

provincial income tax system.<sup>25</sup> Federal and Ontario officials had clashed repeatedly over provincial attempts to modify the Ontario tax system to accommodate a series of changes related to the restructuring of the province's public sector and to speed up Ottawa's remittance of taxes collected on behalf of the provincial government. Other areas of conflict included Ottawa's refusal to collect Ontario's proposed "fair share health levy" as a separate, graduated tax, while collecting supplemental "flat taxes" on behalf of Alberta, Saskatchewan, and Manitoba, and administrative delays in implementing new tax credits that could be accommodated within the tax-collection agreements.<sup>26</sup> While previous Ontario governments had talked about withdrawing from the tax-collection agreements, the Harris government's demonstrated willingness to disregard established political conventions posed a far greater potential threat to federal leadership and the coherence of national tax policies than the comparatively moderate proposals of the western provinces.

At the federal-provincial finance ministers' meeting in December 1997, five provincial governments, led by Manitoba and Alberta, presented a renewed tax on income proposal carefully designed to accommodate federal sensitivities. Paul Martin and his provincial colleagues approved the proposal in principle, and delegated its implementation to a working group of senior officials which released its consensus report in October 1998. The federal government agreed to accommodate provincial tax reform proposals consistent with the consensus tax on income report, with provisions for implementation by 1 January 2001. In response, several provincial governments announced public consultations on provincial tax reforms: Alberta, after its 1998 budget and four other provinces during 1999.

### EMERGING PROVINCIAL TAX REFORM INITIATIVES

Four provinces — Alberta, Manitoba, Saskatchewan, and Newfoundland — set up independent tax review commissions during 1998 and 1999 to receive public comments on the tax on income proposal and to examine potential options for its implementation. All four provinces have announced their firm or "likely" intentions to move to a "tax on income" system in 2001.

Ontario, which tabled an election-year budget promising sizeable tax cuts in May 1999, left its options open before announcing its commitment to implement "a tax on income" in late November. Prince Edward Island and New Brunswick also announced plans to study the concept during the year. British Columbia and Nova Scotia announced in February 2000 that they would adopt TonI, while passing on "the full benefit of any federal income tax reduction."<sup>27</sup> These proposals are likely to take shape during the coming year.

ALBERTA

Alberta has been the catalyst for much of the provincial tax reform process. Its approach to tax reform appears to reflect a mixture of home-grown political issues and ongoing concerns for the competitiveness of both Albertan and Canadian tax systems compared to those of neighbouring American states.<sup>28</sup> Due to its oil and gas revenues, Alberta's revenue and spending levels were consistently the highest of any province during the 1980s. However, falling energy prices led to huge deficits during the late 1980s and early 1990s, and subsequently to deep spending cuts (see Table 2). These cuts, along with growing economic diversification, permitted the Klein government to run consistent surpluses during the 1990s, even with highly volatile energy revenues.

The Alberta Tax Review Committee is the third body set up to examine issues of tax rates and structure in Alberta since 1993. The committee's mandate was relatively narrow: to examine the tax on income proposal, to suggest whether corporate tax changes were necessary to assist "knowledge-based industries," and to examine the impact of proposed tax changes on competitiveness, families, marginal rates, and the "work-welfare trade-off."<sup>29</sup> Provincial Treasurer Stockwell Day announced early in the committee process that the government would not accept any recommendation leading to the creation of a provincial sales tax or higher provincial taxes. The committee's membership included the chairs of previous provincial tax reviews, a leading academic tax expert, tax professionals, and two sitting members of the government's legislative caucus.

Two major themes emerged from the committee's public consultation process. There was broad support, particularly from the province's business community, for a single rate system — a major departure from the existing system of progressive income tax rates which has been the norm for federal and provincial income tax systems since the Second World War. Consultations also revealed strong support for measures to reduce the tax difference between single and dual income families in order to provide parents with greater choice in balancing the trade-offs between work and family needs.<sup>30</sup> Courchene has noted that these two objectives became mutually reinforcing as a single rate system — with high individual and spousal tax thresholds — is a simpler and politically less controversial way of reducing tax disparities between one and two income households with similar incomes than is the introduction of joint filing, as in the United States.<sup>31</sup>

The committee's report, released in October 1998, proposed acceptance of the tax on income system, a single rate tax of 11 percent on all income over a basic personal exemption of \$11,620 (compared with the existing federal threshold of \$6,456), and an equal spousal credit. The increased tax threshold was vital to ensure that the proposed single rate tax system would result in a

net tax reduction for most Albertans — a critical condition for winning broad public support for the proposed changes.

The committee also recommended the elimination of Alberta's existing "deficit-reduction" surtaxes and its 0.5 percent flat tax on net income, and the indexing of basic exemptions to inflation. The costs of the tax reform proposals were later estimated by the government at \$600 million: about 4 percent of its own-source revenues for 1998-99.<sup>32</sup>

The effect of the committee's report was to eliminate or substantially reduce the personal income taxes payable by lower income Albertans, and cut the top provincial marginal tax rate from 14.3 percent to 11 percent. The resulting combined federal-provincial marginal rate of 41.5 percent would be the lowest in Canada. Middle-income families with children would receive sizeable tax cuts; those without would face minimal changes. University of Calgary economist Ken McKenzie notes that, when all provincial taxes are taken into account, the single rate tax "will help solidify Alberta's position as the lowest taxed jurisdiction in the country."<sup>33</sup>

Stockwell Day announced the government's acceptance of the committee's report in his March 1999 budget and its decision to phase-in the proposed tax reforms between 2000 and 2002 subject to their "affordability" — its ability to generate continued surpluses. In October 1999, Premier Klein announced the elimination of the province's "deficit-reduction" surtax 18 months "early" in January 2000 and the implementation of the new single rate system in January 2001.<sup>34</sup>

Alberta's proposed tax reforms have been relatively uncontroversial within the province — reflecting its fiscal and cultural conservatism and the proverbial reluctance of taxpayers to "shoot Santa Claus." However, they prompted a significant response in neighbouring Saskatchewan, which appointed its Personal Income Tax Review Committee just before the Romanow government faced the voters in a general election.

#### SASKATCHEWAN

The Government of Saskatchewan has long supported the introduction of a parallel provincial "tax on income" system. However, until now, the Romanow government has shown a strong commitment to relying mainly on progressive taxes for revenue growth and reducing its reliance on consumption taxes. After balancing its budget in 1994-95, it reduced sales taxes in its 1997 budget in line with this commitment. However, while Saskatchewan's relative reliance on personal income tax revenues in recent years has been comparable to Alberta's and British Columbia's, (see Table 5), its relatively narrow economic base and sharply progressive tax rate system have given it the second highest average personal income tax rate of any province (see Table 6).

**Table 5: Distribution of Provincial Own-Source Revenues  
By Revenue Source (in percent)**

	<i>Personal Income Tax</i>	<i>Corporate Income and Capital Taxes</i>	<i>Sales Tax</i>	<i>Social Ins. Taxes</i>	<i>Liquor and Gambling</i>	<i>Resource Income</i>	<i>Property Taxes</i>
Canada	35	11	18	6	6	4	2
Nfld.	33	7	27	4	10	2	0
PEI	29	6	28	0	6	0	6
NS	37	6	27	0	10	0	0
NB	34	4	24	0	3	5	10
Que.	41	9	18	12	4	1	0
Ont.	34	15	23	6	6	1	0
Man.	35	9	20	5	9	1	0
Sask.	30	9	16	0	9	13	0
Alta.	30	11	0	4	8	15	7
BC	30	9	17	5	6	10	7

Source: *Provincial Budgets 1999-2000; Ontario Economic Outlook & Fiscal Review*, November 1999.

**Table 6: Average Provincial Personal Income Tax Rates  
(in percent) - 1999\***

Ontario	43.5	Prince Edward Island	59.7
Alberta	48.4	New Brunswick	60.8
British Columbia	53.7	Saskatchewan	66.8
Manitoba	56.6	Newfoundland	70.3**
Nova Scotia	57.2		

Notes: \* Ratio of provincial to federal income tax revenues.

\*\* Newfoundland has announced plans to reduce its basic tax rate, while introducing a system of graduated surtaxes.

Source: Saskatchewan Finance, Saskatchewan Personal Income Tax Review Committee Report (Regina: Saskatchewan Finance, 1999), p. 9.

Like Alberta, the Saskatchewan government set up a Tax Review Committee to review the tax on income proposal and make recommendations to guide its possible implementation. Unlike in Alberta, the committee was made up solely of tax experts, including its chair, University of Saskatchewan accounting professor and former senior Finance Ministry official Jack Vicq. The committee's mandate was to recommend changes to the province's tax system in order to promote "fairness in the tax system; support for the family; simplicity for both the tax filer and the Government; and competitiveness in attracting jobs and investment to Saskatchewan."<sup>35</sup>

The committee's consultation process was interrupted by a provincial election, which saw the Romanow government reduced to a legislative minority dependent on Liberal support. Premier Romanow used the NDP's campaign platform to promise tax reductions of up to \$200 million — about 4 percent of the provincial tax base. This effectively broadened the committee's mandate and made it possible to recommend much larger reductions in PIT rates than would otherwise have been the case to make the province's tax system more competitive with Alberta's.

The Saskatchewan Tax Review Committee's report was clearly influenced by Alberta's proposed tax reforms, and by concerns raised during consultations that many upper income taxpayers were already moving to Alberta for tax-planning purposes. It recommended that the province's basic tax rate match the proposed Alberta rate at 11 percent, albeit with a lower income threshold. (See Table 7.) Concerns over work/family trade-offs were to be accommodated by equalizing the basic personal and spousal exemptions and eliminating the 2 percent flat rate income tax on net income over \$10,000. Concerns over high marginal rates and taxpayer flight were to be addressed by increasing the ceiling on the new middle income tax bracket to \$100,000 (from the current \$59,000) and by matching Alberta's capital gains tax rate of 11 percent on profits from the sale of small businesses and family farms. As a result, Saskatchewan would sharply reduce the personal income tax gap with Alberta and have the second lowest top marginal rate of any Canadian province.<sup>36</sup>

As the price tag of the proposed reforms — about \$427 million — was well outside the committee's fiscal terms of reference, it recommended an offsetting increase of \$187 million in the sales tax base while lowering the sales tax rate from 6 percent to 5 percent and increasing provincial offsets provided to lower income families, seniors, and others.

This would result in the taxation of currently exempted products including restaurant meals, insurance premiums, entertainment, and non-prescription drugs. The proposed taxation of necessities such as utility payments and children's clothing — valued at about 25 percent of the proposed increase or about \$68 annually for the average family — has been the most debated element of the proposed changes. Some have charged that this would effectively reverse

**Table 7: Tax Competition on the Prairies**

		Alberta		Saskatchewan	
		Current (1999)	Proposed (2001)	Current (1999)	Proposed (2003)
Basic exemption	(\$)	6,794	11,620	6,794	8,500
Spousal credit	(\$)	5,718	11,620	5,718	8,500
Inflation indexing		Ad hoc <sup>1</sup>	Automatic	Ad hoc <sup>1</sup>	Automatic
Basic tax rate <sup>2</sup>	(%)	7.98	11	11.18	11
Middle income rate	(%)	11.94	11	15.93	13
Threshold	(\$)	29,590	n/a	29,590	35,000
Middle income surtax	(%)	12.86	none	18.10	none
Threshold	(\$)	45,403		39,201	
Upper income rate	(%)	14.28	11	19.90	15
Threshold	(\$)	59,181		59,181	100,000
Top fed.-prov. marginal rate (%)		45.2	41.45	50.8	45.45
Threshold	(\$)	63,704	63,704	63,704	100,000

Notes: <sup>1</sup> Changes to basic personal and spousal credits and tax rate thresholds adjusted at discretion of federal government, or by annual rates of inflation in excess of 3 percent.

<sup>2</sup> Current rates include supplementary flat taxes.

Sources: Alberta Tax Review Committee; Saskatchewan Personal Income Tax Review Committee.

the government's high-profile decision of 1991 to scrap the harmonization of provincial sales taxes with the federal Goods and Services Tax.<sup>37</sup>

Initial feedback suggests that the Saskatchewan government is likely to accept the broad outlines of the Tax Review Committee report, although the precise timing and details of its implementation still remain to be determined at the time of writing.

#### MANITOBA

Manitoba has less fiscal flexibility than either Alberta or Saskatchewan in implementing provincial tax reforms. It currently depends on both personal

income taxes and sales taxes for a larger share of its revenues than either of its Prairie neighbours (see Table 5). Its sales tax base is significantly broader than Saskatchewan's, precluding major revenue gains from base broadening.<sup>38</sup> Balanced budget legislation requires a province-wide referendum before increasing tax rates on several major taxes. While Manitoba's overall personal taxes on lower income individuals and families are comparable to or lower than Alberta pre-reform tax levels, its tax rates are also more sharply progressive.<sup>39</sup>

The newly-elected government of NDP Premier Gary Doer has committed itself to reducing property taxes, described by one official as "our biggest competitive disadvantage on the tax side,"<sup>40</sup> modest income tax reductions, and small business tax cuts over its mandate. Finance Minister Greg Selinger announced Manitoba's intent to introduce a tax on income system in December 1999. The rather political complexion and mandate of the province's "Lower Tax Commission," appointed by the outgoing Filmon government, has complicated the tax reform challenge facing the Doer government. Chaired by former Conservative Finance Minister Clayton Manness, the commission was given a broad mandate to review Manitoba's tax system, and recommend changes to the structures and mix of personal, business, consumption and family taxation. The commission's report, issued in February 2000, recommended increases in personal and family exemptions and credits and a two-rate tax system — 14 percent on all "non-sheltered taxable income up to \$150,000, and 17 percent thereafter."<sup>41</sup> It also recommended replacing Manitoba's refundable income tax credits and rebates for lower and middle-income taxpayers, currently Canada's highest at \$114 per head, with a system of targeted cash grants.<sup>42</sup> While the government is unlikely to respond to these proposals until its budget, expected in March 2000, the adoption of quasi-Alberta-style tax reforms by a NDP government would signal a major shift in Manitoba's political culture.

In January 2000, the Doer government reduced Manitoba's personal income tax rate from 48.5 percent to 47 percent of the basic federal tax. A comparable TonI structure, absorbing the province's existing flat tax and surtax, and using existing tax bracket thresholds, would result in the following rates as shown on Table 8.

While Manitoba's basic tax rate would be close to Saskatchewan's under such a system, it remains to be seen whether its government will be under significant pressure to follow its western neighbour in reducing tax rates for middle-income earners and broadening its application to taxpayers earning more than \$60,000.

## ONTARIO

Ontario already enjoys Canada's lowest provincial income tax rates. The Harris government promised further tax cuts in its pre-election budget of May 1999.

**Table 8: Tax Reform Options in Manitoba**

	Extending Current Rate System		Lower Tax Commission		
	Rate	Threshold*		Rate	Threshold
	(%)	(\$)		(%)	(\$)
		(1999)	(2004)		
Basic tax rate:	10.00	6,794	8,000	14	7,700/11,000+
Middle income rate	16.22	29,591**	35,000	n/a	
Upper income rate	17.63	59,180	70,000	17	150,000

Note: \* Assumes continued use of federal tax bracket thresholds.

\*\* Single taxpayer; threshold increases with dependents.

+ Single individual \$11,000; couple: \$15,400; \$3,300 for each extra child; to be indexed to inflation.

Sources: Government of Manitoba, *Final Report of the Manitoba Lower Tax Commission*, February 2000; Canada, *Budget 2000* (Ottawa: Department of Finance, 28 February 2000).

The province's basic tax rate was reduced from 40.5 percent of basic federal tax to 38.5 percent on 1 July 1999. The Tories' election platform promised to reduce this further to 32.5 percent by 2004 as well as reducing the education portion of property taxes by 20 percent — about \$500 million.<sup>43</sup>

However, Treasurer Ernie Eves has been extremely vocal over what he views as a lack of federal commitment to the concept of "shared jurisdiction" in tax policy, particularly the federal government's reluctance to accommodate a series of social policy initiatives delivered through the tax system. Eves announced in November 1999 that Ontario would implement a tax on income that would "no longer be subject to hidden tax increases in the federal tax system."<sup>44</sup> He also announced plans to set up a Business Tax Review Committee to propose changes to the province's tax system. However, as the Canada Customs and Revenue Agency requires that the details of proposed changes be submitted by 31 March 2000 for implementation in the 2001 tax year, and Ontario budgets are usually tabled in May, it is unlikely that provincial tax reform proposals will be implemented before 2002.

Conversion of existing and promised provincial tax rates and the incorporation of existing surtaxes into a separate provincial rate structure would result in the following five-bracket tax structure by 2004.



**Table 9: Ontario Tax-bracket Structure with Tax on Income**

	Rate		Threshold*	
	1999	2004	1999	2004
	(%)		(\$)	
Basic tax rate	6.72	5.53	6,794	8,000
Middle income rate	10.27	8.45	29,591	35,000
Middle income surtax	12.32	10.14	52,700	52,700
Upper income rate (before surtaxes)	13.75	11.31	59,180	70,000
Top tax rate	17.87	14.70	61,500	?

Note: \* Assumes use of proposed federal tax thresholds (February 2000).

A more realistic expectation would be for Ontario to increase its basic personal exemptions and income thresholds as proposed in Saskatchewan so that the middle and upper income tax rates take effect at significantly higher levels than at present. Ontario is unlikely to compete with Alberta for the lowest top marginal rate among the provinces, but it is likely to ensure that tax rates *are* either lower or comparable for the vast majority of taxpayers earning less than \$100,000 a year.

#### NEWFOUNDLAND AND ATLANTIC CANADA

The Atlantic provinces have personal income tax rates and overall provincial tax levels (except Nova Scotia) over the national average — despite depending on federal transfers for a disproportionate share of their revenues (see Tables 1 and 5). Despite sales tax reductions arising from the harmonization of their provincial sales tax bases with the federal Goods and Services Tax in 1996, they also depend more heavily than other provinces on general sales taxes.

Both New Brunswick and Newfoundland have expressed concerns over the impact of high marginal tax rates and the likely loss of provincial revenues as a result of expected federal tax reductions. Newfoundland's fiscal challenges have been complicated by its loss of 42,000 residents (about 7 percent of its population) between 1992 and 1999.

Newfoundland Premier Brian Tobin assigned responsibility for tax review to his Advisory Council on the Economy and Technology in August 1999. The council's November 1999 report recommended the creation of a tax on income system and reductions of provincial tax rates from 69 percent of the basic federal tax (BFT) to the equivalent of 59 percent of BFT over three years, to be financed in part by higher corporate income taxes on manufacturing, but not through budget deficits.<sup>45</sup>

Shortly thereafter, Tobin announced plans to cut the basic provincial tax rate by up to 28 percent over three years "if it is fiscally responsible to do so," along with the introduction of graduated surtaxes and the "likely" introduction of a tax on income in 2001. This would reduce Newfoundland's core personal income tax rate to 49 percent of the basic federal tax rate.<sup>46</sup>

New Brunswick has also announced its intention to reduce provincial tax rates and "study" the implementation of a tax on income. Prince Edward Island announced its intention to "assess the desirability of this fundamental change" in its 1999 budget.<sup>47</sup> While Nova Scotia's sizeable provincial deficit leaves it little room for tax cuts in the short term, the probable impact of federal tax reductions on its tax base and the competitive pressure of expected tax cuts in neighbouring provinces have prompted it to join other provinces planning to implement a tax on income system.

## CONCLUSION

The spreading acceptance of the "tax on income" concept as a central feature of emerging provincial tax reforms reflects a series of pragmatic trade-offs both in relations between the federal and provincial governments and in the policy choices of provincial governments representing virtually the full spectrum of Canadian politics.

The federal government has recognized that to maximize its own fiscal and political discretion in making the most of the looming fiscal dividend, it must increase the political and administrative flexibility of the provinces in designing their tax systems, or face sharply increased demands for higher transfer payments to offset regional disparities and growing provincial health and education costs. The provinces — ever prone to demand more money from Ottawa while insisting on greater flexibility in its use — are ill-equipped to do so while most are in the process of reducing their own tax rates.

Despite sizeable tax cuts in Ontario, and growing regional competition on the Prairies and in Atlantic Canada to match the tax reductions of neighbouring provinces, internal political conditions appear to play a larger role in defining the distribution and rate levels of provincial taxes than external tax competition. The growing progressivity of federal and provincial tax systems — in which a large majority of voters receive more in services than they pay in taxes — along with the perception of tax reductions as a zero-sum game by many Canadians, effectively limit the tax-cutting dynamic in many provinces, especially those with strongly social democratic governments.<sup>48</sup>

The nature of specific provincial tax reforms will depend largely on the willingness and capacity of regional political leaders to take advantage of the current window of opportunity created by relatively buoyant economies and the federal government's willingness to accommodate widely varying provincial priorities within the tax-collection agreements.

## NOTES

The author wishes to express appreciation to Harvey Lazar and an anonymous reviewer for their helpful comments, to a number of officials in federal and provincial finance departments and ministries for their insights and suggestions.

1. Dagmar Dyck and Bev Dahlby, "Alberta and the Provincialization of the Canadian Fiscal System," (Edmonton: Institute for Public Economics, University of Alberta, unpublished paper, 1999). The so-called "five-province report" was published as *Federal Administration of Provincial Taxes*, Annex 4, (Ottawa: Department of Finance, 2000). The federal-provincial consensus agreement is outlined in *Tax on Income, Report prepared by the Federal-Provincial Committee on Taxation for presentation to Ministers of Finance* (Ottawa: Department of Finance, 1998).
2. Dyck and Dahlby, "Alberta and the Provincialization of the Canadian Fiscal System; Thomas J. Courchene, "National vs. Regional Concerns: A Provincial Perspective on the Role and Operation of the Tax Collection Agreements," *Canadian Tax Journal* 47, 4 (1999):861-89.
3. Canada, *The Fiscal Balance in Canada* (Ottawa: Department of Finance, 1999).
4. Interview, former federal deputy minister of finance.
5. Federal officials suggest that this reluctance was the natural by-product of not wishing to introduce major, and possibly irreversible changes to the tax structure without working out both major policy and technical implications first. Provincial officials were more inclined to attribute federal "resistance" to the tax on income to their concerns over preserving federal control over the tax system. These debates were renewed when Ontario sought to introduce significant changes to its tax system after 1995.
6. Geoffrey E. Hale, "Managing the Fiscal Dividend: The Politics of Selective Activism," in *How Ottawa Spends: 2000-01*, ed. Leslie A. Pal (Toronto: Oxford University Press, forthcoming).
7. Courchene, "National vs. Regional Concerns," p. 862.
8. Bruce Little, "Q. Who supplies Canada's trading muscle? A: Ont...." *The Globe and Mail*, 13 December 1999, p. A10.
9. In Alberta, this has included elimination of the provincial business property tax on machinery and equipment in 1996-97, introduction of a uniform provincial education tax rate, and recommendations to average and cap property tax increases arising from rapid increases in property values. Alberta, *Treasury Annual Report for the Fiscal Year Ended March 31, 1997* (Edmonton: Alberta Treasury, 1997); Alberta. Education Property Tax Committee, *Interim Report* (Edmonton: Alberta Treasury, 4 October 1999). In Ontario, the 1998 budget introduced phased reductions of education taxes on commercial and industrial properties over average provincial rates. Ontario, *1998 Ontario Budget* (Toronto: Ministry of Finance, May 1998), pp. 90-93, 98.
10. The Financial Management System used by Statistics Canada applies consistent accounting rules to all levels of government, unlike the "public accounts" which

are subject to a variety of different accounting conventions from province to province.

