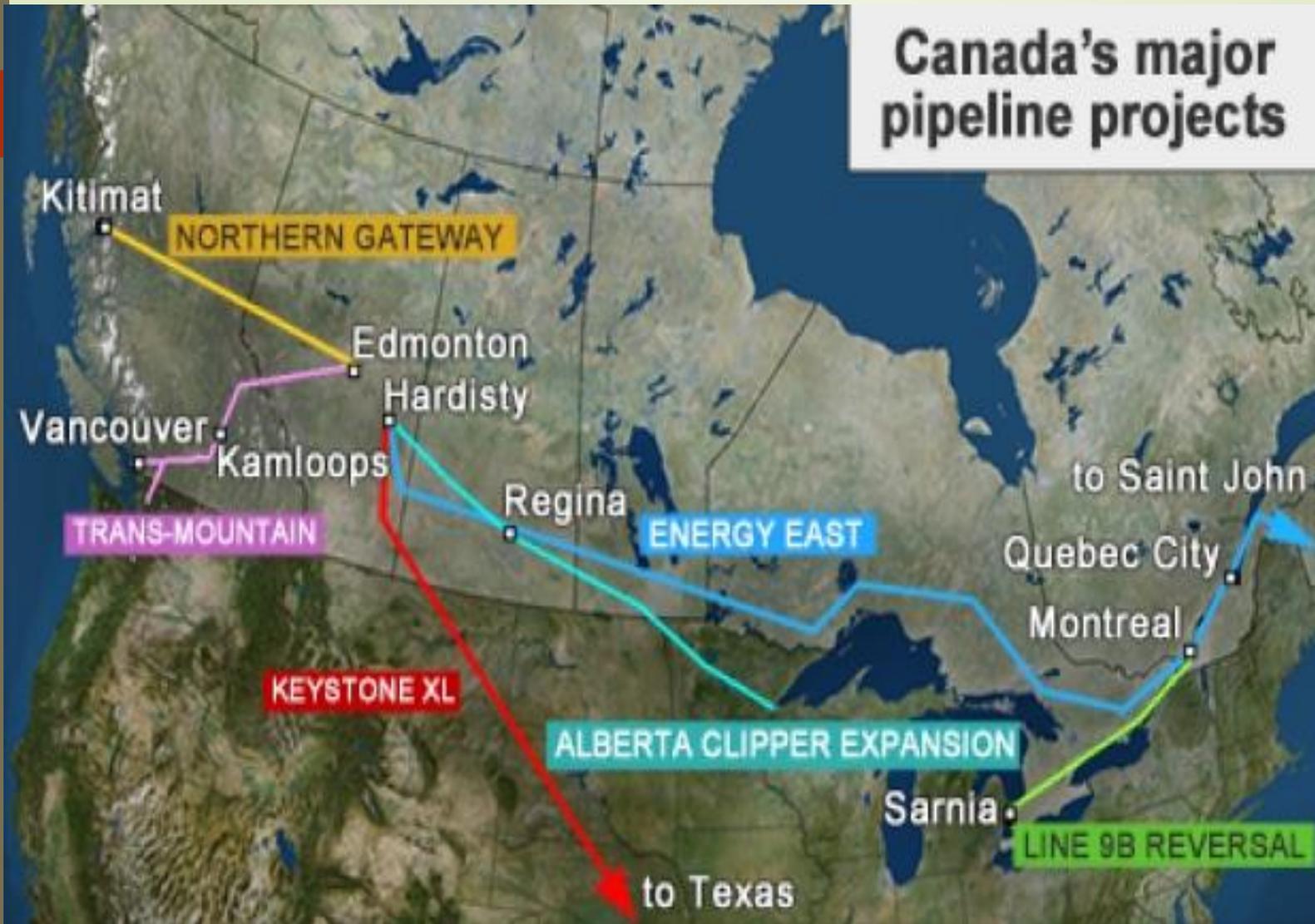
- Provinces have full access to internal/ external markets for self and electric utilities
- Municipalities are +/- constrained by provinces in access to debt;
- No national anti-deficit laws: weak provincial ones
- No macro coordination mechanism
- In 2018: Federal Ontario Alberta in deficit; BC and Québec (Fond des générations mechanism) in surplus (total deficit 1.5-2% of GDP)



1st key fed-prov issue 2018: pipelines

- Stranded Western oil: sole purchaser USA=> price discount
 - USA Keystone-new : USA NO Obama now YES Trump –courts?
 - BC :Northern Gateway-new: NO
 - BC Kinder Morgan expansion: YES but!
 - Ontario Québec NB Energy East-new: O+Q:NO
 - Ontario Québec Line 9B-old reversal; YES

Canada's major pipeline projects



Kinder Morgan(KM) timeline

- Federal government approves 2016
- BC approves with revenue sharing by KM 01/2017
- New BC government against pipeline 08/17 refers law giving it control of flow in pipeline to Courts
- KM says will stop work if no guarantee 04/2018
- Alberta threatens BC with cuts in oil supply 04/18
- Federal government buys pipeline 05/18+ considers law to "enhance" powers
- Federal court stops project: [aboriginal consultations](#)+Orcas 08/18
- **Is Canada open or closed for business?**



Kinder Morgan fed- prov/prov issues

- Provincial powers 92(10) *Local Works and Undertakings **other than** such as are of the following Classes: ... other Works and Undertakings ... or extending beyond the Limits of the Province*
- Should equalisation be linked to approval of pipeline? Western versus Québec
- Should provinces receive payment for transit through their territory? Alberta versus BC
- Should provinces be able to cutoff other provinces ? (Alberta reaction to NEP in 1982) BC versus Alberta
- Should one province be able to override federal policy? Federal versus BC

Aboriginal issues

- Recognized in 1982 Constitutional changes *The existing aboriginal and treaty rights of the aboriginal peoples of Canada are hereby recognized and affirmed.*
- Ownership of land is key issue: treaty/non treaty land
- Ongoing negotiations (overlapping claims and built-up land): notion of unceded land
- Increasing tax powers? Full revenue autonomy (gambling cigarettes now, marijuana next)?
- Duty of Crown (federal/provincial) to consult, accommodate (?) but final decision of Crown not subject to aboriginal veto



2nd key fed- prov issue Carbon tax

- Pan-Canadian framework 12/2016
- Provinces can use tax or cap-and-trade
- Price: \$10 per ton in 2019; \$50 in 2023.
- Cap-and-trade system users will need to reduce the number of permits
- Federal tax for non framework provinces
- Federal revenues remain in province of origin: paid to province **G or to residents**



Carbon pricing fed-prov issues

- ▶ Saskatchewan No(04/18); Ontario (renege cap-on trade) No 06/18)
- ▶ Saskatchewan challenges federal law- unlikely to win as fed can (Constitution) : *The raising of Money by any Mode or System of Taxation.*
- ▶ Alberta agreed to tax carbon if pipeline built so No as of 31/08/2018



The payment to Q residents: the 1978 federal sales tax rebate

- ▶ Federal wants provinces to reduce their sales taxes by 3 points for 6 months or 2 points for 9 months.
- ▶ Federal compensation is for 2 points X6months through reduced federal PIT
- ▶ Québec chose product specific cuts so federal \$ flowed directly to taxpayers through personal income tax return.



3rd federal provincial issue- Migrants

- *Irregular or illegal*: cross mainly in Québec (NY border); non legal crossings; claim refugee
- Provinces want redistribution accross Canada and federal compensation
- Trudeau 01/2017 *To those fleeing persecution, terror & war, Canadians will welcome you, regardless of your faith...*
- Denounced by conservatives + Ford

Roxham Road (1)



Roxham road(2)



Canada Federal transfers- inter G

- ▶ Three main types (federal spending power):
 - ▶ Health (CHT) + Social(CST) $\approx 3\%$ of GDP/15% fed G: spending power of federal government: equal per capita transfer *Labelling conditions (+ user fees=0)*
 - ▶ Equalisation: $\approx 1\%$ of GDP/ 5% fed G: constitutional since 1982: unequal per capita
 - ▶ Minor (social housing, language, legal aid,...) \approx less than $\frac{1}{2}\%$ of GDP: cost sharing

4th federal provincial issue renewal of Equalisation

- Equalisation RTS system set every 5 years :
 - Vertical from general revenues and no horizontal or needs/costs equalisation
 - Standard: 10 provinces average Sources: 5 broad 100% except 50% resource revenues;
 - 3 year moving average (25/25/50) lagged 2 years
 - Fiscal cap and GDP growth adjustment to reduce total (*shall*) or increase it (*may*)

Equalisation fed-prov issue

- Renewed *unilaterally* for 2019-2024
- No needs/cost indicator: Ontario request
- No accounting for Hydro rent lost in low prices(Québec against this)
- No accounting for economic hardship- Alberta
- No new formula : Saskatchewan 50 % population and 50% existing formula
- Use of + *adjustment* to GDP growth

Positive Adjustment equalisation payment 2018-2019

Province	Equalisation	adjustment
NL	0	0
PEI	409	10
NS	1868	66
NB	1821	53
QC	11 157	576
Ont	0	963
Man	1946	91
Sask	0	0
Al	0	0
BC	0	0
Target: GDP growth driven=18960 adj 1,760		