11. Even the NDP government of British Columbia, the only government not to reduce its spending in real per capita terms between 1992 and 1996, was re-elected largely on the basis of its pretended success in balancing the budget — although the figures used to support this claim later turned out to be the product of very dubious accounting practices.
12. Canada, *Fiscal Reference Tables* (Ottawa: Department of Finance, September 1999), p.33. Alberta amended its *Fiscal Responsibility Act* late in 1999 to allow for spending of more than 25 percent of projected revenue windfalls for in-year spending initiatives and has announced major spending increases in coming years.
13. This truism is confirmed by Kneebone and McKenzie's analysis of the discretionary fiscal stance of nine provinces during the early and mid-1990s. Ronald D. Kneebone and Kenneth J. McKenzie, "Fiscal Policy in Canada," *Canadian Public Policy/Analyse de Politiques* 25, 4 (1999):488-92.
14. *The Fiscal Balance in Canada*; John McCallum, "Relative Power: Ottawa vs. the Provinces," (Toronto: *Royal Bank Economics*, September 1999).
15. Interviews, current and former Finance/Treasury officials of Manitoba, Saskatchewan, and Alberta governments.
16. *Tax on Income*, Report prepared for the Federal-Provincial Committee on Taxation for presentation to Ministers of Finance; Canada, *Federal Administration of Provincial Taxes* (Ottawa: 25 January 2000).
17. Munir A. Sheikh and Michel Carreau, "A Federal Perspective on the Role and Operation of the Tax Collection Agreements," *Canadian Tax Journal* 47, 4 (1999):845-60. Explanations of the detailed impact of this agreement on each province may be found in "Application of Framework for Federal Administration of Federal Taxes," *Federal Administration of Provincial Taxes*, Annex 5. (Ottawa: Supply and services Canada, 2000).
18. Saskatchewan, *Tax on Income: Discussion Paper* (Regina: Ministry of Finance, 1988).
19. Canada, *Personal Income Tax Coordination: The Federal-Provincial Tax Collection Agreements* (Ottawa: Department of Finance, 1991).
20. Interviews, federal Department of Finance and Alberta Treasury. Explanations for the breakdown in negotiations by federal and provincial officials reflect rather different perceptions by federal and provincial officials.
21. Interview, Government of Alberta.
22. Interview, member, Alberta Tax Review Committee. This theme surfaced over and over again in interviews with provincial officials.
23. Saskatchewan, "Redesign of Provincial Income Taxation," in *1999 Saskatchewan Budget* (Regina: Ministry of Finance, 1999).
24. Giles Gherson, "Martin to Tell Provinces He Needs Surplus," *National Post*, 9 December 1999, p. A7; A. Toulin, "Ministers Seek Tax Cuts that Won't Affect their Revenues," *National Post*, 9 December 1999, p. A7. Provincial officials

- interviewed for this chapter suggest that federal officials tacitly encouraged the development of provincial tax on income proposals after 1996.
25. Ontario, *1999 Ontario Budget* (Toronto: Ministry of Finance, 1999), p. 35; Courchene, "National vs. Regional Concerns," pp. 867-68. This contention is strongly challenged by federal officials. However, it is inherently difficult to prove as no government would ever concede its willingness to accommodate such pressure tactics, thereby encouraging more of them.
  26. *Ibid.* The Finance Department defends its position by noting that proposed provincial changes are often introduced on short notice, and that existing agreements often require consultation with other provinces on the potential effects of such changes on other provinces and on the economic union. It also notes changes made to accelerate revenue flows under tax-collection agreements. *Federal Collection of Provincial Taxes*, Annex 4 and Annex 6 (Ottawa: Supply and Services Canada, 2000).
  27. "Province to Change Method of Collecting Income Tax," Press Release, Nova Scotia Department of Finance, 23 February 2000; "Province to Ensure Tax Cuts Go to Those Most in Need," News Release, British Columbia Ministry of Finance and Corporate Relations, 24 February 2000.
  28. Interviews, Alberta Tax Review Committee.
  29. Alberta Tax Review Committee, *Terms of Reference* (Edmonton: Alberta Treasury, 25 May 1998.)
  30. Interviews, Alberta Tax Review Committee.
  31. Courchene, "National vs. Regional Concerns," pp. 878-79. The Alberta proposal has subsequently been adopted as the basis for federal tax reform proposals advanced by the new Canadian Alliance. Monte Solberg, MP, "The Single Rate Tax," unpublished paper, 27 January 2000.
  32. Alberta Tax Review Committee, *Final Report and Recommendations*, October 1998; Alberta, *Budget 99: Government of Alberta Fiscal Plan*, 11 March 1999, p.127.
  33. Kenneth J. McKenzie, "O'Brien's Last Stand: An Examination of the Single Rate Tax," unpublished paper, (Edmonton: Institute for Public Economics, University of Alberta, 1999), p.11.
  34. Alberta, Press Release (Edmonton: Premier's Office, 14 October 1999).
  35. Saskatchewan, "Redesign of Provincial Income Taxation," March 1999.
  36. Saskatchewan, *Report of the Saskatchewan Personal Income Tax Review Committee*, (Regina: Ministry of Finance, November 1999).
  37. Interview, Government of Saskatchewan; Murray Mandryk, "A Reversal in Thinking for NDP," *Regina Leader Post*, 6 December 1999; *Report of the Saskatchewan Personal Income Tax Review Committee*, p. 61.
  38. Interview, Government of Manitoba.
  39. *Report of Saskatchewan Personal Income Tax Review Committee*, Tables 1, 2, 15, 16.

40. Interview, Government of Manitoba.
41. Manitoba Lower Tax Commission, *Final Report* (Winnipeg: Ministry of Finance, 10 February 2000), p. 11.
42. *Ibid.*, pp. 50-52.
43. *1999 Ontario Budget* (Toronto: Ministry of Finance, May 1999), pp. 69-70, 84-88.
44. Hon. Ernie Eves, "Statement to the Legislature," (Toronto: Ministry of Finance, 30 November 1999), p.4.
45. Newfoundland, *Report of the Premier's Advisory Council on the Economy and Technology — Provincial Tax Review* (St. John's: Premier's Advisory Council, November 1999).
46. Newfoundland, "Multi-Year Tax Reductions Announced," (St. John's: Executive Council, 16 November 1999).
47. Prince Edward Island, "Budget Paper C: Personal Income Taxes," *The 1999 Provincial Budget* (Charlottetown: Department of Provincial Treasury, 6 April 1999), p. 4.
48. Michael Walker, "Why Polls Don't Tell the Whole Truth on Tax Cuts," *Financial Post*, 7 December 1999, p. C7; Ekos Research Associates, *Reinventing Government: Understanding Conflicting Priorities on Tax Cuts, Social Spending and Productivity* (Ottawa: Ekos Research Associates, 1999); Earncliffe Research Associates, *Policy Priorities and Economic Assumptions* (Ottawa: Department of Finance, 1999); Earncliffe Research Associates, *Themes, Taxes and Productivity* (Ottawa: Department of Finance, 1999).

## APPENDIX

Table A-1: Personal Income Tax – Provincial Comparisons

		Basic Rate (as percent of Basic Federal Tax)	Surtax		Supplemental Flat Tax or General Payroll Tax?	
			Rate (%)	Threshold (\$)		
Nfld.	1999	69.0	10	60,100	Payroll Tax (2.1%)	
	1995	69.0	—	—		
	1988	60.0	—	—		
PEI	1999	58.5	10	50,400	No	
	1995	59.5	10	92,777		
	1988	56.0	5	95,408		
NS	1999	57.5	10	80,600	No	
	1995	59.5	10	78,288		
	1988	56.5	—	—		
NB	1999	60.0	8	98,200	No	
	1995	64.0	8	93,071		
	1988	60.0	—	—		
Que.	1999	Separate Rate Structure			Payroll Tax (4.26%)	
Ont.	1999	39.5	(1)	20	Payroll Tax (0.98/1.95%)	
			(2)	56		61,500
	1995	58.0	(1)	20		52,300
			(2)	30		67,900
1988	51.0	10	86,051			
Man.	1999	48.5	2	30,000	Flat Tax (2%) <sup>1</sup>	
	1995	52.0	2	30,000	Payroll Tax (2.15%)	
	1988	54.0	2	30,000		

... continued

Table A-1 (continued)

		Basic Rate (as percent of Basic Federal Tax)	Surtax		Supplemental Flat Tax or General Payroll Tax?	
			Rate (%)	Threshold (\$)		
Sask.	1999	48.0	(1)	10	20,000	Flat Tax: (2%) <sup>1</sup>
			(2)	25		
	1995	50.0	(1)	10	12,900	
			(2)	25	40,400	
	1988	50.0		12	40,323	
Alta.	1999	44.0		8 <sup>2</sup>	46,814	Flat Tax (0.5%) <sup>1</sup>
	1995	45.5		8	45,400	
	1988	46.5		8	43,168	
BC	1999	49.5	(1)	30	57,400	No
			(2)	49	80,900	
	1995	52.5	(1)	30	54,700	
			(2)	50	79,400	
	1988	51.5	—	—		

Note: <sup>1</sup>Net income threshold for Manitoba flat tax increased from \$7,600 in 1988 to \$8,391 in 1999 depending on number of dependents. Net income threshold for Saskatchewan flat tax: 1988: \$10,000; 1995: \$7,400; 1999: \$10,000. Saskatchewan surtax levied on both provincial income and flat taxes. Taxable income threshold for Alberta flat tax increased from \$9,550 in 1988 to \$16,000 in 1999. Abolition proposed as part of shift to single rate tax in 2001.

<sup>2</sup>Alberta surtax abolished 1 January 2000.

Sources: Canadian Tax Foundation, *The National Finances: 1987-88* (Toronto: Canadian Tax Foundation, 1988); *Finances of the Nation, 1995* (Toronto: Canadian Tax Foundation, 1995); Alberta Treasury; Manitoba Department of Finance; Newfoundland Department of Finance (1999).



**Table A-2: Provincial Tax Reductions 1995-1999**

	<i>Personal Income Tax</i>	<i>Corporate Income Tax</i>	<i>Retail Sales Tax</i>	<i>Payroll Tax</i>
Newfoundland	<i>Post-1999<sup>1</sup> budget</i>		<i>1996 budget<sup>2</sup></i>	<i>1999 budget 1998 budget</i>
PEI	<i>1999 budget</i>			
Nova Scotia	<i>1998 budget 1996 budget</i>		<i>1996 budget<sup>2</sup></i>	
New Brunswick	<i>1997 to 1999 budgets</i>	<i>1999 budget 1995 budget</i>	<i>1996 budget<sup>2</sup></i>	
Quebec	<i>1999 budget 1997 budget</i>			<i>1998 budget</i>
Ontario	<i>1996 to 1999 Budgets</i>	<i>1998 budget</i>		<i>1998 budget 1996 budget</i>
Manitoba	<i>1999 budget 1998 budget</i>	<i>1999 budget</i>		<i>1998 budget 1997 budget</i>
Saskatchewan	<i>1998 budget</i>	<i>1995 budget</i>	<i>1999 budget 1997 budget</i>	
Alberta	<i>1999 budget 1998 budget</i>			
British Columbia	<i>1999, 1998 &amp; 1996 budgets</i>	<i>1999, 1998 &amp; 1996 budgets</i>		

Notes: <sup>1</sup> Budgets presented in italics indicate that tax-reduction initiatives were announced prior to the balancing of the budget.

<sup>2</sup> Reduction of provincial sales taxes in conjunction with harmonization with federal Goods and Services Tax.

Source: Canada, *The Fiscal Balance in Canada* (Ottawa: Department of Finance, 8 December 1999), p. 10.

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## Tax Assignment in Canada: A Modest Proposal

*Richard M. Bird and Jack M. Mintz*

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*Des déséquilibres importants existent dans l'attribution des dépenses et des recettes au Canada. Le gouvernement fédéral prélève plus de recettes qu'il a de dépenses. Les municipalités comptent sur d'importants transferts des provinces. Les provinces jouent le rôle d'intermédiaires en recevant des transferts fédéraux qui, en gros, correspondent aux montants qu'elles transfèrent aux municipalités. L'attribution des impôts pose deux problèmes. Le premier en est un d'imputabilité, puisque le niveau de gouvernement responsable des dépenses n'a pas à porter l'odieux d'une augmentation des impôts face à l'électorat. Le second problème est que l'attribution défectueuse des impôts, laquelle produit des débordements horizontaux et verticaux, dénature la prestation privée et publique des biens et services. Ces deux problèmes d'imputabilité et d'attribution sont reliés au financement des dépenses de programme des municipalités, récemment transférées par les provinces, et aux taxes d'affaires déformantes des municipalités et des provinces dans une économie mondiale de plus en plus compétitive. Nous soutenons que la réattribution des impôts et les tentatives d'harmonisation ont atteint un cul-de-sac. Nous croyons plutôt que la solution aux problèmes d'attribution des impôts passe par une réforme fiscale provinciale et municipale. Nous soutenons que les gouvernements provinciaux devraient se retirer de certains champs fiscaux — taxes sur le revenu des entreprises, sur le capital et, peut-être, sur la masse salariale — au profit du gouvernement fédéral. Ces taxes devraient être remplacées par une taxe d'affaire sur la valeur. Une portion de cette taxe pourrait être versée aux municipalités pour leur permettre de réduire les impôts fonciers sur les propriétés non-résidentielles.*

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### INTRODUCTION

“Who should tax, where, and what?” is how Richard Musgrave once characterized the question of tax assignment in a multi-level government.<sup>1</sup> This question has attracted increasing attention in recent years in Canada. Ip and Mintz, for example, suggested that the corporate income tax (CIT) should become entirely federal while the federal goods and services tax (GST) and excises should be replaced by appropriately increased provincial retail sales taxes and excises. Boadway went even further and proposed that the personal income tax (PIT) too should be entirely federal.<sup>2</sup> In contrast, Dahlby and

Ruggeri, Howard and Van Wart suggested that the PIT should be taken over entirely by the provinces, with the federal government taking over all provincial sales taxes (as well as the CIT).<sup>3</sup> In reviewing this discussion, Bird argued that it was most unlikely that either level of government would be willing to make any of these changes.<sup>4</sup> He suggested that the most likely scenario to prevail would be one in which both federal and at least some provincial governments would continue to levy PIT, CIT, and sales taxes. Bird agreed with Ip and Mintz that the tax-collection agreements worked fairly well for the PIT, but argued that the economic inefficiencies that resulted from less than perfectly integrated federal and provincial CITs could be viewed as simply one cost of our form of federalism.<sup>5</sup> Subsequently, Bird and Gendron, building in part upon Mintz, Wilson and Gendron and Gendron, Mintz and Wilson, argued that the method of sharing the sales tax field as agreed between the federal and Quebec governments worked surprisingly well and indeed was preferable to the so-called "harmonized" sales tax (HST) adopted in several small provinces in 1998.<sup>6</sup>

As this very selective summary history shows, both authors of the present chapter have in the past discussed aspects of this subject with some, but by no means complete, agreement in the views expressed. Our aims in the present brief essay are three. The first is simply to revisit this subject and state our present, and basically joint, appraisal of the current situation with respect to tax assignment in Canada. The second is to suggest a new approach — our "modest proposal" (so named with due deference to Jonathan Swift's well-known prior use of this terminology!) — to this issue, encompassing local as well as federal and provincial taxation. Finally, we have attempted to move our proposal a bit closer to reality both by putting a little empirical flesh on our conceptual skeleton and by considering briefly a few of the additional questions that need to be taken into account in resolving these basic issues. The next three sections of the chapter take up these three aims in turn.

We do not, of course, think that we have by any means solved the fundamental fiscal conundrum of Canadian federalism in this brief essay. But we do hope at least to have introduced some new thinking into the arena and perhaps also to have been sufficiently provocative to stimulate others to re-think these matters as well.

## WHERE ARE WE NOW?

Whether viewed from on high, essentially the position we adopt in this chapter or from the trenches in which taxpayers and officials live, the present assignment of taxes in Canada suffers from a variety of problems. The first and in many ways the most important problem is that there is a significant vertical imbalance between expenditures and revenues at all levels of government, with consequent implications for autonomy, efficiency, and

accountability. The second major problem is that the present confused and confusing system results in significant costs — costs of administration, costs of compliance, and costs arising from tax-induced inefficient allocation of scarce resources. Our “modest proposal” essentially focuses on the second of these problems, but in the remainder of the present section we shall elaborate briefly on the origins and nature of both problems in order to set the stage for our proposed approach to resolving at least one of them to some extent.

Table 1 depicts the flow of revenues and expenditures to and between levels of government in 1996. As can be seen in this table, broadly speaking, the federal government collects about 2 percent more of gross domestic product (GDP) in revenues than it spends, other than on intergovernmental transfers, while the provinces as a whole collect about the same amount as they spend (net of transfers). What this means is that, in effect, the provinces as a whole pass on approximately the amount of the transfers they receive from the federal government — which constitute 20 percent of their net-of-transfer expenditures — to the municipalities, whose own revenues only suffice to cover a bit more than 50 percent of their expenditures.

**Table 1: Own Revenues and Expenditures by Level of Government in 1996**

<i>Level of Government</i>	<i>Own Revenues</i> (1)	<i>Expenditures Less Transfers</i> (2) (% of GDP of Canada)	<i>Own Surplus</i> (3)=(1)-(2)	<i>Received Transfers as % of Expenditures Net of Transfers</i> (4) (%)
Federal	18.82	16.67	2.15	0.43
Provincial	17.50	17.49	0.01	20.03
Municipal	4.00	7.21	-3.21	52.01

Source: Based on Statistics Canada Cansim Time Series.

Table 2 looks more specifically at the allocation of tax revenues by level of government. While property taxes were collected almost entirely at the local level in 1995 outside of a few small eastern provinces — since then, more property taxes have accrued to the provincial level, especially in Ontario — all the other major sources of revenue are divided, in varying proportions, between the other two levels of government. The basic picture shown in Table 2 has remained broadly unchanged for the last 20 years although, as Figure 1 shows, provincial taxes had increased sharply in relative terms up to the mid-1970s.

**Table 2: Tax Collections by Level of Government and Type of Tax in Selected Years**

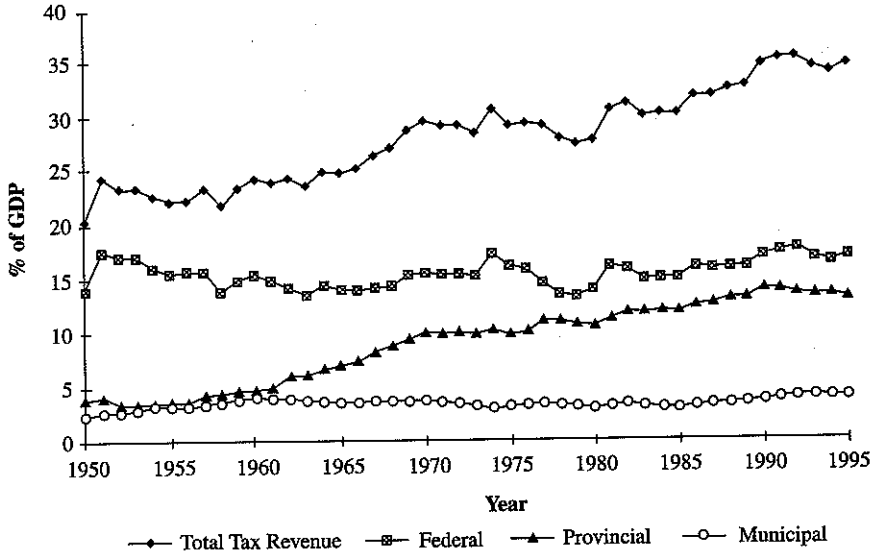
Type of Tax	Years	Federal	Provincial	Municipal	Total
		(% of total)			(% of GDP)
Personal Income Tax	1955	88.8	11.2	0.0	6.1
	1975	68.5	31.5	0.0	12.3
	1995	57.3	42.7	0.0	14.3
Corporate Income Tax	1955	95.5	4.5	0.0	4.5
	1975	73.4	26.6	0.0	4.4
	1995	69.2	30.8	0.0	2.6
Consumption Taxes	1955	69.6	30.4	0.0	8.3
	1975	51.4	48.6	0.0	8.6
	1995	41.1	58.9	0.0	9.7
Property Tax*	1955	0.0	0.0	100.0	3.0
	1975	0.0	0.0	100.0	3.2
	1995	0.0	0.0	100.0	4.5
Other	1955	1.3	74.7	24.1	0.3
	1975	0.7	93.8	5.5	0.6
	1995	7.0	65.2	27.8	1.0
<b>Total Tax and Revenue</b>	1955	70.0	16.2	13.8	22.2
	1975	55.2	33.7	11.1	29.1
	1995	48.9	38.1	11.1	36.1

Note: \*Some property tax is collected by provinces and used to finance education or local services. See text for other discussion.

Source: Richard M. Bird and Duanjie Chen, "Federal Finance and Fiscal Federalism: The Two Worlds of Canadian Public Finance," *Canadian Public Administration* 41(1998):51-74, based on Statistics Canada Cansim Time Series.

Presented in this fashion, Canada appears to be a very peculiar country indeed, with the provinces in effect acting as an intermediary in redirecting federal revenues to municipalities and with all major taxes divided between the federal and provincial governments. Of course, this is by no means the only or even the most important story that can be told. Very important differences between various provinces are, for example, hidden in these aggregate numbers. Nonetheless, this brief account provides sufficient background

**Figure 1: Tax Revenue as % of GDP by Level of Government  
1950-1995**



Source: Richard M. Bird and Duanjie Chen, "Federal Finance and Fiscal Federalism: The Two Worlds of Canadian Public Finance," *Canadian Public Administration* 41(1998):51-74.

against which to set out in a bit more detail the two major problems alluded to above.

#### IMBALANCE AND ACCOUNTABILITY

These problems fall into two classes: the broad issues of political economy connected with fiscal imbalance and the narrower, but not necessarily less important, issues associated with tax misassignment, as discussed further in the next subsection. From the perspective of efficient and effective government, broadly considered, the basic principles of tax assignment are simple: (i) each governmental unit should have adequate revenues to cover its expenditures, and (ii) each should also be able to affect its revenues by its own actions — for example, by altering tax rates, imposing new levies or abolishing old ones, changing tax bases, or exerting administrative effort. The extent to which the first of these principles is attained can be measured, roughly, by

the aggregate data set out earlier. From this perspective, Canada scores very well in terms of the provincial level, at least in aggregate, and not very well at all with respect to the municipal sector.

Of course, matters would look much less healthy in this sense even at the provincial level if we consider what would happen if the provinces had to fund most of their current health and education transfers from, as an example, their own taxes on personal income rather than federal grants. Table 3 shows, by province, the percentage of provincial expenditures, including transfers to municipalities, that are financed out of their own current revenues, excluding transfers from the federal government. Similar ratios are shown, by province, for municipalities.

As this table shows, all provinces, even the richest, finance some of their expenditures from transfers, although with wide variation in the extent to which they are dependent on transfers. Similar variations in imbalance exist at the municipal level across provinces. The present system thus requires a significant flow of intergovernmental fiscal transfers in order not only to maintain vertical fiscal balance (between levels of government, especially at the provincial-local level) but also, more importantly, to maintain some degree of horizontal fiscal balance (between units of government at the same level).

Multi-tiered governments in principle work best when taxes and the benefits of public spending are as closely related as possible — when, that is, the citizens-voters-consumers residing in a particular political jurisdiction both pay for what they get from the public sector and benefit from the expenditures

**Table 3: Own Revenues as % of Total Expenditures by Level of Government in 1995**

<i>Provinces</i>	<i>Provincial</i>	<i>Municipal</i>
Newfoundland	58.75	61.44
Prince Edward Island	66.09	17.01
Nova Scotia	60.92	43.72
New Brunswick	68.25	59.38
Quebec	75.90	53.96
Ontario	76.10	66.40
Manitoba	74.01	55.38
Saskatchewan	83.33	70.62
Alberta	92.92	56.26
British Columbia	90.78	39.03

Source: Based on Statistics Canada Cansim Time Series.

made by the taxes they pay. Obviously, when citizens reside in several overlapping jurisdictions (municipality-province-nation) this so-called "principle of fiscal equivalence"<sup>7</sup> suggests that they should pay taxes to each level corresponding to the benefits they receive from each jurisdiction. In this framework, the only rationale for intergovernmental transfers would be to restore this equivalence when, for example, some benefits flow ("spill over") from one jurisdiction to another or (negatively) when some taxes levied by one jurisdiction are in fact paid by ("exported to") persons residing in another jurisdiction. Moreover, such transfers would be horizontal, between provinces or municipalities, and not between levels of government.