Hydro rent issue: measurement

Notional rent = $\{(market\ price) - (observed\ price)\}$

No Canadian market-no Canadian grid
:north south grids

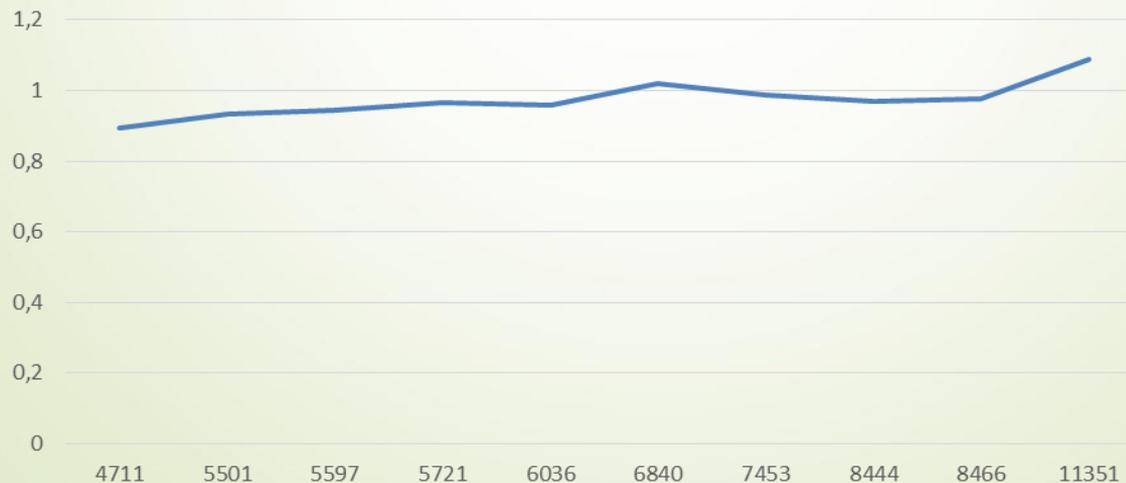
Use different US prices in Canadian
equalisation

Use normed and not observed behaviour:
fit with principles of equalisation ?

Needs-costs

- Positive relationship between high unit costs (Gusen index) and high taxable capacity

Gusen Unit costs index, 10 provinces ordered by fiscal capacity(\$),Canada, 2012



Canada tax administration

- ▶ Provinces free to define base, set rates and collect own taxes but by agreement:
 - ▶ Federal collects (federal income definition) for provinces: 9 for PIT and 8 for CIT cost free
 - ▶ Québec collects GST+QST, federal collects HST (5 provinces) and 3 provincial RST
- ▶ Collection of provincial PIT and CIT is free of charge if definition of income used is federal.
- ▶ Max 5% diff GST-HST s tax bases OK
- ▶ Shifting from 2 forms to 1 for PIT in Québec: Revenu Québec or CRA ?
- ▶ Inter provincial differences in practice:

PIT rate divergence, nine CRA provinces

	Mean		CV	
	2008	2016	2008	2016
Lowest rate	8,9 %	8,65%	0,23	0,26
Highest rate	16,2	17,5	0,17	0,15
Lowest floor 000\$	9,2	10,9	0,29	0,34
Highest floor 000\$	81,2	155,5	0,38	0,46

HST base exemptions (rate %)

- Newfoundland(15): Fish, Feminine hygiene
- PEI(15): Heating oil, Children's clothing + footwear, books
- Nova Scotia(15): Children's clothing + foot wear, Diapers, Feminine hygiene , books
- New Brunswick(15): R&D, vehicle for handicapped, books
- Ontario(13): children's clothing + foot wear+ car seats: diapers, feminine hygiene, books+ newspapers



Canadian federalism other issues in 2018

- ▶ Québec secession: dormant. In 01/10/2018 election PQ promises no referendum if elected ,Liberal and **CAQ** are federalist, QS sovereigntist
- ▶ Differentiated aging by province is structural issue; no age indicator in CHT.
- ▶ Sharing of marijuana federal excise tax revenue :25% federal-75% provinces (derivation basis)
- ▶ Sharing the burden of NAFTA concessions :milk,culture...

Provincial health challenges

	Canada population and health spending data			
2009 data	% Mean	σ	Min	Max
%Prov Health spending/ prov GDP	8,4	1,7	5,3	11,3
% Prov Health spending / Prov total spending	29,3	3,0	22,9	34,6
% 65-69 in prov population	4,3	0,56	3,2	4,9
% 85 + in prov population	1,9	0,3	1,3	2,4



Danke/Gracias/Grazie/
Merci/Thank you