If governments at all levels were indeed required to be more "self-financing" in this sense, differences in their capacities to raise revenues would, of course, affect tax burdens. Simply as an example, Table 4 illustrates the impact on provincial income taxes if Ontario alone were to become, in effect, "fiscally autonomous" by eliminating the (cash portion of) the CHST grant in 2003-04. (Other provinces would still receive some CHST grant.) This could be achieved if the federal government transferred 11.5 points under the personal income tax to Ontario (and, of course, other provinces). The result would be that, on average, the provinces would have to increase their PIT collections by 25 percent, with the largest increase being in Ontario. In reality, of course, such a change would lead to further adjustments in tax burdens and transfers for two reasons. First, as shown in Table 4, Quebec and the Atlantic provinces would have smaller increases in PIT revenues because each tax point is of lower value to them. Second, on the other hand, equalization payments, which are not shown in Table 4, would also increase, because the national average provincial PIT rate would increase, thus benefiting recipient provinces.

We are not recommending a major policy change for Canada along these lines. Nonetheless, it deserves to be emphasized that levying taxes on the basis that residents should pay for the benefits received from public services provided by the respective jurisdictions would minimize both horizontal and vertical spillovers. Horizontal spillovers may result in excessive levels of taxation since non-residents (= non-voters) in effect pay for services enjoyed by residents (= voters) to the extent taxes are exported.<sup>8</sup> Alternatively, the result may be too low a level of taxation for fear of loss of the tax base to other jurisdictions. Similarly, vertical spillovers may arise from the interdependence of tax decisions when different levels of government tax the same base — as in the case of the PIT — or if taxes at one level are deductible (e.g., the property tax from the CIT) or creditable at another level.<sup>9</sup> Still further spillovers may occur if one level of government incurs additional expenditure as a result of the tax policies of another. An example might be if high marginal rates imposed on low-income workers by one government reduced work incentives and hence increased the demand for welfare assistance from other levels of government.



**Table 4: Impact of Elimination of Cash Grant to Ontario and Increase the Tax-Point Transfer for the Year 2003-04**

Provinces	Current CHST (1)	Additional Tax Transfer (2)	New CHST (3)	Adjusted PIT (4)	Proportional Increase in PIT (5)
	(\$ Million)				(%)
Newfoundland	254	127	127	760	16.7
Prince Edward Island	68	35	34	177	19.5
Nova Scotia	463	277	186	1,384	20.0
New Brunswick	368	206	162	1,076	19.2
Quebec	3,649	2,492	1,157	12,063	20.7
Ontario	5,337	5,337	0	18,787	28.4
Manitoba	565	405	160	1,761	23.0
Saskatchewan	502	309	194	1,288	24.0
Alberta	1,347	1,323	24	5,059	26.2
British Columbia	2,385	1,603	781	6,827	23.5
<b>Total</b>	14,939	12,114	2,825	49,183	24.6

- Notes: 1. "Current" refers to cash transfer under CHST made to each province as projected for 2003-04.
2. "Transfer" refers to a 11.5-point transfer of federal personal income tax to the provinces that would eliminate Ontario's cash grant.
3. "New" refers to the current cash grant reduced by the additional cash transfer [(3)=(1)-(2)].
4. Adjusted personal income tax excludes credits, surtaxes, and flat taxes as projected for the year 2003-04 for each province.
5. Additional tax transfer as percentage of adjusted PIT [(5)=100\*(2)/(4)].

Source: Based on the 1999 budget projections from the Department of Finance for the fiscal year 2003-04.

Both horizontal and vertical spillovers reduce the accountability of governments. When governments can impose taxes that are, in effect, borne by other governments or non-residents, the economic cost of taxation is lower than it should be, and the result is likely to be excessive government spending. On the other hand, if spillovers result in the tax base moving to other jurisdictions, tax competition may make the perceived economic cost of taxation too high, thus resulting in too little government expenditure — although authors ranging from Brennan and Buchanan through McLure to Edwards and Keen have suggested that such tax competition may sometimes be useful in

limiting the taxing power of governments.<sup>10</sup> Of course, those who argue this way have also generally been concerned about the possibility of excessive spending as a result of intergovernmental spillovers. Some have suggested that an important role for intergovernmental transfers may be precisely to offset such spillovers. Although the equalization system in Canada has reduced horizontal spillovers by lessening tax competition — and thus, some have argued, reinforcing the governmental “cartel” against taxpayers<sup>11</sup> — it has done so only at the expense of increasing vertical spillovers<sup>12</sup> since provincial governments that receive Equalization can increase taxes and reduce their tax base while being compensated with additional Equalization payments.

Finally, considerations of administrative efficiency and feasibility may dictate that higher (or lower) levels of government impose certain taxes or carry out certain expenditures even when it may not be strictly appropriate to do so on “equivalence” grounds. Vertical fiscal flows, such as those that dominate the scene in Canada, are in principle motivated largely by this consideration, at least with respect to those flowing to richer jurisdictions. (In practice, of course, such flows may be motivated by such nebulous but important concerns as “nationhood,” “federalism,” and so on.<sup>13</sup>) This “equalization” argument for some intergovernmental transfers may even be strengthened by our proposed approach to the tax assignment issue, as developed further below. In any case, grants from higher levels of government should — as is now generally the case — continue to be inframarginal so that subnational governments will clearly face the full tax price (at the margin) of the spending decisions for which they are responsible.

#### THE COSTS OF MISASSIGNMENT

The previous section focused on the balance (or imbalance) of revenues and expenditures resulting from the present tax assignment. The most critical problem in this respect clearly arises at the municipal level. The inadequate own-revenue resources of most Canadian municipalities give rise to a variety of other costs — costs that have likely been accentuated in recent years by the downloading of responsibilities that have, in at least some provinces (such as Ontario), accompanied the restoration of relative fiscal balance. The principal villain in this equation is the property tax, the only real source of “own” local revenue in Canada. This tax suffers from at least three defects. First, its inherent inelasticity with respect to economic growth in population and incomes (arising from both administrative and political factors) makes it a most inappropriate source of finance for much more elastic expenditures such as those on education and social assistance. Second, the politics and economics of property taxation are such as to induce local governments to attempt to load as much tax as possible on non-residential properties, preferably those with respect to which the incidence of the tax can be plausibly asserted to be on

non-residents, thus providing exactly the wrong incentives to local political decisionmakers.<sup>14</sup> Attempts to constrain the political and economic distortions resulting from this inevitable tendency by "provincialization" of the property tax function (as has recently occurred in Ontario, for example) worsen the basic revenue-expenditure imbalance at the local level and tend to make local governments even less accountable. Third, insofar as it is a tax on a particular form of business input, essentially real property, increasingly heavy reliance on property taxes imparts an undesirable bias to business investment decisions.

Exactly similar problems to the last two just mentioned occur at the provincial level with respect to the corporate income and capital taxes. Such taxes are especially likely to generate the horizontal and vertical spillovers suggested above because capital is mobile. At present, the three provinces that collect their own corporate income tax (Alberta, Ontario, and Quebec) in total account for about 75 percent of the provincial tax base in this area.<sup>15</sup> The remaining provinces have a tax-collection agreement for the corporate income tax with the federal government. Although agreeing provinces can choose their own tax rates, the tax base is similar. Capital taxes, however, are neither subject to such an agreement nor harmonized.<sup>16</sup> Since much business activity is national, or multinational, the income and capital used as a tax base must be allocated among the provinces in some way. Even those provinces that collect their own corporate income tax have largely agreed to use a common allocation formula to determine their share of the tax base.<sup>17</sup> Since Canada does not have a consolidated return system, however, corporations can nonetheless minimize taxes by setting up separate corporations in each jurisdiction and then shifting income from one province to another, with the result that a province with a lower corporate tax rate can obtain a larger corporate income tax base. Table 5 shows precisely this inverse relationship between provincial corporate tax rates and corporate income as a proportion of capital, with Quebec having the lowest tax rate and the highest reported profitability per dollar of taxable capital.

Although some degree of tax harmonization has been achieved at the federal-provincial level with respect to income taxes, significant issues thus remain with respect to corporate income and capital taxes. The lack of harmonization imposes compliance costs and provides opportunities for tax minimization. In some instances, provinces have engaged in competitive bidding for specific projects — films and R&D projects provide illustrations. More generally, provinces continue to have considerable problems in dealing with corporate taxes. Most of the difficult and significant policy issues, such as those related to the treatment of international business income, have been left largely to the federal government. Moreover, businesses have been able to play off independently-collected provincial corporate taxes against other provincial corporate taxes, for example, by electing not to increase the cost basis of assets (in order to avoid capital gains taxes) in the province in which a vendor

**Table 5: Corporate Income Tax Rates and Ratio of Corporate Income to Assets by Province, 1999**

	Corporate Income Tax Rates		Corporate Income/Assets*	
	General (%)	Manufacturing (%)	Large (%)	Large and Small (%)
Quebec	9.2	9.2	6.8	10.0
Newfoundland	14.0	5.0	5.1	7.1
Ontario	15.5	13.5	5.9	7.0
Alberta	15.5	14.5	5.2	7.3
Prince Edward Island	16.0	7.5	5.0	9.3
Saskatchewan	17.0	10.0	4.8	7.4
Nova Scotia	16.0	16.0	4.7	6.5
British Columbia	16.5	16.5	4.0	6.2
Manitoba	17.0	17.0	5.2	7.0
New Brunswick	17.0	17.0	5.2	7.1

Note: \* Corporate income is allocated by province. Assets are taxable paid-up capital by province (includes certain components). Large refers to business income subject to the general rate and large and small includes small business income. Assets used for calculations are the same in both cases.

Source: Department of Finance, *Equalization Tables 1999-2000* (Ottawa: Supply and Services Canada).

resides while declaring a higher cost basis (for depreciation purposes) in the province where the purchaser resides. Corporate taxes are hard enough for countries to enforce effectively in this globalizing world. They are even more difficult at the provincial level.

Since people are less mobile than capital, problems at the personal tax level are not so serious. Nonetheless, to the extent that both personal taxes and transfers are increasingly decided at the provincial level, the scope for beggar-thy-neighbour policies and inappropriate fiscal competition may well increase in this arena in the future. This has already been illustrated by Alberta's recent announcement that it is adopting a flat tax of 11 percent, which will give it the lowest top marginal tax rate in Canada, in order to attract skilled labour to the province.

Similar problems are already a matter of some concern with respect to consumption taxes, as evidenced by recent developments in the excise tax area (e.g., with respect to the evasion of tobacco taxes). Not only is cross-border shopping by consumers a problem but in addition interprovincial trade in

general currently labours under additional and perhaps largely unnecessary costs as a result of Canada's uniquely complex sales tax system — with, in effect, four systems currently in operation in different parts of the country (the GST alone in Alberta, the HST in Nova Scotia, New Brunswick, and Newfoundland, the GST/QST in Quebec, and a GST and an RST in the other four provinces). As well, in those provinces in which the RST still operates — and even to a limited extent with the QST — a high share of sales tax revenues really come from business purchases and thus potentially give rise to interjurisdictional fiscal spillovers similar to those discussed earlier.<sup>18</sup>

#### PROPOSED SOLUTIONS OF THE PAST

In their never-ending quest to solve federal-provincial conflicts, Canadians have over the years considered a wide variety of approaches to improve the assignment of tax powers in Canada. Unless expenditure assignment is fundamentally changed, which we consider unlikely, the two most important solutions put forward have been to exchange tax fields and to improve the degree of tax harmonization in Canada.<sup>19</sup> While there is obviously some value to each of these approaches, we suggest that Canada has reached a dead-end in pursuing them.

*Exchanging Tax Fields.* Proposals to exchange tax fields, for example, have a long history. The Rowell-Sirois report suggested prior to World War II that the federal government should assume powers over the income and estate taxes in exchange for transfers paid to the provinces and the federal assumption of responsibility for unemployment relief. The Carter Commission in 1967 recommended that the federal government should assume responsibility for all income taxes and should eventually abandon the manufacturers' sales tax, leaving the provinces in control of retail sales taxes. More recently, as indicated earlier, other proposals have been made to transfer the sales tax field to the federal government with a transfer of personal income tax to the provinces, or vice versa.

The value of exchanging tax fields is that the inherent conflicts and spillovers resulting from independently chosen policies and the duplication of administration that arise from joint occupancy of tax fields could be minimized. Tax powers could be assigned to the level of government that can most efficiently operate the system, given the relative needs of different levels to raise revenue. Thus, for example, even though the VAT is most efficiently levied by a central government, Quebec has demonstrated that VAT can be administered at the provincial level with a small loss in efficiency and coordination — provided, of course, that the central VAT (which may also be provincially administered, as in Quebec) also applies in the province on essentially the same base.<sup>20</sup>

Nonetheless, proposals to exchange tax fields are invariably fraught with problems. Some tax fields tend to grow more quickly with the economy (e.g., income taxes) while others are more inelastic but stable (e.g., property taxes). Assigning stable tax fields to governments with growing expenditure needs will create a continuing vertical imbalance between expenditures and revenues. For this reason, a case can be made that the personal income tax should be assigned to the provinces. However, the abandonment of the personal income tax field would reduce the role of the federal government both with respect to redistribution in general and, through the interregionally redistributive role of the PIT, as an important way of reducing the risks faced by any one region.

Even if the newly assigned taxes matched expenditure responsibilities, any reassignment of taxes between levels of government will, of course, create transitional imbalances for each government. For example, if the sales tax field were given up by the federal government in favour of an equal-yield national transfer of personal income tax points from the provinces to the federal government, provinces with more consumption relative to income compared to the national average will be better off, while others would be worse off. The federal government could try to compensate the losing provinces with transfers or other adjustments, but it would need to recover the cost incurred from some expenditure program or tax. Similarly, each province — even those with gains in revenue — would need to decide whether to spend the funds or reduce some other tax. Tax reassignment thus requires all affected governments to adopt a new fiscal position and perhaps to undertake expenditure or tax reforms. If fiscal equilibrium is to be maintained the exchange of tax fields may thus require considerable cooperation among governments. It is not surprising that past proposals to exchange tax fields have failed to be adopted in Canada.

*Tax Harmonization.* Another approach to the tax assignment problem is to harmonize federal and provincial taxes when governments jointly occupy a tax field. Harmonization, in this sense, means that federal and provincial governments agree to use a common base — not necessarily with uniform rates — as well as employ a single administration for the collection of taxes. The tax-collection agreements for personal income, corporate income, and, more recently, sales taxes have generally followed these principles.

The benefit of such tax harmonization, especially when federal and provincial taxes are collected jointly by one administration, is that it clearly reduces both compliance costs faced by taxpayers and administrative costs for government. Harmonization that yields common tax bases also reduces economic costs of the tax system to the extent that it minimizes distortions to the free flow of goods, services, labour, and capital across provinces.

However, the cost of harmonization is that it limits the powers of governments to determine their own tax policies. In the past, tax agreements took the

form that the provinces agreed to the federal base — as defined by the federal government — but were given some autonomy over rates and credits. In the case of the Harmonized Sales Tax agreement between the federal government and three Atlantic provinces, the parties have tied their hands in choosing the rate, a feature that is now being questioned by the new Nova Scotia government. Increasingly, as the powers of the provinces have grown, they have sought more autonomy over harmonized taxes by either considering operating their own tax (Ontario and the western provinces have considered operating an independent personal income tax system) or by seeking greater power over the determination of the tax base (such as through the newly-legislated federal tax-collection agency). Recently, the federal government offered more flexibility to the provinces by allowing them to collect their personal income tax as a percentage of income rather than federal tax paid. This helps decouple some aspects of federal and provincial personal income taxes, although the definition of income is still essentially determined by the federal government (albeit in consultation with the provinces). So far, only Alberta has taken up this offer but other provinces, including Ontario, are clearly interested in pursuing it.

Although personal income tax harmonization and moves to increase provincial autonomy been relatively successful, recent trends are to increase provincial powers. Corporate tax harmonization, even though most provincial revenues are collected by provinces with independent taxes, has so far resulted in provinces using essentially the same base — to some extent out of sheer necessity to collect revenues in today's complicated global world. Sales tax harmonization has been relatively less successful in some respects since six provinces have essentially rejected it and the harmonization agreements for the HST and the QST are different in certain important respects since Quebec has more flexibility. Prospects for further harmonization of the major taxes seem low at present. A new approach is needed.

### A MODEST PROPOSAL

Our modest proposal is simply to ignore the never-ending federal-provincial battle on "who should tax what" and instead to focus on what needs to be done, and what can be done, to reform provincial-local finance. Somewhat miraculously, when we concentrate on this issue, it turns out that we can also to some extent resolve the former issue without having to deal with it explicitly. Let us now turn to how this miracle might be brought about, leaving for the next section some potentially important caveats and problems with the proposed solution.

Broadly, our proposal has two major components. The first component is to replace provincial corporate income and capital taxes by a new "business value

tax." Although this proposal, which is developed in more detail below, would not directly affect federal-provincial vertical imbalance, it might facilitate more flexibility in coordinating federal and provincial personal income and sales taxes. The second component is concerned with what we view as the increasingly pressing problem of accommodating growing local revenue needs by establishing a new system of local business taxation, thus perhaps reducing the prevailing sharp vertical fiscal imbalance between these two levels of government to some extent. The next two subsections expand on these ideas.

#### A PROVINCIAL BUSINESS VALUE TAX

As noted earlier, there are many problems with such existing subnational taxes on business in Canada as the provincial corporate income and capital taxes and the local non-residential property tax. The general academic advice with respect to such taxes is simple: don't do it! As a rule, the scholarly world has looked at the distortions and problems arising from subnational business taxes, shuddered, and passed on to things of more interest. But this will not do, for two important and quite different reasons. First, there is in fact a good (benefit) case for some subnational taxation of business.<sup>21</sup> And, second, whether there is such a case on economic grounds or not, the political realities of governing in a democratic society are such that virtually any subnational government will want to impose such a tax.<sup>22</sup>

Since we are therefore likely to have to continue to live with such taxes at the provincial level, it is important to consider whether the problem is with the *idea* of the provinces taxing business or with the *way* in which we now do so. We suggest that the latter is true, and that most of the problems giving rise to concern arise because of either jurisdictional apportionment problems or the partial factor nature of the taxes. The second of these problems can largely be avoided with the form of business taxation suggested here, which moreover has the additional benefit of satisfying the reasons why such a tax may make sense more adequately than the existing provincial taxes on business. The first (apportionment) problem may then also prove easier to resolve than at present, as discussed later.

Basically, what may be called the "economic," as opposed to the "political economy" case, for local business taxation is simply as a form of generalized benefit tax. The idea is an old one. Where possible, specific public services benefiting specific business enterprises should be paid for by appropriate user charges. Where it is not feasible, however, to recoup the marginal cost of cost-reducing public sector outlays through user charges, some form of broad-based general levy on business activity may provide a useful substitute. Kitchen and Slack have estimated that on average about 40 percent of local (non-educational) expenditures benefit non-residential properties, although the share is less than 20 percent if education is taken into account.<sup>23</sup> Similarly, Oakland



and Testa have estimated the "business-related" share of combined state and local expenditures in the United States to be about 13 percent, although with considerable variation from state to state.<sup>24</sup> (This estimate assumes business receives no specific benefits from expenditures on education, which seems improbable.)

This argument, however, provides no support for taxing any one business input, whether labour (payroll tax) or capital (capital tax or corporate income tax). Instead, what this line of reasoning suggests is that a broad-based levy neutral to factor mix should be imposed, such as a tax on value-added. Indeed, as Sullivan has documented, the original conception of the VAT (by Thomas Adams) was as a business benefit tax.<sup>25</sup> More precisely, as Allan and then the Meade Report suggested — admittedly from rather different perspectives — the most appropriate form of VAT for this purpose would really be a VAIT, a "value-added income tax" or a VAT levied on the basis of income (production, origin) rather than consumption (destination).<sup>26</sup>

Compared to a conventional VAT, a VAIT, which we shall henceforth call a "business value tax" or BVT to avoid acronymic confusion, has three important distinguishing features. First, it is levied on income, not consumption: that is, it is imposed on the sum of profits and wages, or to put it another way, on investment income as well as on consumption.<sup>27</sup> Second, it is imposed on production, not consumption: that is, it is imposed on an origin not destination basis and hence, in effect, it taxes exports and not imports. And third, it is assessed by the subtraction (or addition) method on the basis of annual accounts rather than on a transaction or invoice-credit method.

Those who think taxes on exports, investment — and perhaps even on profits — are always and inevitably undesirable will no doubt reject this proposal out of hand. But those, like us, who think both that there is at least some justification for local business taxation and that, whether we like it or not, there will continue to be such taxes should not be so hasty. While the danger of tax exporting and, more importantly, "beggar-my-neighbour" tax competition suggest strongly that it might be advisable to place a floor, and perhaps also a ceiling, on such taxes, this form of business taxation is likely to be less distorting than such existing subnational taxes as the provincial CITs and capital taxes and the non-residential property tax.

Moreover, this is by no means solely a theoretical argument since there is already some important real-world experience with such taxes, for instance, in the state of Michigan (the SBT, or single business tax) and in Italy (the new regional business tax, the IRAP). The 1998 Italian reform is perhaps most interesting in this connection. An existing regional income tax levied mainly on business income (at a rate of about 16 percent), a tax on dividend distributions by corporations, a small net worth tax, and social contributions levied to finance a national health scheme were all replaced by an origin-based, value-added tax (IRAP). This new tax applies to wages, salaries, profits, rents, and

interest. It is applied on a subtraction basis by taking the difference between gross receipts and purchases from other firms (including depreciation). IRAP applies to most firms at a uniform rate of 4.25 percent, although regional governments can add an additional percentage point to the rate if they so choose. IRAP is not deductible from the income tax but, a portion of the tax may be creditable against foreign taxes for foreign-owned companies (at least for US tax purposes).

A final preliminary word on our proposal, which is spelled out in more detail in the next section, may be useful, given the existence of a national VAT (the GST) in Canada. The apparent oddity of, in effect, having two different taxes on value-added resides largely in the potential similarity of the names. As Meade argued, if it makes sense to have taxes on consumption and on income, as it may, it may equally make sense to levy all or part of one or both taxes indirectly in the value-added form at the business level. As Bird and Gendron have recently argued, subnational VATs in the traditional (invoice-credit, consumption-type) form are, as shown by the QST, perfectly viable in Canada.<sup>28</sup> What we are now asserting is that it may equally make sense to levy a different form of VAT — the income-type, annual accounts-based variety, labelled here the BVT — at a low rate as a generalized tax on business activity. Moreover, as shown in the next section, while it would not be either feasible or desirable to impose a traditional VAT like the GST at the local level, it should be perfectly feasible to impose a BVT at the local as well as the provincial level.

#### PROVINCIAL-MUNICIPAL REVENUE-SHARING

As noted earlier, many of the economic problems with local property taxes arise because of the distortions introduced by taxing business property. As we have also noted, there is nonetheless a respectable and, in political economy terms, perhaps an imperative case for levying some form of local business tax. For exactly the reasons set out briefly in the last section, the BVT seems worth considering in this respect also.

Assume, first, that there is no provincial BVT: Would a local BVT make sense? It might in larger municipalities which could reasonably be expected to assess and collect such a tax and would have the incentive to do so because of the size of the local tax base that could be tapped. On the whole, however, a local BVT would really make most sense if there were already a provincial BVT in place, on which a (limited) local rate could be "piggy-backed." Many countries already have some form of local business taxation, for example, Germany (*gewerbsteuer*) and Japan (enterprise income tax), but most countries following the UK tradition rely primarily on business property taxes (United States, Australia, New Zealand, Ireland — though not, interestingly, any longer the United Kingdom itself). A local BVT, imposed as, say up to a

1-percent surcharge on the BVT base reported for provincial tax purposes (which is essentially just "sales less cost of goods purchased" or wages plus profits) by entities physically located within the taxing jurisdiction would seem to be a considerably more desirable form of local business taxation than any of these. Another approach might be for a province to levy the "local" BVT at a common rate, with the proceeds being shared among municipalities in accordance with some formula, although this would clearly be less desirable in terms of ensuring local fiscal accountability.

We therefore suggest that the present non-residential property tax should be reduced and replaced by a local BVT imposed as a surcharge on the provincial BVT base (which in turn would be equal to the provincial VAT base less imports plus exports). As mentioned earlier, limits can and likely should be imposed on local surcharges in order to prevent excessive locational distortions. The only other tax for which even this degree of local rate freedom might be possible and advisable would be a surcharge on the provincial personal income tax. In this case, however, the commuter problem within metropolitan areas would make such a tax unwieldy. To resolve this problem would require some kind of revenue-pooling and formula-sharing system, which would, of course, substantially reduce the accountability from local decisionmakers.<sup>29</sup>

#### THE "NEW MODEL" TAX SYSTEM

Under our proposal, the provincial government would impose a personal income tax (in tax-on-base form), BVT, and a VAT (preferably on the QST model) in addition to other existing taxes (such as excises and certain payroll taxes) and fees. Municipal governments would levy residential (and perhaps equal non-residential) property taxes, as well as perhaps a BVT surcharge (and user charges). What would be left for the federal government? It would now have full authority over the corporate income tax, as well as its own personal income tax and GST, and, of course, payroll and excise taxes. The federal government might also be involved, particularly in the smaller provinces in collecting the BVT, as it currently does with respect to the corporate income tax and the HST. Of course, the new Canada Customs and Revenue Agency may prove willing to collect even non-harmonized provincial (and local) taxes for a fee.

#### THE DEVIL IS IN THE DETAILS

Ideas are easy. Implementation is hard, and it is always easy to find problems with new suggestions, and reasons for remaining with the status quo. In this section of the chapter, we first sketch the proposed system and provide some

illustrative quantitative calculations as to how it might work. We then discuss briefly a number of implementation issues which would need to be resolved if our modest proposal were to be implemented. No doubt many other such issues could be raised about various aspects of this proposal. We think, however, that the status quo is itself giving rise to increasing problems and that fully adequate technical solutions are as or more likely to be found to the problems with our system as to those with the existing system. In any case, as we have argued earlier, it is surely time to begin thinking of some new ideas in the eternal Canadian tax debate.

#### BVT TAX RATES: AN ILLUSTRATION

We calculate the BVT base as follows:<sup>30</sup>

Business Value-Added = Revenues from the sales of goods and services  
– purchases of current inputs (except labour)  
– depreciation of capital expenditure  
– royalties paid to the Crown.

Note that financial income is not included in the tax base. Nor is interest on borrowed funds deductible. Although we calculate the business value-added base on an "income basis" for the reasons given above, we discuss below some potential adjustments.

With respect to financial institutions and insurance companies, for example, a special regime would be necessary since most of their value-added would not be included in the tax base. Presumably, one would need to levy a combination of capital and payroll taxes on this sector, but we do not try to take this complication into account in our estimation of the value of the BVT tax base.

The potential BVT tax rates by province needed for revenue-neutral replacement of the taxes replaced in 1999 are shown in Tables 6a and 6b. These tables provide illustrative calculations for the BVT by province as a replacement for business income taxes, capital taxes, 5 percent of property tax revenues, and provincial payroll taxes (not including workers' compensation premiums).<sup>31</sup> Table 6a assumes that business value-added is apportioned to provinces according to their provincial share of national value-added, an appropriate way to allocate the tax base for businesses operating in more than one jurisdiction. However, since data at the provincial level do not allow us to separate public from private activities, these weights are distorted by giving more value-added to provinces with a larger public sector. We therefore provide a second set of calculations in Table 6b, based on allocating business value-added on the basis of the current formula used to allocate corporate income (for most businesses, one-half of the share of payroll and sales measured on a destination basis). This measure too is not quite right, because sales of establishments on a destination basis do not necessarily reflect value-added

**Table 6a: Tax Rates of the BVT in Order to Replace 1999's Revenues from Current Business Taxes**

*Provincial Allocation of Business Value-Added Using Provincial Shares in Canadian Total Value-Added\**

<i>Provinces</i>	<i>Replace Business Income Taxes</i>	<i>Replace Business Income and Capital Taxes</i>	<i>Replace Business Income, Capital Taxes and 5% of Property Tax Revenues</i>	<i>Replace Business Income, Capital Taxes, 5% of Property Tax Revenues and Payroll Taxes</i>
	<i>(percentage)</i>			
<b>Total</b>	2.7	3.7	4.1	5.7
Newfoundland	2.8	3.3	3.5	4.8
Prince Edward Island	1.5	1.6	1.9	1.9
Nova Scotia	1.1	1.6	1.9	1.9
New Brunswick	1.6	2.3	2.6	2.6
Quebec	1.8	3.8	4.1	8.0
Ontario	3.3	4.1	4.5	6.1
Manitoba	1.3	2.4	2.7	4.2
Saskatchewan	3.0	4.9	5.3	5.3
Alberta	3.5	3.6	3.9	3.9
British Columbia	2.5	3.2	3.5	3.5

Note: \*Total Business Value-Added excluding royalties was taken from the series in J. Sargent *et al.*, "The Evolution of Business Taxes in Canada: Data and Estimates," Working Paper No. 97-17 (Ottawa: Technical Committee on Business Taxation, Department of Finance, 1998), Table A.3 and projected until 1999 using GDP growth rates. This aggregated Business Value-Added was allocated to the provinces using the 1994 shares of each province in the total value-added from the Provincial Economic Accounts. This total value-added is Net Domestic Income at factor cost and is composed by labour income, corporation profits before taxes, interest, and other investment income, accrued net income of farm operators, net income of non-farm unincorporated business and inventory valuation of adjustment.

Source: Based on the budget estimates from the Department of Finance for the fiscal year 1999-2000.

**Table 6b: Tax Rates of the BVT in Order to Replace 1999's Revenues from Current Business Taxes**

*Provincial Allocation of Business Value-Added Using Provincial Shares in the Canadian Tax Base of the Business Income Tax\**

Provinces	Replace Business Income Taxes	Replace Business Income and Capital Taxes	Replace Business Income, Capital Taxes and 5% of Property Tax Revenues	Replace Business Income, Capital Taxes, 5% of Property Tax Revenues and Payroll Taxes
	(percentage)			
<b>Total</b>	2.7	3.7	4.1	5.7
Newfoundland	3.9	4.6	4.8	6.7
Prince Edward Island	2.9	3.1	3.6	3.6
Nova Scotia	1.7	2.5	2.9	2.9
New Brunswick	1.9	2.8	3.1	3.1
Quebec	1.9	4.1	4.5	8.7
Ontario	3.1	3.8	4.2	5.7
Manitoba	1.8	3.2	3.6	5.7
Saskatchewan	3.6	6.0	6.5	6.5
Alberta	2.6	2.7	2.9	2.9
British Columbia	2.8	3.5	3.9	3.9

Note: \*Total Business Value-Added excluding royalties was taken from the series in J. Sargent *et al.*, "The Evolution of Business Taxes in Canada: Data and Estimates," Working Paper No. 97-17 (Ottawa: Technical Committee on Business Taxation, Department of Finance, 1998), Table A.3 and projected until 1999 using GDP growth rates. This aggregated Business Value-Added was allocated to the provinces using the 1994 shares of each province in the total value-added from the Provincial Economic Accounts. This total value-added is Net Domestic Income at factor cost and is composed by labour income, corporation profits before taxes, interest, and other investment income, accrued net income of farm operators, net income of non-farm unincorporated business and inventory valuation of adjustment.

Source: Based on the budget estimates from the Department of Finance for the fiscal year 1999-2000.

in production. These weights tend to discriminate against provinces (e.g., resource provinces) that tend to export intermediate product to related establishments in other provinces that sell the product.

In any case, in both illustrative cases, if the BVT replaced only business income taxes, the average provincial BVT rate would be 2.7 percent. Ontario would have an above-average rate (in both cases) while several eastern provinces and Quebec would have a lower BVT rate. If the BVT replaced both business income taxes and capital taxes, the average provincial rate would increase to 3.7 percent, with above-average rates found in Saskatchewan, Quebec, and Ontario. Allowing the BVT to replace, in addition to business income and capital taxes, 5 percent of property taxes (a significant share of the non-residential property tax), the BVT rate would increase on average to 4.1 percent, with similar patterns of BVT rates across provinces as in the previous case. Finally, if provincial payroll taxes were also replaced, the average BVT rate would rise to 5.7 percent. Unsurprisingly, given its higher payroll taxes, the highest provincial rate on this base would be in Quebec (8 percent in Table 6a and 8.7 percent in Table 6b) while the lowest rate would be in Nova Scotia and New Brunswick in Table 6a (1.9 percent) or Nova Scotia and Alberta in Table 6b (2.9 percent).<sup>32</sup>

One important conclusion suggested by these calculations is that the BVT rate would need to be rather high, 5.7 percent on average, to replace business income, capital, some non-residential property, and provincial payroll taxes. Of course, all this shows is that subnational taxes on business are already high in Canada. Second, since rates would vary significantly across provinces, important issues with regard to tax avoidance, tax competition, and equalization of provincial tax revenues are raised, though again it should be remembered that all these issues already exist under the present system. On the other hand, there are a number of offsetting benefits from our proposal. Provincial business income taxes that are as high as 17 percent would be eliminated. Moreover, municipal governments would have access to a new form of taxation, reducing their reliance on the non-residential property taxes that reduce local accountability.

The calculations in Tables 6a and 6b are only illustrative. As discussed above, the weights used obviously need to be estimated with more refined data. Moreover, yet more federal-provincial discussions would undoubtedly be needed to determine how to allocate the tax base of firms that operate in more than one jurisdiction. And, of course, some (or all) provinces may wish to replace only business income and payroll taxes, leaving capital taxes and property taxes alone. Or they may wish to replace more property taxes and only part of payroll taxes. To keep the BVT rate from becoming too high, provinces might also choose to maintain some capital and payroll taxes in place. Our own preferred solution would be to give the highest priority to the

elimination of business income taxes and a significant share of municipal non-residential property taxes. Political priorities may differ.

As a replacement for provincial corporate income and capital taxes, an income-based BVT would improve the tax system in several ways. First, such a tax would be more neutral than the current CIT and capital taxes, which discriminate against capital investment. Second, a BVT would be less susceptible to base erosion. The tax rate would be lower and corporate profits (gross of interest expenses) would be fully taxed and hence unaffected by the degree of debt financing. Third, the BVT base, although less cyclically sensitive than corporate income taxes, would be more sensitive to business cycles than the increasingly important capital taxes, which are essentially fixed payments that hit businesses hardest in cyclical downturns, when they are most financially vulnerable.

#### IMPLEMENTATION ISSUES

There are many implementation issues that would need to be considered by provincial governments if this proposal were to be adopted. Some issues would necessarily involve the federal government as well. While these issues are clearly important for governments to consider, none in our view is sufficiently difficult to solve to make the BVT impossible to achieve. We suggest below how some of these issues can be resolved.

*Accounts-Base for Calculating the BVT.* The BVT would be an accounts-based form of taxation. In principle, it could be operated similarly to the business income tax and even calculated using the federal income tax form as a basis for calculating the BVT. Taxable financial income would be deducted and interest expense added back to business income to calculate the BVT base. If the BVT used a method of calculating depreciation deductions different to the current corporate income tax, capital-cost allowances would also have to be added back to business income before allowing the BVT depreciation deduction. Some costs incurred to earn financial income may also be disallowed. This would require additional rules to disallow or apportion costs between non-financial and financial activities (e.g., fees paid to financial advisors). If the BVT rate is sufficiently low, presumably such measures could be simplified. Since the principle of the BVT is to tax income on an origin-basis, income from foreign activities could probably be ignored.

Nonetheless, there are several additional issues that need to be dealt with should a BVT be adopted. First, the BVT would likely exempt certain categories of income — non-profits, charities, Crown corporations, municipal government business activities, and Aboriginal bands — except to the extent that such income is already taxed under the corporate income tax. Some



distortions would thus remain, as with business income taxes in general, although the rates of tax would be lower under the BVT than existing provincial corporate income tax rates. Second, as mentioned above, the deduction for depreciation expenses could be based on the current federal capital consumption allowance system or determined separately for the BVT, up to and including expensing capital.<sup>33</sup> The advantage of following the federal system is simplification. The disadvantage is that the federal depreciation system provides faster write-offs for capital costs in some cases compared to economic depreciation and inadequate deductions in certain other cases.<sup>34</sup> Third, as also noted earlier, a special capital and/or payroll tax regime would be needed for financial institutions and insurance companies, but such regimes already exist in most provinces.

*Provincial Coordination Issues.* Some coordination is needed among provinces to determine how much value-added is earned in each province. The federal government would need to play some role in assisting provinces to allocate BVT revenues, and, as in the case of the current tax-collection agreements, agree to collect the taxes on behalf of some provinces. Two explicit issues would need to be resolved. The first issue is that the tax base should definitely be as similar among provinces as possible — as in the case of the corporate income tax — to facilitate compliance and administration of the BVT. Provinces should thus have similar rules to measure the base, including rates of depreciation. Presumably, provinces could use tax credits, as they do now, that would allow them to differentiate their tax base if they so wish.

The second issue is to determine the allocation formula for business value-added. Businesses that operate in only one province would be taxed solely by that province. Value-added earned in more than one jurisdiction would need to be allocated to each province according to formula weights. The weights could be based on payroll, sales (on an origin basis) or capital (as determined by the undepreciated amount of capital), or some combination. As the weights used can have an important impact on BVT revenues received, as illustrated by Tables 6a and 6b above, provincial coordination in determining formula weights will be difficult. A logical starting point for these discussions might be the current method used to allocate corporate income. As Smith documents, such negotiations about who gets what tax base are by no means easy, but they have often reached successful conclusions in the past.<sup>35</sup>

*Relationship with the Personal Income Tax.* Under the current tax system, corporate and personal income taxes are roughly integrated (for distributed profits) at a combined federal-provincial corporate income tax rate of 20 percent through the combination of the dividend tax credit and the one-quarter exclusion of capital gains from taxable income. If the provinces eliminated their business income taxes and assessed an equal-yield BVT (at the average rate of 2.7 percent), these integration measures may need to be evaluated.

The simplest approach is to do nothing. The BVT replaces several taxes and the only one that matters for integration is the corporate income tax. To the extent that the BVT is in part a payment for benefits received, as suggested earlier, no integration is necessary.<sup>36</sup> One might take the view that the existence of the BVT together with the federal corporate income tax will create some opportunities for tax planning, but such problems are unlikely to be serious. At the top federal corporate income tax rate of 29.12 percent and a BVT rate of 5.7 percent, the combined rate on profits would be about 34 percent, instead of the current top rate of 43 percent. A shift to the BVT will thus improve integration of corporate and personal income taxes for larger corporations. Small businesses would still be taxed at the federal corporate rate of 13.12 percent and, if the 5.7 percent BVT were included, the total rate on profits would be about 19 percent. If the BVT rate is much lower than this, some adjustments to either the corporate income tax or integration at the federal level may be needed: for example, reductions in the dividend tax credit and the portion of capital gains income excluded from tax.

Integration is a more complicated issue with respect to salaries or interest expense. Under the federal corporate income tax such expenses are deductible from business income but fully taxed as income at the personal level. With the BVT, salaries, and interest expense would not be deductible, yet they are still fully taxed under the personal income tax. The combined personal income tax rate and provincial BVT rate, about 55 percent, would thus be greater on such income than the combined federal and provincial taxes on dividends and capital gains earned from investments in smaller firms, about 50 percent. There would thus be a small incentive to structure payments to small business owners in the form of dividends and surplus stripping. The incentive would be reduced, however, if the BVT were assessed at a low rate or there were a modest reduction in the dividend tax credit and capital gains exclusion.

*Deductibility of the BVT from Federal Corporate Income Tax.* At present, provincial capital, property and payroll taxes are deductible from the corporate income tax while provincial corporate income taxes are not. The deductibility of a BVT replacing some of these taxes from federal corporate income tax would be an important issue. Should the BVT not be deductible, the federal government would end up with greater corporate income tax revenues. Should all the BVT be deductible, the federal government would lose revenue. One way to resolve this issue, on average, would be to disallow deduction of that part of the BVT equivalent to the amount of provincial taxes that are currently not deductible.<sup>37</sup> Although this would prevent a windfall gain or loss in revenues for the federal government, given the different business tax mixes in different provinces, there would clearly be differential impacts across provinces. Solution of this problem would require difficult federal-provincial

negotiations and perhaps, in the end, some supplemental federal funding to facilitate harmonization (as in the recent case of the Harmonized Sales Tax).

*Crediting against Foreign Taxes.* At present, provincial corporate income taxes paid by multinational companies operating in Canada may be credited against taxes of certain capital exporting countries — the United States, United Kingdom, and Japan, for example. A shift from provincial corporate income taxes to the BVT would result in some multinationals losing foreign tax credits, thereby increasing the tax cost of investments in Canada, although this would be partly ameliorated by the deductibility of the BVT in determining foreign-source income earned by the parent in countries that tax such income.

As noted above, the issue of creditability of the BVT against foreign taxes has been important in Italy, where the IRAP, a similar tax, was recently adopted as a replacement for regional income and capital taxes. The Italian government has been able to achieve an agreement with the United States to allow a portion of their regional IRAP to be credited against US taxes paid by US parents on their foreign-source income earned in Italy. Canada would need to negotiate a similar agreement — a process which, like the intergovernmental negotiations mentioned earlier, might take quite some time to complete.

*Equalization of Provincial Tax Revenues.* If the provinces replaced taxes with the BVT, presumably the federal government would agree to include the BVT in the calculation of equalization payments to the have-not provinces. The current formula results in the federal government providing a grant to a province based on the difference between the national standard rate and the rate chosen by the province times the per capita tax base times the population. The BVT would be equalized by using the per-capita business value-added tax base to determine equalization payments.

Although our proposal is revenue-neutral in aggregate, it is by no means clear that the distribution of value-added to determine the national standard rate and provincial tax base would be the same as the distribution of the tax base for other taxes. Moreover, as shown in Table 6a and 6b, BVT rates might differ significantly across provinces depending on the weights used to allocate value-added. Thus, equalization payments made by the federal government would be affected for each province. We have not tried to determine the new amounts of equalization payments, but any significant change to provincial tax systems might result in some adjustments to the equalization system.

## CONCLUSION

The modest proposal for provincial-municipal tax reform we have suggested is essentially based on three simple principles: (i) more attention should be paid to matching expenditure and revenue needs; (ii) more effort should be

made to ensure that all governments bear significant responsibility at the margin for financing the expenditures for which they are politically responsible; and (iii) subnational taxes should not unduly distort the allocation of resources.

Our proposal focuses in particular on the third of these principles. It may also help with respect to the second principle to the extent it makes clearer the relative burdens of business taxation in the different provinces. It may even help with respect to the first principle, at least at the provincial-municipal level. Our primary aim, however, is to suggest a less harmful form of subnational business taxation. Provincial corporate income taxes, capital taxes, and payroll taxes, and municipal non-residential property taxes can introduce serious economic distortions in a variety of ways. Nonetheless, there is both an economic (benefit) case for some regional and local taxation of business and, it seems, often an overwhelming political need for local leaders to impose such taxes. The approach to this problem suggested here has been the introduction of what is in effect another form of value-added tax, called here the business value tax or BVT. Variants of such taxes already exist in the United States (the Michigan SBT and the New Hampshire BET) and Italy (the IRAP) and to some extent Germany (the *gewerbesteuer*). The theoretical case for such levies has been argued for decades<sup>38</sup> and concrete proposals along these lines have recently been made in the United States.<sup>39</sup>

Much more work remains to be done to develop the details of the scheme sketched here. For example, myriad details of design and administration need to be settled and the role and design of intergovernmental fiscal transfers needs to be reconsidered simultaneously, as does the appropriate and tolerable level of asymmetry in the application of the suggested principles to subnational governments of vastly differing size and competence. Nonetheless, we think there is a good case for at least some benefit taxation of business by provincial and local governments, and that a promising approach to this goal may lie in the introduction of a "business value tax" at a low and uniform rate. Such a tax will certainly not solve all the problems of establishing a sound and workable multi-tiered tax system on Canadian business, but it should move us at least modestly closer to this goal.

## NOTES

We wish to thank Harvey Lazar and two anonymous referees for helpful comments and Fernando Bruna for very helpful research assistance.

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19. Another approach is to reassert the federal role in provincial fields through new conditional grants. See Emmett Hall, *Canada's National-Provincial Health Program for the 1980's* (Ottawa: Department of National Health and Welfare, 1980); and A.W. Johnson, *Giving Greater Point and Purpose to the Federal Financing of Post-Secondary Education and Research in Canada* (Ottawa: Secretary of State for Canada, 1985). Given our emphasis on the need to improve accountability — which includes letting provincial governments within their powers determine priorities freely — this solution is not further discussed here.
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26. C.M. Allan, *The Theory of Taxation* (London: Penguin Books, 1971); Meade Report. Institute for Fiscal Studies, *The Structure and Reform of Direct Taxes* (London: Allen & Unwin, 1978).
27. Note that if capital is expensed rather than depreciated, the VAT becomes a consumption-based rather than income-based tax.
28. Bird and Gendron, "Dual VATs and Cross-Border Trade."
29. The establishment/plant problem at the business level would require some kind of formula apportionment solution for the BVT, of course. Given the huge

discretionary power available to provincial governments with respect to local finance, however, such problems could presumably be resolved much more easily, if arbitrarily, among localities than among provinces.

30. In principle, the business tax could apply to both the corporate sector and to unincorporated business income. At the time of starting up the tax, however, it might be simplest to replace only the corporate income tax.
31. A 5-percent reduction in property taxes could provide a \$1.5 billion dollar reduction in non-residential property taxes or about 10 percent of total property taxes paid by businesses. We did not choose a higher amount in order to avoid creating BVT rates that are too high. Of course, these calculations are only illustrative. Provincial governments could choose to reduce non-residential property taxes even further than provided here if they decide to keep some of the other revenue sources, such as part of capital taxes, instead.
32. Note that we are not suggesting increases in business taxation in any province: the rates shown in these tables are simply those needed to yield the same revenue as now collected from the existing taxes on business in the different provinces.
33. Of course, as noted earlier, the extreme of expensing turns the BVT into a consumption rather than an income tax.
34. See Technical Committee on Business Taxation, *Report*.
35. Smith, *Federal-Provincial Tax Sharing*.
36. It might also be argued that integration measures for domestic owners of businesses are ineffective in a small, open economy so such measures are not needed. Even in this case, however, some integration may be needed to minimize economic distortions resulting from tax planning. Moreover, the evidence is that Canada is not a small, open economy in equity markets — dividend and capital gains taxation impact on equity prices of companies and the cost of equity finance. See Technical Committee on Business Taxation, *Report*, ch. 7, for further discussion.
37. This is similar to the crediting arrangement recently accepted by the US Internal Revenue Service with respect to the Italian IRAP, as mentioned earlier.
38. Sullivan, *The Tax on Value Added*; Robert J. Bennett and Gunter Krebs (eds.), *Local Business Taxes in Britain and Germany* (Baden-Baden: Nomos Verlagsgesellschaft, 1988); and Richard M. Bird, "Why Tax Corporations?" Working Paper No. 96-2 (Ottawa: Technical Committee on Business Taxation, Department of Finance, 1996).
39. Oakland and Testa, "Can the Benefits Principle Be Applied to State-Local Taxation of Business?"



# IV

## Other Orders of Government



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## Provinces and Municipalities, Universities, Schools and Hospitals: Recent Trends and Funding Issues

*Harry Kitchen*

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*Ce chapitre étudie la décentralisation des responsabilités budgétaires des gouvernements provinciaux aux gouvernements municipaux, aux écoles primaires et secondaires (financées par les provinces), aux universités et aux hôpitaux au cours de la dernière décennie. Il conclut qu'il y a eu décentralisation des responsabilités en matière de dépenses et de financement des gouvernements provinciaux aux gouvernements municipaux dans presque toutes les provinces ou territoires. Au même moment, le désir des provinces de contrôler les dépenses des écoles locales a mené à la centralisation des finances des écoles dans la plupart des provinces. Cependant, la plus grande décentralisation a eu lieu dans le secteur universitaire où les transferts provinciaux ont chuté de 40% au cours de la dernière décennie. En comparaison, les transferts provinciaux aux hôpitaux ne font montre d'aucune tendance distincte; il y a eu augmentation des transferts dans certains cas et diminution dans d'autres. Enfin, ce chapitre étudie de nombreux enjeux de financement ayant gagné en importance à la suite des initiatives provinciales dans chacun de ces secteurs.*

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### INTRODUCTION

Given this volume's questions about trends in fiscal decentralization, this chapter considers the extent to which decentralization of expenditure and funding responsibilities from the provinces to municipalities, schools (publicly funded elementary and secondary), universities, and hospitals (MUSH sector) has emerged over the past decade. More specifically, it provides an interprovincial and intertemporal comparison of similarities and differences in expenditure responsibilities and funding for the MUSH sector from the late 1980s to the late 1990s (data are not available on a consistent and uniform basis prior to

the late 1980s). These data, then, are used as the basis for commenting on the issue of decentralization and the potential implications for funding public services in each of these sectors. The presentation is provided in three parts: first, municipalities and public schools (elementary and secondary) are combined under local government because one or both rely on property taxes in most provinces; second, universities; and third, hospitals.<sup>1</sup> The final section describes and considers emerging funding issues of relevance to each of these sectors.

## INTERPROVINCIAL AND INTERTEMPORAL COMPARISONS

### LOCAL GOVERNMENT EXPENDITURES

Expenditure responsibilities and revenue-generating opportunities for municipal governments and school boards (when combined, they are referred to as local government) are tightly controlled by provincial legislation and regulations. These controls mean that local governments are essentially "creatures of the province" and can or will do whatever it is that the province permits or requires them to do. While operating in this restrictive environment, there are interprovincial differences in both expenditure responsibilities and the extent to which local governments rely on the various revenue sources available to them. As well, there have been shifts in the provincial-local fiscal environment within some provinces over the past decade with most of the changes arising from provincial initiatives to decentralize spending responsibilities without the provision of additional provincial funds or direct access to provincial revenue sources.

Per capita expenditures are a measure of the level of municipal and school-board spending in each province. Expenditures as a percent of gross domestic provincial product (GDPP) reflect the relative importance of each of these sectors in the overall level of economic activity within a province. Municipal spending as a percent of consolidated provincial/municipal spending serves as a measure of the size of the municipal sector in the overall provincial/municipal government universe.

Tables 1 to 4 portray interprovincial similarities and differences in local government spending over the past decade. In particular, *per capita municipal spending* (Table 1) across the provinces in 1998 ranged from a low of \$320 in Prince Edward Island to a high of \$1,650 in Ontario; the Northwest Territories and the Yukon were higher at \$2,788 and \$1,934 respectively (column 3). Interprovincial differences (territorial figures are excluded in these comparisons because they tend to be outliers in most instances) are attributed to higher servicing costs in some areas, greater municipal needs in the more

**Table 1: Municipal Expenditures, 1988 and 1998**

<i>Province/Territory</i> <i>(1)</i>	<i>1988 –</i> <i>Per</i> <i>Capita</i> <i>(2)</i>	<i>1998 –</i> <i>Per</i> <i>Capita</i> <i>(3)</i>	<i>1988 –</i> <i>% of</i> <i>GDPP</i> <i>(4)</i>	<i>1998 –</i> <i>% of</i> <i>1997</i> <i>GDPP</i> <i>(5)</i>	<i>1988/89</i> <i>% of</i> <i>Provincial-</i> <i>Local Total</i> <i>(6)</i>	<i>1996/97</i> <i>% of</i> <i>Provincial-</i> <i>Local Total</i> <i>(7)</i>
	\$	\$	%	%	%	%
Newfoundland	563	648	4.0	3.2	9.2	8.5
Prince Edward Island	252	320	1.8	1.5	4.5	4.9
Nova Scotia	865	997	4.5	4.6	15.3	15.9
New Brunswick	551	744	3.3	3.3	10.0	9.5
Quebec	1,002	1,256	4.9	5.0	15.3	15.5
Ontario	1,181	1,650	4.6	5.4	20.1	19.7
Manitoba	871	1,211	4.5	4.7	13.8	15.0
Saskatchewan	814	1,008	4.5	3.7	12.3	12.1
Alberta	1,306	1,461	5.2	4.2	17.9	19.4
British Columbia	830	1,299	3.8	4.8	15.4	15.9
Yukon	1,177	1,934	3.6	3.8	9.8	9.9
Northwest Territories	1,816	2,788	5.5	6.4	10.2	11.4
Weighted Average	1,035	1,381	4.6	4.9	16.7	16.9

Note: Columns 2 and 3 are obtained by dividing total municipal expenditures by population for 1988 and 1998, respectively. Column 4 records 1988 municipal expenditures as a percent of 1988 gross domestic provincial product (an estimate of economic activity in each province). Column 5 records 1998 municipal expenditures as a percent of 1997 gross domestic provincial product because 1997 is the latest year for which GDPP data are available. Column 6 calculates local government expenditures for 1988 as a percent of consolidated provincial-local expenditures for the fiscal year 1988/89. Column 7 calculates local government expenditures for 1996 as a percent of consolidated provincial-local expenditures for the fiscal year 1996/97.

1988 is the first year for which data, over this period, are available in a uniform and consistent manner. 1998 is the last year and 1996/97 is the last year for consolidated provincial/local expenditures data.

Source: Calculated from Statistics Canada data, Financial Management Systems (FMS), mimeograph, September 1999. The data for 1996/97 and earlier are actual; 1998 are estimates.

highly urbanized provinces, and different municipal expenditure responsibilities across Canada. From 1988 to 1998, per capita expenditures by province displayed the greatest increase in British Columbia and Ontario (from a comparison of figures in columns 2 and 3).

When *municipal spending as a percent of GDPP* is observed, it amounted to 4.6 percent of GDPP for all of Canada in 1988 and 4.9 percent in 1998 (columns 4 and 5), a slight increase in relative importance but at a level less than for the period from the early 1970s to the mid-1980s.<sup>2</sup> When these percentages are compared across provinces, municipal spending grew in relative importance in six provinces with the largest increases occurring in British Columbia and Ontario. The largest proportionate decrease was in Alberta.

Finally, when *municipal spending as a percent of consolidated provincial-local spending* is observed, it was 16.7 percent of the total in 1988-89 (column 6) and 16.9 percent in 1996/97 (column 7) for all of Canada. Six provinces recorded an increase with the largest occurring in Alberta (from 17.9 to 19.4

**Table 2: School Board Expenditures, 1988 and 1998**

<i>Province/Territory</i> (1)	<i>1988 – Per Capita</i> (2)	<i>1998 – Per Capita</i> (3)	<i>1988 – % of 1988 GDPP</i> (4)	<i>1998 – % of 1997 GDPP</i> (5)
	\$	\$	%	%
Newfoundland	894	1,060	6.4	5.3
Prince Edward Island	756	980	5.4	4.5
Nova Scotia	784	901	4.7	4.1
New Brunswick	0	0	0.0	0.0
Quebec	863	981	4.2	3.9
Ontario	964	1,247	3.8	4.1
Manitoba	854	1,084	4.4	4.2
Saskatchewan	828	1,064	4.6	3.9
Alberta	872	1,091	3.4	3.1
British Columbia	698	925	3.2	3.4
Yukon	0	0	0.0	0.0
Northwest Territories	317	473	1.0	1.1
Weighted Average	852	1,063	3.8	3.8

Notes and Source: Same as for Table 1.

percent) and Manitoba (from 13.8 to 15 percent). Four provinces recorded a decrease, with the largest occurring in Newfoundland (from 9.2 to 8.5 percent).

*School board spending*, the other part of the local government universe, amounted to 3.8 percent of GDPP in 1988 and 1998 (columns 4 and 5 of Table 2). School boards do not exist in New Brunswick and the Yukon; here, the province and territory assume responsibility for funding all school expenditures. Where school boards exist, however, their expenditures fell as a percent of GDPP in seven provinces and rose in three over the decade with the largest proportionate increases coming in British Columbia and Ontario. School board expenditures in 1998 ranged from a low of \$901 per capita in Nova Scotia to a high of \$1,247 in Alberta with the average being \$1,063 (column 3).

Since municipal responsibilities differ from province to province, Table 3 records the *relative importance of municipal expenditures by function* for each of the provinces and territories for 1998. The more notable points that may be extracted from this table are:

- Social services are almost entirely a provincial funding responsibility in every province except for Ontario and Manitoba where they account for a notable portion of municipal spending. Nova Scotia is moving toward complete removal of social service funding from the local property tax base.
- Nova Scotia is the only province where municipalities are responsible for funding a noticeable portion of education expenditures: school boards and/or the province handle(s) *all* spending in the other provinces/territories.
- Health expenditures are the responsibility of the provinces/territories except for relatively small expenditures made by municipalities in some provinces for preventative health-care programs.
- Expenditures on transportation (roads, streets, snow removal, and public transit), protection (police and fire), and environmental (water, sewage, and solid waste collection and disposal) services account for over 50 percent of all municipal expenditures in every province/territory except for Ontario (it is lower here because of large municipal funding for social services).
- Expenditures on recreation and cultural services account for between 7 and 20 percent of the municipal total everywhere.
- Debt charges (for capital projects only because municipalities are not permitted to borrow for budgeted operating deficits) show considerable variation ranging from a high of almost 17 percent of the total in Newfoundland to a low of slightly more than 1 percent of the total in the Yukon and Northwest Territories.

**Table 3: Distribution (in percent) of Municipal Government Expenditures<sup>1</sup> by Province and Territory, 1998**

Municipal Services	Nfld.	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	BC	Yukon	NWT	Canada
General administration	13.9	13.8	6.9	9.5	11.9	9.0	12.1	13.2	10.9	9.6	22.1	17.4	10.1
Protection	8.7	23.7	16.6	23.6	17.7	14.3	16.5	15.3	13.9	18.3	10.2	4.8	15.7
Transportation	25.5	23.2	16.5	21.3	22.9	17.4	20.6	29.8	28.0	14.5	24.1	16.6	19.9
Health	0.0	0.0	0.1	0.2	0.0	4.6	4.7	1.0	1.6	3.0	0.2	5.4	2.8
Social services	0.1	0.0	10.9	0.0	0.8	25.1	7.6	0.7	1.7	0.2	0.0	5.0	12.2
Education	0.0	0.0	15.6	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Resource conservation	0.5	1.2	0.5	2.2	1.9	1.4	2.1	6.6	3.2	1.2	1.3	0.6	1.8
Environment	21.4	17.0	17.6	22.5	16.1	12.7	14.8	15.7	13.5	22.1	16.8	27.2	15.2
Recreation/culture	11.5	15.5	7.4	13.8	11.7	8.9	10.6	14.0	14.0	17.5	20.4	15.4	11.3
Housing	0.6	0.0	0.6	0.1	3.3	1.7	0.4	0.1	0.5	0.7	0.0	2.8	1.7
Regional planning	1.1	1.4	2.8	1.4	1.8	1.1	1.5	0.9	2.7	1.9	3.0	3.0	1.6
Debt charges	16.6	4.1	4.4	5.2	11.6	3.2	9.0	2.1	9.9	9.5	1.4	1.2	6.8
Other	0.0	0.0	0.0	0.0	0.1	0.6	0.1	0.5	0.0	1.5	0.4	0.5	0.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
1998 school board exp. as a % of 1998 municipal plus school spending	62.1	75.4	47.5	0.0	43.8	43.0	47.2	51.4	42.7	41.6	0.0	14.5	43.5

Note: <sup>1</sup> For a description of specific municipal services included in each of these functions, see Appendix A.

Source: Same as Table 1.

**Table 4: Distribution (in percent) of Municipal Government Expenditures by Province and Territory, 1988**

Municipal Services	Nfld.	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	BC	Yukon	NWT	Canada
General administration	13.6	10.8	7.7	8.2	13.1	8.7	12.0	11.2	8.0	7.7	18.7	24.1	9.9
Protection	6.6	18.3	12.2	23.3	14.4	15.0	15.7	15.0	11.8	19.0	14.1	5.8	14.8
Transportation	28.0	26.1	11.4	23.6	22.5	21.6	25.4	29.3	29.2	15.3	29.0	15.9	22.3
Health	0.0	0.0	0.1	0.9	0.1	2.9	2.0	2.6	1.2	5.0	0.3	0.8	2.0
Social services	0.0	0.0	23.3	0.0	0.5	14.6	5.6	1.7	1.9	0.3	0.0	2.2	7.4
Education	0.0	0.0	12.9	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Resource conservation	0.4	0.7	2.7	2.3	1.3	2.4	1.8	2.1	2.7	2.2	0.7	0.2	2.1
Environment	21.2	12.3	12.4	17.3	15.9	14.2	13.7	16.8	11.8	15.0	16.4	27.9	14.6
Recreation/culture	9.7	21.0	9.2	12.5	9.7	11.2	11.9	14.8	13.3	16.1	15.8	15.9	11.6
Housing	0.6	0.0	0.6	0.7	2.6	2.3	0.3	0.0	0.3	0.8	0.2	1.5	1.8
Regional planning	2.3	2.2	1.6	1.3	1.9	1.9	2.7	2.5	2.5	2.4	1.4	2.3	2.1
Debt charges	17.4	7.6	5.5	9.8	14.1	4.1	8.4	3.9	17.4	15.2	3.4	2.3	9.5
Other	0.2	0.9	0.2	0.0	3.7	1.2	0.4	0.1	0.0	1.0	0.0	1.3	1.6
<b>TOTAL</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
school board exp. As a													
% of local expenditure	61.4	75.0	51.0	0.0	46.3	44.9	49.5	50.4	40.0	45.7	0.0	14.9	45.2

Notes and Source: Same as Table 1.

Table 4 illustrates the relative importance of expenditures by function and province for 1988. When the information in this table is compared with the information in Table 3, the following may be noted for the period from 1988 to 1998.

- Transportation, protection, and environment were the three most important expenditure functions over the period 1988-98.
- Overall, expenditures on social services have increased in relative importance (primarily driven by Ontario) although they have declined in Nova Scotia.
- Debt charges have declined in relative importance everywhere except for Manitoba where they have increased marginally.

Tables 3 and 4 (bottom row) also record *school board expenditures* as a percent of municipal plus school spending in each province for 1988 and 1998. In particular:

- There was a small proportionate decline in school-board spending as a percent of municipal plus school spending from 1988 to 1998: from 45.2 to 43.2 percent.
- Interprovincially, expenditures by school boards in Prince Edward Island account for the highest percentage of all local spending while those in British Columbia, Alberta, Ontario, and Quebec account for the lowest (recall that New Brunswick and Yukon do not have school boards).

#### LOCAL GOVERNMENT REVENUES

Local government revenues are separated into municipal revenues (Tables 5 and 6) and school board revenues (Tables 7 and 8). *Municipal revenues* consist of grants (conditional and unconditional) and funds generated from own sources including property taxes and user fees with small sums coming from investments and a miscellaneous collection of amusement taxes, licences and permits, and fines and penalties. Tables 5 and 6 note the relative importance of the major revenue sources available to municipalities for 1998 and 1988, respectively. From these two tables, the following observations may be drawn.

*Own-source revenue* (OSR) for all of Canada grew dramatically in relative importance from 1988 to 1998 — from slightly more than 77 percent of municipal revenue (Table 6) to almost 85 percent (Table 5). Interprovincially, OSR declined in two provinces (Quebec and Manitoba) while it increased in the other eight with the largest increases occurring in Newfoundland, Nova Scotia, New Brunswick, Ontario, and Alberta.

This increase in OSR was singularly driven by a substantial increase in *property taxes* rising from 48.6 percent of all municipal revenues in 1988 to



**Table 5: Distribution (in percent) of Municipal Government Revenue<sup>1</sup> (excluding school board revenue) by Province and Territory, 1998**

Revenue Source	Nfld.	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	BC	Yukon	NWT	Canada
Property taxes	54.1	60.2	70.4	53.2	68.5	56.4	43.3	53.6	42.6	52.4	46.9	14.4	56.7
Other taxes	1.7	0.5	0.2	0.4	0.3	1.1	1.8	4.5	1.3	3.0	1.8	0.5	1.2
User fees	15.6	28.4	15.9	22.1	15.4	19.5	20.8	24.1	30.4	26.7	19.7	29.2	20.7
Investment income	1.7	2.3	2.8	0.7	1.9	3.7	5.8	7.5	13.3	8.2	4.7	1.3	4.9
Other	0.6	1.6	0.4	0.6	2.4	0.6	0.8	1.0	1.3	0.5	0.7	0.3	1.1
Own-source revenue	73.7	92.9	89.7	77.0	88.5	81.4	72.5	90.8	89.0	90.8	73.8	45.7	84.6
Unconditional grants	8.5	3.2	2.6	13.7	1.3	3.6	6.3	4.6	1.4	1.5	9.4	6.7	2.9
Conditional grants	17.8	3.9	7.8	9.3	10.1	15.0	21.2	4.6	9.6	7.7	16.9	47.6	12.4
Federal	4.0	1.6	0.5	2.2	0.2	0.6	1.1	0.5	0.8	1.0	0.0	0.9	0.7
Provincial	13.8	2.3	7.3	7.1	9.9	14.4	20.1	4.1	8.8	6.7	16.9	46.8	11.8
Total grants	26.3	7.1	10.3	23.0	11.5	18.6	27.5	9.2	11.0	9.2	26.2	54.3	15.4
TOTAL	100.00	100.0	100.0	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: <sup>1</sup>For a more detailed listing of revenues reported in each source, see Appendix B.  
Source: Same as Table 1.

**Table 6: Distribution (in percent) of Municipal Government Revenue (excluding school board revenue) by Province and Territory, 1988**

Revenue Source	Nfld.	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	BC	Yukon	NWT	Canada
Property taxes	41.9	50.0	58.0	41.7	68.8	41.7	44.5	48.1	36.3	48.0	31.7	16.6	48.6
Other taxes	1.9	0.5	0.6	0.5	1.0	1.3	2.2	3.9	1.0	2.5	1.4	0.8	1.4
User fees	12.6	30.7	10.8	18.9	16.5	20.0	17.7	21.4	26.5	23.7	13.9	33.8	20.0
Investment income	1.9	3.7	3.7	1.2	3.0	5.1	8.3	6.7	12.8	10.1	4.1	2.1	6.0
Other	0.4	1.2	0.8	0.6	2.0	0.7	1.0	1.4	1.4	0.5	0.6	0.2	1.1
Own-source revenue	58.8	86.1	73.7	63.0	91.3	68.8	73.7	81.3	78.0	84.9	51.8	53.6	77.1
Unconditional grants	18.2	12.2	4.6	26.5	0.5	7.3	7.8	10.1	6.8	4.3	8.1	9.2	5.8
Conditional grants	23.0	1.7	21.6	10.5	8.3	23.8	18.5	8.6	15.2	10.8	40.2	37.2	17.1
Federal	3.1	0.2	0.4	1.6	0.2	0.9	1.2	0.3	0.5	1.1	1.0	0.3	0.7
Provincial	19.9	1.5	21.2	8.9	8.1	23.0	17.3	8.2	14.7	9.7	39.1	36.9	16.4
Total grants	41.2	13.9	26.3	37.0	8.7	31.2	26.3	18.7	22.0	15.1	48.2	46.4	22.9
TOTAL	100.00	100.0	100.0	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes and Source: Same as Table 1.

Table 7: Distribution (in percent) of School Board Revenue by Province and Territory, 1998

Revenue Source	Nfld.	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	BC	Yukon	NWT	Canada
Property taxes	0.0	0.0	0.0	0.0	13.7	39.4	29.7	44.4	4.6	0.0	0.0	22.9	21.3
Grants-in-lieu	0.0	0.0	0.0	0.0	0.2	0.6	2.3	1.3	0.3	0.0	0.0	0.0	0.4
Business taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0
Total property related	0.0	0.0	0.0	0.0	13.9	40.0	32.0	48.0	5.8	0.0	0.0	22.9	21.8
User fees	1.8	0.3	2.1	0.0	7.9	1.4	3.2	3.0	4.4	2.2	0.0	2.9	3.1
Investment income	0.2	0.0	0.1	0.0	0.0	0.0	0.2	0.7	0.4	0.7	0.0	0.9	0.1
Other	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Own-source revenue	2.2	0.3	2.2	0.0	21.8	41.5	35.4	51.7	10.7	2.9	0.0	26.7	25.1
Conditional grants													
Federal	1.0	0.0	0.0	0.0	0.2	0.3	0.2	0.0	0.0	0.3	0.0	1.6	0.2
Provincial	96.8	99.7	80.6	0.0	77.8	58.2	64.4	48.3	89.3	96.8	0.0	71.7	74.7
Municipal	0.0	0.0	17.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total grants	97.8	99.7	97.8	0.0	78.2	58.5	64.6	48.3	89.3	97.1	0.0	73.3	74.9
<b>TOTAL REVENUE</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Same as Table 1.

Table 8: Distribution (in percent) of School Board Revenue by Province and Territory, 1988

Revenue Source	Nfld.	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	BC	Yukon	NWT	Canada
Property taxes	5.3	0.0	0.0	0.0	4.1	43.0	21.5	39.2	29.3	27.3	0.0	21.1	26.8
Grants-in-lieu	0.4	0.0	0.0	0.0	0.0	0.5	2.8	1.3	1.3	0.6	0.0	0.0	0.6
Business taxes	0.0	0.0	0.0	0.0	0.0	6.5	0.0	1.9	0.0	0.0	0.0	0.0	2.8
Other	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	2.1	0.0	0.0	0.0	0.6
Total	5.7	0.0	0.0	0.0	4.1	50.9	24.3	42.4	32.8	27.9	0.0	21.1	30.7
Licenses, permits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
User fees	1.6	0.3	2.5	0.0	7.6	1.7	3.6	3.1	4.6	3.3	0.0	2.2	3.8
Investment income	0.1	0.3	0.7	0.0	0.0	0.0	0.4	1.1	0.6	0.7	0.0	4.6	0.2
Other	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Own-source revenue	7.5	0.5	3.2	0.0	11.7	52.6	28.4	46.7	38.0	31.9	0.0	27.9	34.8
Conditional grants													
Federal	0.4	0.0	0.0	0.0	0.3	0.1	0.3	0.0	0.1	0.4	0.0	0.0	0.2
Provincial	92.1	99.5	96.8	0.0	87.7	47.2	71.3	53.3	61.9	67.7	0.0	72.0	65.0
Municipal	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total grants	92.5	99.5	96.8	0.0	88.3	47.4	71.6	53.3	62.0	68.1	0.0	72.1	65.2
TOTAL REVENUE	100.00	100.0	100.0	0.0	100.00	100.0	100.0	100.0	100.0	100.0	0.0	100.0	100.0

Source: Same as Table 1.

56.7 percent by 1998. Interprovincially, the largest increases in dependence on property taxes have occurred in Ontario. For some time, there has been considerable variation in the extent to which municipalities across Canada rely on property taxes. In 1998, for example, property taxes across provinces ranged from a high of 70.4 percent of all municipal revenues in Nova Scotia to a low of 42.6 percent in Alberta. The Northwest Territories was the lowest at 14.4 percent and is a clear outlier in this comparison. At the same time, user fees across Canada have grown slightly in importance: from 20 percent of all revenues in 1988 to 20.7 percent by 1998. As with property taxes, there is considerable variation in the relative importance of user fees — they accounted for 30.4 percent municipal revenues in Alberta (the highest) and for 15.4 percent in Quebec (the lowest) in 1998. Finally, from 1988 to 1998, user fees increased in all but three provinces (Prince Edward Island, Quebec, and Ontario).

In addition to own-source revenues, municipalities rely on provincial, and to a lesser extent, federal *grants*. In 1988, grants accounted for 23 percent of all municipal revenue in Canada. By 1998, this had fallen to slightly more than 15 percent: a decrease of eight percentage points in relative importance. Over this time, municipalities in nine of the twelve provinces/ territories experienced a decrease in their relative reliance on grant revenues (although of differing magnitudes) while municipalities in the other three witnessed an increase (Quebec, Manitoba, and the Northwest Territories). As for changes in their composition, conditional grants provided about 17 percent of all municipal revenues at the beginning of the period and 12.4 percent by the end of the period. Unconditional grants fell from slightly less than 6 percent of all municipal revenues in 1988 to slightly less than 3 percent by 1998. By 1998, the interprovincial comparison indicated that municipalities in Manitoba and Newfoundland received the largest percentage of revenues from grants (27.5 percent and 26.3 percent respectively) while municipalities in Prince Edward Island received slightly more than 7 percent (the lowest). Finally, municipal grants come almost entirely from the provinces: the federal government provides very little in the way of grant support.

*School boards* in all provinces and territories where they exist are responsible for funding elementary and secondary schools with revenues generated from a combination of grants (almost entirely provincial) and own-source revenues (primarily property taxes). Tables 7 and 8 depict the distribution of school board revenues for 1998 and 1988, respectively. In some provinces, significant changes have occurred in school board financing over the past decade. In particular, the complete or partial provincialization of school financing in Alberta, British Columbia, and Ontario has reduced the extent to which school boards in these provinces now have access to local property taxes; for example, school boards in Alberta now generate less than 6 percent of their funds from local property taxes, whereas they generated about one-

third of their revenues from this source in the late 1980s. Similarly, school boards in British Columbia used to receive between 25 and 30 percent of their funds from property taxes; now they get nothing, although they have the right to access local property taxes but only after approval through a local referendum. In 1998, the provincial government in Ontario removed a school board's power to set its own property tax rates (see discussion below). Changes in these three provinces over the past decade have contributed to a nine percentage-point reduction in the relative importance of school board property taxes for all of Canada and an offsetting increase in the relative importance of provincial grants. At the moment, only Manitoba and Saskatchewan remain with traditional property-tax-supported school boards, a dramatic change from the funding system of 20 years ago.

### *Property Taxes*

Since the property tax is the only significant tax of any direct importance to municipalities and school boards, Table 9 records per capita levels of property taxation by province for 1988 and 1998 (columns 2 and 7, respectively); total property tax revenues as a percent of all provincial and local taxes (columns 3 and 8); and the percentage breakdown of property taxes that are collected by municipal governments, provincial governments, and school boards (columns 4 to 6 for 1988 and columns 9 to 11 for 1998). From this table, the following is apparent:

- Wide variation exists in the level of per capita property taxes across Canada: Atlantic Canada's levels are considerably lower than those for Quebec, Ontario, and western Canada.
- For all of Canada from 1988 to 1998, property taxes accounted for the same percentage of provincial and local tax revenues: 24.9 percent (comparison of columns 3 and 8).
- Interprovincially, property taxes as a percent of all provincial and local taxes fell in four provinces and rose in six over the past decade.
- In every province and territory, the property tax is shared between the municipal sector and the province and/or school boards.
- Provincial involvement in property taxation is linked to the province's direct interest in taxing property to fund the costs associated with elementary and secondary schooling (PEI, NB, Manitoba, Alberta, BC, and since 1998, Ontario). The general practice is for provinces to stay away from provincial property taxes if local school boards have the power to tax property.
- At the moment, Manitoba and Saskatchewan are the only two provinces that permit school board taxation in any significant way. School

**Table 9: Per Capita Levels of Property Related<sup>1</sup> Taxation and Its Relative Distribution to the Municipal, Provincial and School Board Sectors, 1988 and 1998**

Province/Territory (1)	1988						1998							
	Property Taxes as a % of All Provincial & Local Tax Revenue			Percent of All Property Taxes Collected By:			Property Taxes as a % of All Provincial & Local Tax Revenue			Percent of All Property Taxes Collected By:				
	Per Capita Level (2)	Municipal (4)	Provincial (5)	School Boards (6)	%	Per Capita Level (7)	Municipal (9)	Provincial (10)	School Boards (11)	%	Per Capita Level (7)	Municipal (9)	Provincial (10)	School Boards (11)
	\$	%	%	%	%	\$	%	%	%	%	\$	%	%	%
Newfoundland	258	11.3	80.2	0.0	19.8	371	11.1	96.0	4.0	0.0				
Prince Edward Island	300	14.0	37.6	62.4	0.0	558	16.6	43.6	56.4	0.0				
Nova Scotia	477	18.6	100.0	0.0	0.0	739	21.3	91.9	8.1	0.0				
New Brunswick	428	16.7	52.2	47.8	0.0	774	21.8	52.0	48.0	0.0				
Quebec	666	19.4	94.6	0.0	5.4	1,184	20.3	71.0	17.6	11.4				
Ontario	992	28.1	50.0	0.1	49.9	1,575	28.2	58.1	9.5	32.4				
Manitoba	783	24.6	48.7	24.0	27.3	1,162	25.5	46.3	23.7	30.0				
Saskatchewan	757	28.9	51.3	0.1	48.6	1,249	25.5	39.6	17.3	43.2				
Alberta	813	32.0	56.9	7.9	35.2	1,085	26.1	58.4	36.3	5.3				
British Columbia	775	26.9	51.3	23.3	25.4	1,125	26.0	54.6	45.4	0.0				
Yukon	503	22.2	74.9	25.1	0.0	1,072	25.2	87.3	12.7	0.0				
Northwest Territories	451	24.7	67.2	17.7	15.1	638	24.6	64.0	18.7	17.3				
Weighted Average	797	24.9	61.6	5.2	33.2	1,273	24.9	60.3	19.1	20.6				

Note: <sup>1</sup> Property and related taxes include real property taxes, development charges, lot levies, special assessments, business taxes, land-transfer taxes and grants-in-lieu of taxes.

Source: Same as Table 1.

boards in Quebec, the Northwest Territories, and Alberta raise small amounts of revenue from property taxes but they are highly dependent on provincial funding. Elsewhere, elementary and secondary school funding is entirely the responsibility of the province.

#### PROVINCIAL-LOCAL FISCAL RELATIONSHIPS: HAS DECENTRALIZATION OCCURRED?

While there is interprovincial variation in municipal and school board revenues and expenditures, there remains the issue of whether or not there has been a trend toward decentralization from provincial to local governments over the past decade. The short response is that there has been a move toward decentralization across the country. For example, the size of the municipal sector in Canada, when taken as a percentage of gross domestic provincial product, increased from 4.6 to 4.9 percent over the period from 1988 to 1998. At the same time, federal spending as a percent of GDP declined from 23 to 19 percent (when debt expenditures are ignored, the decline went from 17 percent to 13.9 percent) and provincial spending fell from 21.3 to 20.6 percent (removal of debt expenditures reduced these percentages to 18.7 percent and 17.6 percent, respectively),<sup>3</sup> suggesting that decentralization of expenditure responsibilities to municipalities has occurred. At the same time, provincial grants to municipalities have declined leaving the municipal sector with the necessity of generating more own-source revenue to meet its increasing expenditure commitments. In particular, provincial grants, for Canada as a whole, accounted for slightly more than 15 percent of all municipal revenues in 1998, down from almost 23 percent a decade earlier. This decrease of eight percentage points in their relative importance was offset by a corresponding increase of eight percentage points in the relative importance of property taxes for funding municipal services — from slightly less than 49 percent of municipal revenues in 1988 to almost 57 percent by 1998. Interprovincially, the largest decrease in the relative importance of grants, and correspondingly the largest increase in the importance of property taxes, occurred in Ontario, the Yukon, Newfoundland, Nova Scotia, and New Brunswick. User fees, the other major component of municipally generated own-source revenue, changed very little in terms of revenue generated over this period.

While this move to proportionately less reliance on provincial funds and greater reliance on own-source revenues may be interpreted as a move to provincial decentralization of increased funding responsibilities to municipalities, it has not been accompanied by a freedom for municipal governments to spend as they wish. They remain "creatures of the province" and are frequently required to use these additional locally generated revenues to meet provincially determined expenditure standards and goals. Perhaps the most obvious example



of this is in Ontario where the province implemented a number of initiatives in 1998 that have dramatically changed the provincial-municipal fiscal environment. These are discussed below.

At the same time as changes have taken place in provincial-municipal relations, there has been a movement across the country toward greater centralization of school finances (Alberta, British Columbia, and Ontario, being the most recent). With the exception of Manitoba and Saskatchewan, school boards have either lost their taxation powers or been severely restricted in their access to locally generated property tax revenues. This increased provincialization of schools has essentially eliminated school boards as governing units. While continuing to be composed of elected representatives, they have become arms of the provincial government. They do not have (significant) taxing authority; they are given a budget by the province and it is their responsibility to determine how to spend it. This increased provincial involvement on the funding side has been driven largely by a determination of the provinces to gain control over school spending.

#### UNIVERSITIES

Table 10 records provincial transfers per capita to universities for 1998 by province along with trends in the relative importance of these transfers over the period from 1988-98. For all of Canada, per capita transfers equaled \$176 in 1988 (column 2) with Prince Edward Island incurring the highest level at \$241, and Ontario and Alberta, the lowest at \$150 and 158, respectively.

In current dollars (column 3), per capita transfers declined by 22 percent overall from 1988 to 1998. This decline was driven largely by the large decreases in British Columbia (32.2 percent), Alberta (30.4 percent), and Ontario (29.3 percent). Four other provinces also experienced decreases, although less significantly, while the three remaining provinces actually increased per capita transfers; specifically, Saskatchewan increased their transfers by 25.7 percent per capita; Manitoba by 12.6 percent; and Prince Edward Island by 5.5 percent. When inflationary increases are removed from these transfers (column 4), however, every province recorded a decrease with the most significant declines occurring in British Columbia (48.3 percent), Alberta (46.8 percent) and Ontario (45.1 percent). For all provinces combined, per capita spending in constant dollars fell by almost 40 percent.

Perhaps the simplest way of viewing the extent to which provincial transfers to universities have changed over time and across provinces is to take them as a percent of provincial government expenditures or as a percent of gross domestic provincial product. As a percent of provincial government spending, provincial transfers on average accounted for 2.8 percent of all spending (column 5) in 1998. Provincial governments in Prince Edward Island

**Table 10: Changes in Provincial Transfers to Universities by Province from 1988 to 1998**

Province (1)	Per Capita Transfers				As Percent of Provincial Spending			As Percent of Provincial GDP	
	In 1988 Dollars (2)	Percentage Change from 1988 to 1998		In 1998 Dollars (5)	Percentage Point Change in Relative Importance from 1988 to 1998 (6)	1998 Transfers as Percent of 1997 GPPP (7)	Percentage Point Change in Relative Importance from 1988 to 1998 (8)		
		Current Dollars (3)	Constant Dollars (4)					%	%
	\$	%	%	%	%	%	%	%	%
Newfoundland	224 (3)	-15.6	-33.0	3.2	-1.6	1.1	-0.8	1.1	-0.8
Prince Edward Island	241 (1)	5.5	-15.7	3.8	-0.5	1.1	-0.5	1.1	-0.5
Nova Scotia	198 (6)	-8.2	-24.5	3.4	-0.9	0.9	-0.4	0.9	-0.4
New Brunswick	206 (5)	-7.1	-26.5	3.1	-1.2	0.9	-0.4	0.9	-0.4
Quebec	209 (4)	-16.1	-33.8	3.0	-1.3	0.8	-0.4	0.8	-0.4
Ontario	150 (10)	-29.3	-45.1	2.7	-1.9	0.5	-0.3	0.5	-0.3
Manitoba	191 (7)	12.8	-14.7	3.1	-0.1	0.7	-0.1	0.7	-0.1
Saskatchewan	235 (2)	25.7	-2.7	3.7	0.4	0.9	-0.2	0.9	-0.2
Alberta	158 (9)	-30.4	-46.8	2.8	-1.0	0.5	-0.4	0.5	-0.4
British Columbia	177 (8)	-32.3	-48.3	2.4	-3.4	0.6	-0.5	0.6	-0.5
Canada	176	-22.0	-39.5	2.8	-1.6	0.6	-0.4	0.6	-0.4

Note: Figures in parenthesis in column 1 indicate provincial ranking. The percentages in columns 2 and 3 record the percentage change in per capita expenditures from 1988 (first year for which data were provided on a consistent and uniform basis) to 1998 for current and constant dollars respectively. The percentage point changes in columns 6 and 8 record the change in the proportion of provincial spending (column 6) and GPP (column 8) accounted for by postsecondary education from 1988 to 1998. A plus sign indicates an increase and a negative sign a decrease.

Source: FMS data provided by Statistics Canada.

(3.8 percent), Nova Scotia (3.4 percent), and Newfoundland (3.2 percent) devoted the largest percentage of their spending to universities while British Columbia (2.4 percent), Ontario (2.7 percent), and Alberta (2.8 percent) devoted the least. Observing this percentage change over the period from 1988 to 1998, one notes that transfers to universities have become a lower spending priority in all provinces except for Saskatchewan. On average, they fell from 4.4 percent of provincial spending in 1988 to 2.8 percent by 1998 with the largest proportionate decreases occurring in British Columbia (from 5.8 percent to 2.4 percent of total provincial spending) and Ontario (from 4.6 percent to 2.7 percent). Saskatchewan was the only province where transfers to universities increased as a percentage of provincial spending (from 3.3 percent of provincial spending to 3.7 percent) over this period.

If transfers to universities are taken as a percentage of provincial gross domestic product (column 7), one gets a similar picture — Ontario, Alberta and British Columbia's transfers were the lowest — 0.6 percent or less of GDP in 1998. Newfoundland and Prince Edward Island's transfers were highest at 1.1 percent of provincial GDP. When these percentages are compared with those for 1988 (column 8), every province recorded a decrease in the percentage of GDP directed at transfers to universities over the decade, further evidence of reduced provincial funding for this sector.

Three key trends have surfaced in Canadian universities. First, there has been a significant decline in real government support for universities (see Table 10). Second, reductions in the real value of operating grants have forced universities to raise tuition fees. As a result, undergraduate fees since 1990-91 have more than doubled in all provinces (Table 11) except for Prince Edward Island, New Brunswick, and British Columbia.<sup>4</sup> The largest increase has occurred in Alberta where average tuition fees for undergraduate arts students have almost tripled from \$1,244 to \$3,658 (columns 2 to 4). These rising tuition fees have become an increasingly important source of revenue for Canadian universities. In 1997-98 (most recent year for which data are available), tuition fees represented almost 20 percent of university revenues (column 5), up from 8 percent in 1980-81. During the same time period, the proportion of operating revenues represented by government contributions declined from almost 75 percent to slightly more than 55 percent.<sup>5</sup> Student fees as a percentage of revenue were highest in Nova Scotia at 28.2 percent, followed by Ontario at 23.6 percent. Universities in these two provinces have depended less heavily on revenue from government grants and contracts when compared with other provinces; for example, in 1997-98, government funding represented just over 47 percent of total university revenue in both provinces. Quebec universities, by comparison, received the highest proportion of revenue from government grants and contracts (67.8 percent), with students contributing a provincial low of 13.6 percent of total university revenue.<sup>6</sup>

**Table 11: Average Undergraduate Arts Tuition Fees<sup>1</sup> and their Contribution to University Revenues by Province throughout the 1990s**

Province (1)	Tuition Fees in 1990-91 (2)	Tuition Fees 1999-2000 (3)	% Increase in Tuition Fees from 1990/91 to 1999/2000 (4)	Contribution of Fees to University Revenues in 1997-98 <sup>4</sup> (5)
	\$	\$	%	%
Newfoundland	1,344	3,300	145.5	20.4
Prince Edward Island	1,840	3,480	89.1	21.1
Nova Scotia	1,943	4,113	111.7	28.2
New Brunswick	1,898	3,329	75.4	21.7
Quebec <sup>2</sup>	902	2,387	164.6	13.6
Ontario	1,653	3,872	134.2	23.6
Manitoba	1,415	2,940	107.8	18.2
Saskatchewan	1,526	3,164	107.4	17.2
Alberta	1,244	3,658	194.1	18.7
British Columbia <sup>3</sup>	1,727	2,470	43.0	16.3
Average	1,496	3,379	125.9	19.5

Notes: <sup>1</sup> Using the most current enrolment data available, average tuition fees have been weighted by the number of students.

<sup>2</sup> Fees for both in- and out-of-province are included in the weighted average calculation.

<sup>3</sup> Fees at both public and private institutions are included in the weighted average calculation.

<sup>4</sup> Last year for which these data are available.

Source: Statistics Canada, "University Tuition Fees," *The Daily*, 25 August 1999; and "University Finances," *The Daily*, 13 September 1999.

Third, rising tuition fees have led to increasing student debt. In 1990-91, 98,878 students owed an average of \$6,810. Five years later, the number of students carrying debt had increased to 148,731 with an average debt level that had risen by 13.4 percent to \$7,725.<sup>7</sup> To offset repayment problems associated with rising student debt, universities and governments have increased the amount of assistance for needy students; for example, in some provinces, a portion of higher tuition fees must be directed to student assistance programs.

In summary, the declining role of provincial transfers and the increasing reliance on tuition fees reflect a trend to privatization, or perhaps more accurately, user pay. In an indirect way, this is a form of decentralization.

#### HOSPITALS

Table 12 records per capita provincial transfers to hospitals by province along with the changing pattern of these transfers from 1988 to 1998. In 1998, per capita transfers were highest in Manitoba (\$1,032) and lowest in Saskatchewan (\$748) with the average for Canada being \$809 (column 2). On average, per capita transfers in nominal terms increased by more than 23 percent (column 3) from 1988 to 1998. Removal of the inflationary component of this increase, however, indicated that per capita transfers actually fell by 4.5 percent for Canada (column 4) with the largest provincial decreases occurring in Alberta (by 21.2 percent) and Quebec (by 10.7 percent) and the largest increases in Prince Edward Island (by 45.4 percent) and Manitoba (by 13.6 percent).

In 1998, transfers to hospitals, on average, absorbed 13 percent of provincial spending (column 5) — a percent that barely exceeded the 1988 figure (by 0.2 percent). Interprovincially in 1998, Manitoba (16.6 percent), Alberta (14.8 percent), and Ontario (14.7 percent) devoted the largest percentage of provincial spending to hospital transfers while British Columbia (10.5 percent) devoted the least. At the same time, interprovincial differences in the pattern of transfers over the past decade may be noted (column 6). British Columbia (down 2.7 percentage points), Newfoundland (down 0.9 percentage points), and Quebec (down 0.8 percentage points) spent proportionately less in 1998 when compared with 1988 while Prince Edward Island (up 4.5 percentage points), Manitoba (up 3.9 percentage points), and Saskatchewan (up 2.3 percentage points) spent proportionately more.

As a percentage of GDPP (column 7), Newfoundland (4.2 percent) and Manitoba (4 percent) spent the most while Alberta (2.4 percent), Ontario (2.6 percent) and Saskatchewan (2.7 percent) spent the least. On average, provincial spending on health amounted to 2.9 percent of GDPP at both the beginning and end of the period.

From the evidence provided, there is no apparent or clear conclusion as to the extent of decentralization and its pattern across provinces. Some provincial governments have increased transfers to hospitals while others have decreased them. Furthermore, to draw conclusions based on data that capture the situation up to 1998 is unlikely to reflect the current situation. For example, the 1999 federal budget increased transfers to the provinces for funding hospitals and health care. At the same time, many provincial budgets announced that there would be increased transfers for health care and hospitals. These initiatives, when implemented, will likely increase per capita spending and

Table 12: Changes in Provincial Transfers to Hospitals by Province from 1988 to 1998

Province (1)	Per Capita Transfers				As Percent of Provincial Spending			As Percent of Provincial GDP		
	In 1998		Percentage Change from 1988 to 1998		In 1998 Dollars (5)	Percentage Point Change in Relative Importance from 1988 to 1998 (6)	1998 Transfers as Percent of 1997 GDP (7)	Percentage Point Change in Relative Importance from 1988 to 1998 (8)		
	Dollars (2)	% (3)	Current Dollars (4)	Constant Dollars (4)						
Newfoundland	\$ 847 (2)	17.9	% -6.4		% 12.0	% -0.9	% 4.2	% -0.9		
Prince Edward Is.	823 (5)	82.0	45.4		13.0	4.5	3.8	0.6		
Nova Scotia	787 (8)	15.3	-5.1		13.5	-0.1	3.6	-0.4		
New Brunswick	832 (4)	21.5	-3.8		12.6	-0.6	3.7	-0.4		
Quebec	786 (9)	13.2	-10.7		11.6	-0.8	3.1	-0.3		
Ontario	804 (6)	31.5	2.3		14.7	1.5	2.6	0.3		
Manitoba	1,032 (1)	50.3	13.6		16.6	3.9	4.0	0.4		
Saskatchewan	748 (10)	40.1	8.4		11.8	2.3	2.7	-0.3		
Alberta	836 (3)	3.2	-21.2		14.8	1.2	2.4	-0.8		
British Columbia	788 (7)	30.7	-0.1		10.5	-2.7	2.9	0.1		
Canada	809	23.2	-4.5		13.0	0.2	2.9	0.0		

Note: Figures in parenthesis in column 1 indicate provincial ranking. The percentages in columns 2 and 3 record the percentage change in per capita expenditures from 1988 (first year for which data were provided on a consistent and uniform basis) to 1998 for current and constant dollars respectively. The percentage point changes in columns 6 and 8 record the change in the proportion of provincial spending (column 6) and CGPP (column 8) accounted for by postsecondary education from 1988 to 1998. A plus sign indicates an increase and a negative sign a decrease.

Source: FMS data provided by Statistics Canada.

the proportion of provincial spending and GDPP directed at health care and, in some provinces, reverse the downward trend of the past few years.

## FUNDING ISSUES

This pattern of reduced provincial grant funding for municipalities — substantial decreases in the real value of operating grants for universities and in some provinces, hospitals — has created a fiscal environment in which changes have emerged or are likely to emerge in the way in which the MUSH sector funds or will fund its services in the future. The importance of these changes and the public debate surrounding them, however, should not be diminished in the presence of 1999 federal and provincial budgetary announcements to increase funding for universities and hospitals over the next few years.

The intention in this section is to identify and describe funding issues in the provincial/ MUSH universe that are likely to become increasingly more important as Canada enters the millennium. Further, to provide a framework for discussing these services, this debate should be conducted, partially at least, within the context of a “benefit-based” model of government finance. In this model, the evaluation concentrates on decision-making and funding responsibilities, not production and delivery. MUSH sector services may be delivered in a number of ways: by the governing unit itself, by contracting out to another governing unit, or by contracting with the private sector. This separation of decision-making responsibility and funding from service production and delivery corresponds to what Osborne and Gaebler argue is the need for governments to concentrate more on “steering” (policy-making) and less on “rowing” (service delivery).<sup>8</sup>

### BENEFIT-BASED MODEL FOR FUNDING PUBLIC SERVICES

The underlying principle of the benefits model is straight forward — those who benefit from publicly funded services pay for them. In this model, economic efficiency is achieved when the user fee, price or tax per unit of output equals the extra cost of the last unit consumed. Charges applied in this fashion are efficient for funding services where the beneficiaries can be clearly identified and the costs correctly derived. Prices or taxes serve to ration output to those who are willing to pay and they act as a signal to suppliers (local governments or their delivery agents), a signal that indicates the quantity and quality of output desired. Setting a correct price or tax per unit, then, is essential if efficiency is to be achieved. At the same time, it is critical that costs be calculated correctly and incorporated into the price: an incorrect calculation of costs will lead to incorrect prices or taxes.

Accountability is enhanced where there is a close link between the quantity consumed and the price or tax paid per unit of consumption. In this way, individuals/taxpayers are able to determine whether the benefit from the last unit consumed is worth the price or tax paid for its consumption and in a position to apply pressure on politicians to improve the efficiency with which services are provided or to reduce or expand their output.

Fairness within the benefits model is achieved because those who consume public services pay for them, just as someone who benefits from a private good pays for it. Concerns about the tax burden on low-income individuals, on the other hand, should be addressed through income transfers from provincial or federal governments and social assistance programs targeted to individuals in need. It is far more equitable and efficient to handle income-distribution issues through income transfers or targeting than to tamper with charging or taxing mechanisms to accommodate these concerns.<sup>9</sup>

The benefits model is most easily approximated where services do not generate spillovers or externalities; where the services are not designed as being mainly income redistributive;<sup>10</sup> where individuals can be excluded from consuming the service; and where precise measurement of output and costs can be calculated. When these conditions cannot be approximated, the benefits-based model may not be applicable. In its place, it may be appropriate to employ a model that is based on some kind of ability-to-pay criteria. Any ability-to-pay-based model, however, is almost certain to be inferior to the benefits-based model for evaluating the funding of services such as those provided by the MUSH sector, primarily because of the role that user fees (or taxes that approximate them) play or could play in funding these services.

### *Municipalities*

The recent trend where the municipal sector everywhere has increased its reliance on property taxes and, in some provinces user fees, because of declining grants may be evaluated after the role for municipalities in funding and service responsibility has been determined. Municipalities should not be responsible for funding programs specifically directed toward the redistribution of income among individuals (social services, for example). These functions are better performed by the federal and provincial/territorial governments.

At the same time, municipalities should not be viewed as strictly service agencies, specifically charged with funding only those services where the benefiting properties are clearly and unequivocally identified and where user fees could be employed everywhere. Municipal governments are much more than this: they provide a range of local public services whose collective benefits (police protection, local roads, streets, sidewalks, street lighting, etc.) are enjoyed by the residents within its jurisdiction. To fund these services,



user fees are inappropriate. In their place, an ideal tax would be one that is imposed on local residents (or exported to the same extent services are), with necessary adjustments through the use of grants to account for externalities (that is, benefits from these services that spill over into neighbouring communities).<sup>11</sup> While there is no clear-cut basis for determining the appropriate local tax base for funding local services with collective benefits, arguments in defence of property taxes can be made.<sup>12</sup> First, income and consumption taxes are currently in the domain of provincial and federal governments. To utilize these taxes as a complete substitute for property taxes would place additional pressure on their tax base, although they may be used as a supplement to property taxes.<sup>13</sup> Second, given that no single tax or no two taxes are deemed to be entirely fair and distortion free, there is considerable merit in a provincial or national tax system that employs a mix of taxes. Included in this mix is the property tax. After all, a tax on property may serve to achieve important social and economic policy objectives that could not be achieved by other taxes.<sup>14</sup>

Provincial grants are also important for funding municipal services. Specifically, conditional grants should be used for partial or full funding of services generating spillovers and for services in which the province has an interest (to ensure uniform or minimum standards, for example). Unconditional grants are provided to municipalities to ensure that minimum service levels may be funded without the imposition of excessively high tax rates on local taxpayers.

In the benefits-model framework, user fees are appropriate for funding services where specific beneficiaries can be identified. Property taxes are important for funding those services that generate collective benefits to the residents of the local community but for which specific users cannot be identified. Unconditional grants are useful where municipalities have an inadequate fiscal capacity for meeting their expenditure commitments and conditional grants are necessary for meeting part of the costs of those services generating spillovers.

Increased reliance on property taxes, and user fees in some provinces over the past decade is a direct result of the declining relative importance of provincial grants. Is this funding trend for municipal services desirable? The answer differs from province to province, primarily because of differing service responsibilities. Where municipalities are only responsible for funding services benefiting local residents, increased reliance on user fees and property taxes is efficient, fair, and accountable. Currently, user fees are employed for funding water and sewer services in almost every municipality in Canada. Indeed, they should be. As well, they are growing in importance for funding solid waste, public transit, and recreation in many municipalities. Finally, there may be an argument for considering them for some components of library services, police, and fire protection.<sup>15</sup>

At the same time, increased reliance on municipal property taxes for funding local public services is desirable if they are used to fund local services that provide collective benefits to residents of the community. If, on the other hand, the services are income redistributional in nature (social services in Ontario and Manitoba), there is no solid argument in support of local funding. This should be the responsibility of the federal or provincial governments. For services generating spillovers (arterial roads, social housing, land ambulance, for example), local property taxes should be expected to fund only a portion of the cost with the remainder coming from provincial grants to capture the value of the benefits spilling into neighbouring jurisdictions.

Reference to Tables 3 and 5 illustrates the current range of services for which municipalities are responsible across the provinces and the extent to which they rely on own-source revenues and provincial grants. In provinces where municipalities are not responsible for social services and social housing (see Table 3) which is all but Ontario and to a lesser extent, Manitoba, greater reliance is placed on own-source revenues. For example, provincial responsibility for social services and social housing in Prince Edward Island, Nova Scotia (while the 1998 figures for Nova Scotia in Table 3 show that municipalities have some responsibility for social services, they have almost been phased out and will be completely phased out in the next year or two), Saskatchewan, Alberta, and British Columbia leaves municipalities with responsibility for funding services that primarily benefit residents of the local community (see Table 3). In particular, municipalities in these provinces generate around 90 percent of all revenues from own sources — property taxes and user fees, primarily (see Table 5). In these provinces, there is a fairly close adherence to the benefits model. Municipalities in Ontario, by comparison, differ significantly from the benefits model because they are required to use property taxes to fund social services, social housing, and a variety of other services whose benefits are not confined to residents of the local community. Indeed, a number of provincial initiatives implemented in 1998 moved municipalities further from the benefits model and it is these changes that are described and examined in the next section.

*Ontario: A Distinct Society.* Following the provincial election in 1995, the Ontario government moved toward the implementation of a number of changes in its funding arrangements with municipalities and schools (elementary and secondary). This initiative was driven primarily by the province's explicit determination to take control of school spending, spending which it suggested had grown out of control over the past few years because of insufficient constraint exercised by local school boards. To achieve this, it implemented a uniform province-wide education tax rate on residential properties with the rate set at a level that would generate approximately one-half of the property tax previously collected from residential properties for education purposes.

For commercial and industrial properties whose owners continue to pay about the same total amount of property tax for education, the province has taken a different approach. From each municipality, it requisitions a fixed dollar amount from commercial properties and a fixed dollar amount from industrial properties. Here, tax rates are unlikely to be the same across municipalities — they depend on the assessment base and the amount of revenue to be collected. Since this policy direction has removed all taxation powers from local school boards, it has been the focus of considerable criticism, especially from the various teachers' associations in Ontario.

To offset this increase in the province's share of school funding and to meet the provincial objective of initiating changes that were revenue neutral, the province transferred to municipalities increased funding responsibility for a wider range and variety of services with very little (if any) say in service standards (social housing, 50 percent of land ambulance, downloaded provincial highways, and so on). As well, all municipalities now pay for policing and for local property assessment which is operated through a provincial non-profit corporation with standards set by the province. Finally, most municipal grants will be phased out over the next two or three years. Throughout this entire process, it has been impossible to find a solid rationale for the transfer of these new funding responsibilities to the municipal sector. It appears to have been driven by a single desire on the part of the province to meet their revenue-neutrality objective.

At the same time, the province implemented policies to reduce the number of municipalities (more than 225 municipal governing units have been eliminated through mergers and amalgamations) and municipal politicians, primarily through tying some provincial grant assistance to municipalities that restructured through amalgamations, mergers, or annexations. Similarly, the province legislated fewer school boards (through mergers and amalgamations), fewer school trustees with a stipendiary limit for their services of \$5,000 per year per trustee (significantly lower than previously paid in many school boards) and reduced decision-making power.

Not surprisingly, these changes have generated significant criticism. Municipal officials argue that the initiatives are not revenue neutral and that once transition funding is over, large property tax increases will be necessary to meet the increased responsibilities. Indeed, this appears to be happening. Tables 5 and 6 record the extent to which the municipal sector has increased its reliance on property taxes over the past decade: from 41.7 percent of all municipal revenues in 1988 to 56.4 percent in 1998. This is translated into a per capita increase in property taxes of \$469 over the same period — from \$1,181 to \$1,650 (Table 1). The province has countered that this need not be the case since municipalities could save money through further reorganization and restructuring, including implementation of new ways of delivering services.

Given that this debate is very much in the political arena, the question remains as to whether or not these recent provincial initiatives will improve the efficiency, accountability, and fairness of municipal finance. While this may not be determined until the new system is in place and has been functioning for some time, there are normative arguments suggesting it will not. In addition to property taxes continuing to fund a range of services providing collective benefits to the local community, they are now used to fund an expanded range of services that are income redistributive (social welfare and social housing); that generate benefits (spillovers) for non-residents (land ambulance, arterial roads, and highways); and where minimum standards are set by the province (social services, social housing, land ambulance, and provincially downloaded highways). This further decoupling of property taxes from funding municipal services that benefit primarily residents provides an incentive for reduced efficiency, less accountability, and greater inequity. To reverse this pattern, however unlikely the possibility, the province should move in the direction of using local property tax revenues for funding a narrower range of services than currently is the case.

### *Public Schools*

In addition to provincial grants, elementary and secondary schools are financed from property taxes raised by school boards, municipalities, or provincial governments (Table 13) in every province and territory except for Newfoundland. While property taxation is widely used as a funding source for public schools, school boards in Manitoba and Saskatchewan are the only ones left with any notable property taxation powers. The provincialization of schooling in the rest of the country has effectively removed most, if not all, significant decision-making from local officials. In spite of this trend where school boards are becoming an arm of the provincial government, there are at least two issues that should be addressed. First, is there a role for local funding of schools and should this funding come from property taxes on both residential and non-residential properties? Second, is there a role for provincial property tax funding of schools?

*Is There a Role for Local Funding?* While the public education system provides direct benefits to its students, current practice is not to charge students directly for this service.<sup>16</sup> This is defended on the following grounds: first, since one cannot measure the value of the direct benefit going to each student, one cannot set a correct price or tax per unit for the service; second, since education provides benefits for more than the direct users (spillovers), public sector funding is required in order to approach an allocatively efficient level of output; third, because students are required to attend school up to a specified age and to take courses prescribed by provincial authorities, forcing each student (through the parent or guardian) to pay for this service may impose severe income distributional consequences on the poorer of them.

**Table 13: Property Tax Structure for Funding Public Schools by Province and Territory**

Newfoundland	Property taxes are not used to finance public schools.
Prince Edward Island	The province funds 100 percent of education costs from general revenues. Included in these revenues is the money generated from a province-wide property tax, although it is not earmarked for education.
Nova Scotia	Public schools are financed from general revenues of the province (there is no provincial property tax) and from a uniform property tax rate set by the province and imposed on municipalities. Municipalities also have the option of increasing the local tax rate to fund optional programs.
New Brunswick	All public education costs are funded from general provincial revenues — included in these revenues is a provincial property tax on all properties but the property tax is not earmarked specifically for schools.
Quebec	The province is almost entirely responsible for financing school boards from general revenues (no provincial property tax exists). Local school boards have the authority to levy a property tax but it can not exceed \$0.35 per \$100 of assessed value unless referendum approval is obtained from the taxpayers within the school district. School boards use local property taxes only to finance the maintenance of school facilities.
Ontario	Education is funded from a combination of provincial grants and an education tax rate on property that is set by the province, collected by the municipality and remitted to school boards. The education tax rate on residential/farm and multi-residential properties is uniform across the province. For commercial and industrial properties, the province requisitions a fixed dollar amount in each municipality.
Manitoba	Provincial funding comes from the general revenues of the province and from the proceeds of a province-wide property tax for education. The provincial tax rate applied to residential property is less than the rate assigned to other properties. Local revenues come almost entirely from property taxes on commercial, industrial, and residential properties.
Saskatchewan	Provincial funding comes from general revenues while school divisions generate revenues from property taxes collected from residential and non-residential properties.
Alberta	The province is responsible for funding education. About half of its funding requirement is supported from general provincial revenues and the remainder from a uniform province-wide tax rate on residential, commercial, industrial, and agricultural property. The tax rate on non-residential property is higher than that on residential and agricultural property. If school boards wish to spend more than their provincial grant, they must seek taxpayer approval through a referendum and the additional spending is restricted to a maximum of 3 percent of school budgets.
British Columbia	Schools are funded entirely by provincial grants generated from provincial government revenues which include provincially imposed commercial, industrial, and residential property taxes (property taxes account for about 30 percent of total funding). Although the provincial government sets the rate for school property taxes, there is no necessary connection between school property taxes and provincial grants to school districts. If school boards wish to spend more than their provincial grant, the board must seek local taxpayer approval through a referendum for additional expenditures to be financed through local property taxes.
Northwest Territories	Education mill rates may differ by property class.
Yukon	The government levies a territory-wide school tax which accounts for about 5 percent of school revenue.

Source: 1998 *Finances of the Nation* (Toronto: Canadian Tax Foundation, 1999), ch. 6; *Tax Practices Across Canada Manual* and *Appeals Procedure Manual* (Mississauga: Canadian Property Tax Association Inc., 1999); and Harry Kitchen, *Property Taxation in Canada* (Toronto: Canadian Tax Foundation, 1992).

In addition to direct benefits, the local education system provides collective benefits for residents of that community. To illustrate, it is not uncommon for residential property owners to move from one neighbourhood to another, or one town or city to another, so as to benefit from a better quality of education. Given that collective local benefits exist, local funding for a portion of school expenditures may be appropriate, although the proportionate funding split between the local community and the province remains an unresolved issue.

If one adheres to the benefits model, there is merit in a finance system that assigns some direct responsibility for funding to local residents. Accountability and allocative efficiency may be advanced because of the more direct link between the level of government raising the revenue and the level of government making the expenditure. The flexibility and autonomy of local school boards, districts, or divisions, may also be enhanced through access to locally generated revenues from the residential sector, allowing them to accommodate more easily the desires of the local community.

Given the arguments in support of local funding and, therefore, property taxation since it is the only tax available at this level, there is a further issue of whether non-residential (commercial and industrial) and residential properties alike should contribute or whether this contribution should come from only one of these sectors. Making a case for local funding from the commercial and industrial sector is far more difficult than for the residential sector. For example, there is no question that commercial and industrial property owners benefit from a well-educated and highly skilled labour force. This benefit, however, tends to be linked to the education system across the entire province and not directly to the expenditures made in a particular school jurisdiction.<sup>17</sup> As long as the local education system provides no collective or direct benefits to local commercial and industrial property owners, the imposition of non-residential property taxes to fund a portion of local education costs is both inefficient and unaccountable. It is inefficient because the commercial/industrial sector pays taxes for services that primarily benefit the residential sector.<sup>18</sup> This type of cross-subsidization has the potential for leading to an oversupply of services for the residential sector. Further, it lacks accountability, since those who pay are not the recipients of the service for which they have paid.

While there is a solid argument for not funding schools from a local property tax on non-residential property, such cannot be claimed for a local tax on residential property. Further, the arguments against the taxation of commercial and industrial properties for funding local schools should not be confused with the arguments in support of province-wide property taxation of non-residential properties for school purposes. They are quite different as is noted below.

*Provincial Property Taxation of Non-residential Property?* As long as non-residential property is taxed to finance education, there may be good reasons to pool non-residential assessment and assign the tax revenues to the province.<sup>19</sup> For example, it is unlikely that the local commercial/industrial sector directly benefits from the local education system although it is almost certain to benefit from a province-wide system.<sup>20</sup> Furthermore, if the local tax is exported or partially exported, much of the burden is likely to be borne by residents of other taxing jurisdictions and the initial intent, which was to tax the local non-residential sector, will not be achieved. As well, a uniform province-wide tax on business may be desirable on allocative efficiency grounds. Otherwise, industrial or commercial location may well be based on the tax rather than other economic considerations.<sup>21</sup>

Province-wide pooling of non-residential assessment would also have the advantage of injecting more "wealth neutrality" into the funding system in those provinces that currently do not have it. British Columbia,<sup>22</sup> for example, has a scheme of this type and it has been recommended for Ontario.<sup>23</sup> This eliminates the situation where a school board located in an industrially or commercially rich area, can raise more tax revenue without raising the tax on residential property when compared with an area where the commercial/industrial mix is relatively low.

### *Universities*

Whereas municipalities and schools are financed primarily by a partnership of provincial and local governments, the current partnership at the university level is a federal-provincial one. It is a complex partnership, since it involves not only the costs of educating students, but also the broad agenda of research and development, as well as federal and provincial support for an extensive range of other programs involving training and contract services. While recognizing a variety of arguments and concerns within each of these areas,<sup>24</sup> this discussion concentrates on what has become a highly controversial and debatable issue; specifically, decreased provincial funding and increased tuition fees.<sup>25</sup>

While increases in tuition fees have met with criticism, almost all of it from current students, a few faculty members and university administrators, there has been and continues to be debate over whether fees should constitute a much larger or much smaller share of the direct cost of a university education. Decisions regarding tuition fees impact on such critical issues as private versus social benefits (rates of return) of higher education, accessibility, and participation rates (the percentage of a particular age cohort attending universities), and policies related to student financial aid.

*Tuition and Private versus Social Benefits.* Recent trends toward greater reliance on tuition fees in funding universities begs the question of whether this is a fair, accountable, and efficient way of partially financing universities. Students who graduate with a degree from a university benefit directly through higher incomes, increased social status, enhanced life-long learning, better health, more efficient budgeting, higher returns on investments, and so on.<sup>26</sup> Some of these are more measurable than others. The external benefits, while recognized widely, are very difficult to quantify. External benefits include the enhancement of democratic institutions, adaptability to change, lower welfare costs, greater community health, tolerance, and a more sophisticated class of leaders in society. The only quantifiable factor is the lower welfare costs due to lower unemployment for graduates and the additional tax revenue that stems from higher lifetime earnings.

Based on a number of Canadian studies which estimated the rates of return up to the late 1980s,<sup>27</sup> the only consensus to emerge was that the high private rates of return to postsecondary education made it very attractive for the individual to invest in higher education. These estimated rates of return, however, did not capture the unmeasurable benefits to society and hence they underestimated the real social return to expenditures made on postsecondary education. A more recent study<sup>28</sup> claims that the private rate of return for university graduates in Ontario has remained relatively stable over the period from the 1980s through the early 1990s at 13.8 percent for male graduates and 17.6 percent for female graduates. Whether similar net benefits will emerge as tuition fees continue to increase is an open question, but there is ample evidence that a university education continues to generate higher rates of return. In part, this is one of the reasons why there are continued calls for greater use of benefits-based funding of university education.<sup>29</sup>

*Tuition, Accessibility and Participation Rates.* A primary argument against raising tuition fees is the belief that access will be limited because of costs. "Access" is not easily defined in this context. Does improving access mean creating an environment that will increase the participation rate of 18 to 24 year olds? Does it mean creating an environment that will encourage more high school graduates from low-income families to attend university? Or does it mean expanding the number of students from under-represented groups in universities?

One of the most exhaustive studies<sup>30</sup> of postsecondary enrolment in Canada concluded that the percentage of 18 to 24 year olds enrolling in postsecondary institutions increased as tuition, in real terms, rose. Other studies, however, have found that as tuition increased, enrolment declined.<sup>31</sup> The abolition of tuition fees in 1984 in Australia appears to have had little impact on the overall social composition of students attending university.<sup>32</sup> One of the most recent papers on tuition fees and accessibility in Canada argues that low tuition does



not enhance accessibility and only serves to limit the effectiveness of universities. A much more sensible policy would be to raise fees and provide direct assistance to those who need it.<sup>33</sup> In general, price response, or elasticity, studies show that relatively modest tuition increases have little impact on overall university participation rates and little effect on traditional age, middle- or high-income participants.<sup>34</sup>

There is clearly no consensus on this issue, however. The level of parents' education is perhaps the strongest single influence on a student's decision whether to enrol in a university program.<sup>35</sup> Future increases or decreases in tuition fees may be more a matter of the public pressure related to the overall increase in government expenditure and the public's tolerance for higher taxation or deficits. In the current climate, provincial governments are moving in the direction of higher fees; however, if these fees are to continue to rise, government and university assistance programs will have to play an increasingly important role in public policy.

*Tuition and Student Aid.* Financial aid to students has changed noticeably in the 1990s: there has been a major shift away from grant support to student loans. This increased reliance on loans has had a dramatic effect on student debt, so much so that some provinces require universities to provide more institutional grants for needy students. Ontario, in particular, requires universities to set aside a portion (now 30 percent) of increased tuition revenue for student-support programs. As well, the Ontario government created the Student Opportunity Trust Fund (in 1997) — a program where the province matches all private sector contributions raised by universities that are targeted to student assistance. This move toward target funding is on the rise and is an attempt by provinces to maintain control over part of university spending. Targeted funding, however, is not only restricted to the provinces. The federal government has created the Canada Millennium Scholarship Fund to provide scholarship support to needy students (beginning in 2000). While the details of this recent federal initiative to provide scholarship support directly to students have not been fully worked out, the program could be designed as a voucher scheme. The idea of education vouchers has been around for a long time and several Canadian studies on financing education have examined the benefits and drawbacks of such a scheme.<sup>36</sup> In its simplest form, a federal higher education voucher would involve each individual who has completed secondary school receiving a "line of credit" applicable at any university at any time in their lives. This would add an element of the market system to higher education.<sup>37</sup> Vouchers meet the criteria of efficiency and accountability. Further, the equity criteria is enhanced if vouchers embody a premium for students from low-income families or those with insufficient means to pay the full cost of education. For the federal government, the political value of a voucher system is obvious; each year, students would receive a letter of credit

from the federal government indicating precisely the value of their education/training voucher. Accountability would be "up front."

Recent moves toward higher tuition fees has, as expected, spawned a number of proposals to reform the existing system of student financial assistance. One reform that has received considerable attention is a contingent repayment loan (CRL) where the repayment of funds borrowed for education is based on the borrower's future ability to repay the loan. The idea is founded on an argument that imperfect capital markets lead to an underinvestment in education and training. Further, it has been debated and discussed by commissions, governments, and scholars for some time.<sup>38</sup> Like the voucher, the CRL may be any value up to the total direct cost of education or training. The major difference is that the repayment depends upon the individual's level of income after completing or after attending university. The attractiveness of the scheme is that it can be incorporated into an income tax form. As long as the individual is in school, no repayment would be required and the interest on the loan could be paid by the federal and/or provincial government. The program could be universal with no means test, a reform that the Macdonald Commission in its review of postsecondary education suggested was overdue.<sup>39</sup>

### *Hospitals*

Over the past two or three years, every provincial government has been confronted by doctors, nurses, patients, and ordinary citizens criticizing cutbacks in hospital care. Horror stories about clogged emergency rooms and ambulances being diverted from hospital to hospital while trying to admit patients has elevated health care to the top of public policy concerns. To alleviate some of these concerns and to remain popular with the voting public, federal and provincial governments alike have recently introduced budgets announcing increased funding for hospitals, and health care more generally. Is this the answer? Will increased public funding resolve citizen concerns? The most hardened sceptic would argue, in all likelihood, that this is not the answer. Change must be made, but how? Should user fees be introduced, in spite of the federal government's explicit opposition to them?

*Hospitals and User Fees.* As has been noted above, efficiency and accountability in the provision of public services is enhanced when consumers are charged a per-unit fee, price or tax that covers the additional cost of the service consumed. Failure to adopt this type of pricing policy for services where specific beneficiaries can be identified, then, leads to over-use and abuse. In the words of one local hospital administrator when commenting on crowded hospital waiting rooms and emergency wards, "failure to impose user fees, modest as they may be, is like having a free bar at a wedding." Obvious as it may seem and in spite of solid economic arguments in support of user fees,<sup>40</sup>

Canadian governments have steadfastly resisted their implementation. In addition to political concerns that citizens may reject their party at the ballot box, it is argued that user fees will lead to a two-tiered health-care system — one level for the rich and one for the poor. As well, concerns have been expressed that the poor would not be able to pay for expensive medical services. While these arguments cannot be dismissed or ignored, there are potentially serious problems by not implementing user fees to cover a portion of the cost of hospital services. First, it is a well-known economic axiom that whenever a service is provided free of charge or for a fee that is less than its marginal social cost, it will be overconsumed and society will be expending more resources on the provision of this service than is allocatively efficient. Second, there is the moral hazard problem — provision of free medical services reduces the incentive for individuals to live healthy life styles and to take care of themselves, especially if they can get free medical assistance during illness. Third, it may help prevent some of the well-known abuse created by patients who frequent emergency rooms on an ongoing basis. Fourth, there is a potential financial crunch. With our changing demographic pattern and the financial burden that this will place on the hospital system over the next few years, one has to ask whether the country can afford not to introduce user fees to protect this system.

Finally, to alleviate concerns that the poor will not have access or will not be able to afford it, income distributional issues are better handled through income transfers via the tax system and targeted programs to the poor. Indeed, attempts to handle redistribution concerns through inadequate and inefficient pricing may well result in less overall distribution than might otherwise be attained.<sup>41</sup>

## CONCLUSION

From the evidence provided in this chapter, one can conclude that there has been a decentralization of spending and funding responsibilities from provincial to municipal governments over the past decade in almost every province/territory. As a percent of gross domestic provincial product, the size of the municipal sector across Canada has grown while the size of the federal and provincial sectors has fallen. This increase in municipal expenditure responsibilities has coincided with a reduction in provincial grants, leaving the municipal sector with the necessity of generating more own-source revenue, almost entirely through property taxes, to meet its increasing expenditure commitments.

While this move to proportionately less reliance on provincial funds and greater reliance on own-source revenues may be interpreted as a move to provincial decentralization of increased funding responsibilities to municipalities,

it has not been accompanied by a freedom for municipal governments to spend as they wish. They remain "creatures of the province" and are frequently required to use these additional, locally generated revenues to meet provincially determined expenditure standards and goals. Perhaps the most obvious example of this is in Ontario where the province implemented a number of initiatives in 1998 that have dramatically changed the provincial-municipal fiscal environment.

At the same time, there has been a movement across the country toward greater centralization of school finances (Alberta, British Columbia, and Ontario being the most recent). With the exception of Manitoba and Saskatchewan, school boards have either lost their taxation powers or been severely restricted in their access to locally generated property tax revenues. Although continuing to be governed by elected representatives, the provincialization of schools means that school boards are little more than an arm of the provincial government. They do not have (significant) taxing authority; they are given a budget by the province and it is their responsibility to determine how to spend it. This increased provincial involvement on the funding side has been driven largely by a determination of the provinces to gain control over school spending.

While the decrease in provincial transfers to municipalities has been criticized by local officials and a handful of citizens as being unfair and somewhat draconian, it has been far less dramatic than the decreases in provincial transfers to universities. In real terms (that is, constant dollars), transfers to universities have declined by almost 40 percent over the past decade. In fact, universities in every province have experienced a decrease in the real value of provincial transfers, although the magnitude of this decrease has varied. Furthermore, the proportion of provincial spending devoted to transfers declined everywhere, with the exception of Saskatchewan. This decline in the funding role played by provincial transfers and the increasing reliance on tuition fees reflects a trend to privatization, or perhaps more accurately, user pay. In an indirect way, this is a form of decentralization.

When provincial transfers to hospitals in real terms are examined over the past decade, there is no apparent or clear conclusion as to the extent of decentralization and its pattern across provinces. Some provincial governments increased transfers (in constant dollars) to hospitals while others reduced them. Furthermore, to draw conclusions based on data that capture the situation up to 1998 is unlikely to reflect the current situation. For example, the 1999 federal budget increased transfers to the provinces for funding hospitals and health care. At the same time, many provincial budgets announced that there would be increased transfers for health care and hospitals.

This decreasing role played by provincial transfers to the MUSH sector has been motivated in virtually every instance by each province's desire to eliminate its operating deficit, to restrict the growth in or reduce its accumulated

debt while simultaneously cutting taxes. To achieve these objectives, provinces have responded, partially at least, by reducing provincial transfers and hence cutting direct provincial funding for services provided by this sector.

Reduced provincial grant funding for municipalities — substantial decreases in the real value of operating grants for universities and in some provinces, hospitals — has created a fiscal environment in which changes have emerged in their funding. Furthermore, there is nothing to indicate a change in direction in the near future. If anything, there is likely to be a greater emphasis on direct funding by users or consumers. Municipalities will increase their reliance on property taxes and user fees; the provincialization of public schools will not diminish; tuition fees will rise to account for an increasing proportion of university revenues; and user fees are likely to be introduced for hospitals or an increasing array of hospital services and the health-care sector more generally. On this latter point, it might require a change in the conditions of the *Canada Health Act* so that federal transfers to the provinces, under the CHST, would not decline in the presence of user fees.

While the recent funding pattern and its continuation into the future may incur significant criticism from a wide range of individuals, it may be economically fair, efficient, and accountable. For instance, efficiency may be improved if the price or tax per unit of output equals the extra cost of the last unit consumed. Accountability may be enhanced because of the fairly close link between the quantity consumed and the price or tax paid per unit of consumption. Greater fairness may arise as long as those who benefit from the services pay for them. Finally, to overcome the criticism that the use of benefits-based taxation for funding these services is unfair to the poor and restricts their opportunity for consuming them, income-support programs will have to be a part of the picture. For users of municipal services, schools, and hospitals this may include social-assistance programs targeted to specific individuals. For university students, it may include an expansion of scholarships and bursaries plus the introduction of a contingent repayment loan program where the repayment of funds borrowed for education purposes is based on the borrower's future ability to repay the loan.

## NOTES

The author wishes to acknowledge helpful and constructive comments on an earlier draft from two referees and the editor of this volume. Any errors or omissions, however, remain the responsibility of the author.

1. To stay within the traditional MUSH sector, the discussion concentrates on hospitals and not on Regional Health Authorities and the multitude of issues surrounding them.
2. See Harry Kitchen, *Local Government Finance in Canada* (Toronto: Canadian Tax Foundation, 1984), ch. 2.

3. Calculated from FMS data provided by Statistics Canada.
4. British Columbia has frozen tuition fees for five consecutive years; Quebec's tuition fees are frozen at \$1,668 for residents of the province but higher fees are imposed on out-of-province students.
5. Statistics Canada, "University Tuition Fees," *The Daily*, 25 August 1999; and "University Finances," *The Daily*, 13 September 1999.
6. Ibid.
7. Statistics Canada, "Student Debt," 30 July 1999.
8. David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, MA: Addison-Wesley Publishing Co., 1992).
9. For a discussion of these programs, see Robin Boadway and Harry Kitchen, *Canadian Tax Policy* (Toronto: Canadian Tax Foundation, 1999), chs. 8, 9.
10. While some elements of income redistribution are inherent in almost all public services, income redistributive services include welfare payments, children's aid, social housing, and income transfers to name the most obvious.
11. Under this view, user fees or charges are retained for funding those services whose costs and benefits can be assigned to specific properties or individuals (water and sewers, and a portion of transit and recreation, for example). For an excellent discussion of the benefits model of local finance, see Richard M. Bird, "Threading the Fiscal Labyrinth: Some Issues in Fiscal Decentralization," *National Tax Journal* 45, 2 (1993):207-27.
12. A discussion in support of property tax funding for local public services which provide benefits of a collective nature to the local community is found in John Bossons, Harry Kitchen and Enid Slack, "Local Government Finance: Principles and Issues," an unpublished paper for the Ontario Fair Tax Commission, Toronto, 1993; Almos Tassonyi, "The Benefits Rationale and the Services Provided by Local Governments," an unpublished paper for the Ontario Fair Tax Commission, Toronto, 1993; and Paul A.R. Hobson, "Efficiency, Equity and Accountability Issues in Local Taxation," in *Urban Governance and Finance: A Question of Who does What*, ed. Paul A.R. Hobson and France St-Hilaire (Montreal: Institute for Research on Public Policy, 1997), pp.113-31, especially 117-18.
13. In Manitoba, for example, municipalities receive a share of provincial personal and corporate income taxes.
14. See Neil Brook's commentary on the Ontario Fair Tax Commission's report entitled *Fair Taxation in a Changing World* (Toronto: University of Toronto Press, 1993) in the report at pp. 1019-23.
15. Harry Kitchen, "Pricing of Local Government Services" in *Urban Governance and Finance: A Question of Who does What*, ed. Paul A.R. Hobson and France St-Hilaire (Montreal: Institute for Research on Public Policy, 1997), pp.135-68, especially 160-62.
16. Private schools, by comparison, charge tuition fees.

17. Timothy Bartik, "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes and Other Characteristics of States," *Journal of Business and Economic Statistics* 3 (1985):59.
18. Harry M. Kitchen and Enid Slack, *Business Property Taxation, Government and Competitiveness Project Discussion Paper No. 93-24* (Kingston: School of Policy Studies, Queen's University, 1993).
19. British Columbia, *Report of the Royal Commission on Education: A Legacy for Learners* (Victoria: BC Government, 1988).
20. Bartik, "Business Location Decisions in the United States," p.18.
21. Harry Kitchen and Douglas Auld, *Financing Education and Training in Canada* (Toronto: Canadian Tax Foundation, 1995), ch. 4.
22. See "Financing Public Schools: Issues and Options, A Discussion Paper," Victoria: Education Funding Review Panel, 1992.
23. Ontario. Ministry of Education, "Alternative Methods of Financing Elementary and Secondary Education in Ontario," 1984; and Macdonald Commission, *Report on the Financing of Elementary and Secondary Education in Ontario*, 1985; and more recently in the report of the Ontario Fair Tax Commission, *Fair Taxation in a Changing World* (Toronto: University of Toronto Press, 1993), ch. 32.
24. Kitchen and Auld, *Financing Education and Training in Canada*, chs. 5-10.
25. For a detailed examination of the role of tuition fees in the overall framework of university and college finance, see David A.A. Stager, *Focus on Fees: Alternative Policies for University Tuition Fees* (Toronto: Council of Ontario Universities, 1989).
26. For a complete discussion of the theory on the social and private rates of education, see W.W. McMahon, "Consumption and Other Benefits of Education," in *Economics of Education: Research and Studies*, ed. G. Psacharopoulos (New York: Pergamon Press, 1987); and W.W. McMahon and A.P. Wagner, "Expected returns to Investment in Higher Education," *Journal of Higher Education* 16, 2(1981):274-85.
27. For a summary of these, see Kitchen and Auld, *Financing Education and Training in Canada*, ch. 7.
28. D.A.A. Stager, "Returns to Investment in Ontario University Education, 1960-1990 and Implications for Tuition Fee Policy," *The Canadian Journal of Higher Education* 26, 2 (1996):1-22.
29. Nancy Olewiler, "Let's Use Benefit Taxes More," *Policy Options* 19,10 (1998):24-27, p. 27.
30. John Vanderkamp, *Canadian Post-Secondary Enrolment: Causes, Consequences and Policy Issues*, Final Report for the Review of Demography (Ottawa: Ministry of Health and Welfare, 1988).
31. There are a large number of studies on this topic which have been summarized and compared in a paper by Leslie and Brinkman. See L. Leslie and P.T. Brinkman, "Student Price Response in Higher Education," *Journal of Higher Education* 58 2(1987):181-204.

32. D.S. Anderson and A.E. Vervoorn, *Access to Privilege: Patterns of Participation in Australian Post-Secondary Education* (Canberra: ANU Press, 1983).
33. See Benjamin Levin, "Tuition Fees and University Accessibility," *Canadian Public Policy/Analyse de Politiques* 16, 1(1990):51-59.
34. Robert Clift, Colleen Hawkey and Ann Marie Vaughan, "A Background Analysis of the Relationships Between Tuition Fees, Financial Aid, and Student Choice," unpublished paper, February 1998, pp. 5-6.
35. Stager, *Focus on Fees*, p. 64.
36. For strong arguments against vouchers, see Tim Sale, "The Funding of Post-Secondary Education in Canada: Can the Dilemma Be Resolved?" Working paper No. 28 (Ottawa: Economic Council of Canada, 1992), p. 34.
37. Peter M. Leslie, *Canadian Universities and Beyond: Enrolment, Structural Change and Finance* (Ottawa: AUCC, 1980).
38. The discussion by Friedman is found in Milton Friedman, "The Role of Government in Public Education," in *Economics and the Public Interest*, ed. R.A. Solo (Rutgers University Press, 1955). Examples of the ongoing discussion include: Ontario, Commission on Post-Secondary Education in Ontario, *The Learning Society* (Toronto: Queen's Printer, 1984); Carnegie Commission on Higher Education, *Quality and Equality: New Level of Federal Responsibility for Higher Education* (Hightown, NJ: McGraw Hill, 1968); Nova Scotia, Royal Commission on Post-secondary Education, *Reports* (Halifax: The Commission, 1985); D. Auld, "Paying for Post-Secondary Education," *The Toronto Star*, 7 July 1992. Detailed discussions of the capital markets argument and repayment of student loans can be found in Stager, *Focus on Fees*, ch. 7; and Edwin G. West, *Higher Education in Canada* (Vancouver: The Fraser Institute, 1988), ch. 8.
39. Canada, The Royal Commission on the Economic Union and Development Prospects for Canada, *Report* (Toronto: University of Toronto Press, 1985). In the commission's words, the income contingent repayment plan, "removes the necessity to consider whether or not a student could be supported by his or her parents ... feature does not require any 'needs' test before the loan is granted, since repayment will be tailored automatically to post-education income, and not to current needs," p. 751.
40. Olewiler, "Let's Use Benefit Taxes More," p. 27.
41. Richard M. Bird, *Charging for Public Services: A New Look at an Old Idea* (Toronto: Canadian Tax Foundation, 1976), p. 104.



**APPENDIX A**

***List of Municipal Government Services***

- Protection**    –    courts of law, correction and rehabilitation  
                  –    police  
                  –    firefighting  
                  –    regulatory measures

- Transportation and Communications**  
                  –    roads and streets  
                  –    snow and ice removal  
                  –    parking  
                  –    public transit

- Health**       –    hospital care  
                  –    preventive care

- Social Services**  
                  –    social welfare services

- Resource Conservation and Industrial Development**  
                  –    agriculture  
                  –    tourism  
                  –    trade and industrial development

- Environment** –    water  
                  –    sewer  
                  –    solid waste collection and disposal  
                  –    recycling

- Recreation and Culture**  
                  –    recreation  
                  –    culture

- Housing**     –    housing

- Regional Planning and Development**  
                  –    planning and zoning  
                  –    community development

- Debt Charges** –    interest payments

**APPENDIX B**  
**List of Municipal Government Revenues**

Own-Source Revenues

1. Property Taxes
    - real property
    - developers contributions and lot levies
    - special assessments
    - grants-in-lieu of taxes
    - business property taxes
  
  2. Other Taxes
    - amusement taxes
    - licences and permits
  
  3. User Fees
    - for water and sewage
    - rentals
    - concessions and franchises
  
  4. Investment Income
    - profits from own enterprises
    - interest and penalties from taxes
  
  5. Other
    - fines and penalties
- 
- 

Total Grants

1. Unconditional
  - no strings or conditions attached to receipt of these grants
  
2. Conditional
  - strings or conditions are attached to receipt or acceptance of grants

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## Funding an Aboriginal Order of Government in Canada: Recent Developments in Self-Government and Fiscal Relations

*Michael J. Prince and Frances Abele*

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*La mise en oeuvre d'un ordre gouvernemental pour les Autochtones au Canada est un lent processus de changements constitutionnels qui est non seulement défini par les jugements des tribunaux et la constitution écrite, mais aussi par les ententes financières, les programmes sociaux et les traités. Les principes et les pratiques de même que les problèmes et les possibilités du fédéralisme fiscal pour les Autochtones sont étudiés dans ce chapitre. Les idées de la Commission royale sur les peuples autochtones relativement à la réforme fiscale y sont présentées, de même que le plan d'action du gouvernement fédéral sur les Autochtones, Rassembler nos forces, lequel est une réponse à la Commission. En ce qui concerne les pratiques établies et les possibilités, cinq types d'arrangements financiers — allant de l'augmentation graduelle à la transformation de l'autorité et de l'autonomie des gouvernements autochtones — sont examinés. Afin d'explorer plus en détails les problèmes et les possibilités auxquels font face les gouvernements autochtones, les politiques fiscales visant deux situations spécifiques — les Autochtones vivant en milieu urbain ou hors-réserve et le traité Nisga'a qui vient d'être ratifié — sont présentées. Ces deux situations constituent des formes institutionnelles distinctes et nouvelles d'autonomie gouvernementale et illustrent à la fois les obstacles et les opportunités qu'offre le fédéralisme fiscal. Le rôle marginal des chefs autochtones nationaux dans les structures et les processus du fédéralisme exécutif est aussi examiné dans le contexte de la déclaration de Calgary de 1997 sur l'unité nationale et de l'entente sur l'union sociale de 1999. Les auteurs affirment que la réalisation complète de l'autodétermination autochtone exigera une réforme importante de la pratique actuelle du fédéralisme fiscal et des relations intergouvernementales. Les modes de financement des gouvernements autochtones sont et demeureront fort divers, tout comme la forme de ces gouvernements.*

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### INTRODUCTION

This chapter examines recent examples of the evolution of Aboriginal self-government and intergovernmental fiscal relations in the current extremely

fertile context of innovation and development. Our approach is a mixture of description, evaluation, and prediction. We describe the salient conclusions and recommendations for fiscal and governance reform in the 1996 report of the Royal Commission on Aboriginal Peoples (RCAP) and the federal government's initial reply. We assess the overall patterns in self-government and fiscal relations that are emerging across the country. And we forecast what the issues are likely to be over the next few years in the context of the federal Aboriginal Action Plan and the Social Union Framework Agreement. Matters of policy, key concepts, and jurisdiction are considered in the second section, and we offer some observations concerning the overall patterns of change in funding arrangements in section three. Two cases of Aboriginal governance and fiscal arrangements, urban and off-reserve Aboriginal People in the provinces, and the Nisga'a Treaty, are discussed in section four. Here we identify areas where further reform and innovation are necessary. In the next section, we consider the interrelationship between recent developments on national unity, the social union, and executive federalism on the one hand, and Aboriginal national representation on the other.

Our central argument is that the full realization of Aboriginal self-government will require significant revisions to fiscal federalism and some innovations yet to be identified. Existing fiscal arrangements are suitable for some First Nations, perhaps, but not for others.<sup>1</sup> As self-government arrangements evolve and the new institutions develop and adapt, it is becoming clear that the emerging "system" for funding Aboriginal governments will be extremely heterogeneous, as are the emerging governments themselves.<sup>2</sup> However diverse the elements of the system will be, it is important that they be fair to all and consonant with the constitution, legislation, and policy.

Since the 1980s, the machinery in provincial and territorial governments for managing Aboriginal affairs has grown, exhibiting considerable diversity as well. Federal institutions for consultation, program delivery, and policy support have changed a great deal. With signs of a third order of government, we believe a new concept and model of federalism is emerging in Canada. In light of this it is unfortunate that in the larger process to redefine the social union, Aboriginal issues in general and Aboriginal-federal-provincial-municipal fiscal relations more particularly have been marginal to current debates. Neglect of these matters, while the basic outline of the new fiscal social contract is being developed, risks the creation of "no-win" situations for Aboriginal and other governments, and exacerbation of general public concern of the implications of Aboriginal self-government.

## THE EMERGENCE OF AN ABORIGINAL ORDER OF GOVERNMENT

In his last major work on federalism, the distinguished political scientist Donald Smiley argued that Canadian politics would come increasingly to revolve

around forces other than those demarcated by provincial boundaries, thus challenging the strength of the provinces. One set of forces Smiley noted were pan-Canadian institutions and processes — the organization of the federal government and bureaucracy, national party leadership conventions, and the *Charter of Rights and Freedoms*. Other sorts of influence identified were spatially-delineated forces other than provincial: local governments, the local organizations of political parties, and territorial-defined groupings of rights-holders — specifically, official language minorities and Aboriginal Peoples. At the time he was writing in the mid-1980s, Smiley did not regard Aboriginal self-government and land claims as “very important in the total structure of political power in Canada.”<sup>3</sup> He did, however, view Canadian federalism as being in a process of continual transition and predicted that “considerable progress towards an enhanced range of aboriginal self-government is likely in the foreseeable future.”<sup>4</sup>

Since then, a number of developments suggest that the progress Smiley anticipated is evident. There has been a significant devolution of responsibilities for the management and delivery of health and social services to First Nations. Various other functions, in such areas as environmental protection, are in the process of being devolved. New treaties and agreements have been reached with Inuit and Cree in northern Quebec, Inuvialuit in the Mackenzie Delta area, the Inuit of Nunavut, the 17 Yukon First Nations, and the Nisga'a and Sechelt in British Columbia, establishing jurisdictions and their land and resource bases. Other Aboriginal nations are relatively close to agreements.<sup>5</sup> Concurrently, Supreme Court of Canada decisions continue to affirm and specify Aboriginal treaty rights.<sup>6</sup> Aboriginal groups and leaders, and some of their issues and concerns, played a notable part in the Charlottetown Accord, the unsuccessful effort at constitutional reform in the early 1990s. The Royal Commission on Aboriginal Peoples was established in 1991, reporting in late 1996 with 440 recommendations in five compelling volumes to which the federal government is, if only partially, responding. Several key decisions by the Supreme Court of Canada have been made on Aboriginal rights and title, prompting the federal government in 1995 to recognize in public policy the inherent right to govern by Aboriginal Peoples.

Aboriginal governments have existed in Canada for decades,<sup>7</sup> though their citizens generally have viewed them as not fully adequate. The Chief and Band Council arrangements created by the *Indian Act* in status Indian communities have numerous shortcomings, not the least of which is that the “constitution” provided by the Act is usually in conflict with the governing institutions characteristic of the original political culture. After a century of *Indian Act*-imposed institutions, however, in many places both the original governing traditions and the imposed ones have their advocates.<sup>8</sup> In such settings, the shape of government in the future is not yet evident. Metis have a land base only in the Metis Settlements of Alberta<sup>9</sup> but through the Metis National Council they have advanced proposals for Canada-wide self-government. It is likely that

Metis land and self-government rights will become considerably clearer over the next several years, as senior judicial attention turns to these questions. For all Inuit except those who live in Labrador, self-government arrangements are in place. It remains for the residents of Nunavut and Nunavik (a public regional government in northern Quebec) to work with the new institutions to build strong governments and strong societies. Just which, if any, self-governing arrangements will serve the growing number of Aboriginal People living in the cities remains largely an open question.

The public orders of state, the federal and provincial governments, are not similar — that is, the federal order consists of one big government; the provincial order consists of ten provincial governments (and three quasi-provinces or provinces-in-waiting). The Aboriginal order would consist of even more governments, which would be even more heterogeneous. One might ask whether such a varied institutional landscape could properly be referred to as a separate, Aboriginal order of government. At present, the answer is, probably not. But the trend seems clear. Various forms of Aboriginal self-government have been negotiated, each with specific areas of jurisdiction and specific fiscal relationships to their citizens and to federal and provincial governments. More Aboriginal governments will come into being.

In a sense, the emergence of an Aboriginal order is a slow-moving constitutional change, of the sort that created the unwritten part of the Canadian constitution. All constitutional change does not proceed by formal amendment, nor should it. A good example is the evolution of the social union; another example is the building of institutions and taxation capacity for First Nations.

Table 1 outlines a selection of key developments over the past decade or so in establishing legislative and institutional underpinnings of the fiscal role of First Nation governance. The amendment of the *Indian Act* in 1988 gave First Nations explicit power to levy property taxes and, in particular, to tax non-Native interests in reserve lands. The Indian Taxation Advisory Board's (IATB) establishment in 1989 made it the first Aboriginal-controlled institution involved in the exercise of the minister of Indian affairs decision-making powers under the *Indian Act*. By 1997-98, 78 First Nations in seven provinces had taxation laws generating annual revenues of over \$26 million. Since the amendment of the *Indian Act*, over \$100 million have been raised by First Nations. The IATB has processed over 530 bylaws covering property taxation, assessment, rates, expenditure, business licensing, financial administration, telephone companies, and related matters. This trend not only illustrates capacity development but also the diversity in strengthening governance that we have already mentioned. Only 12 percent of all First Nations (78/633) have chosen this real property taxation route to date, and two-thirds of these First Nations (53/78) are located in British Columbia.

This table illustrates the nature and face of change for one large group of people, status Indians, in one important aspect of their relationship to fiscal

**Table 1: Legislative and Institutional Developments in Building the Taxation Capacity of First Nations in Canada, 1988 -1999**

<i>Year</i>	<i>Development</i>
1988	Bill C-115, amendment to the <i>Indian Act</i> giving First Nations the power to levy property taxes.
1989	Formation of the Indian Taxation Advisory Board (IATB).
1990	Bill C-65, <i>Indian Self-Government Act</i> requires British Columbia provincial government and its municipalities to vacate property tax jurisdiction on reserves when a First Nation passes a section 83 bylaw to avoid double taxation.
1994	Aboriginal Payments-in-Lieu of Taxes Program between IATB and Ontario Hydro so that First Nations receive grants in lieu of taxes, like municipalities, for hydro assets located on their land.
1995	First Nations Finance Authority established.
1996	First Nations Tax Administrators' Institute established associated with the University of Victoria.
1997	Centre for Municipal-Aboriginal Relations opened, sponsored by the IATB and the Federation of Canadian Municipalities.
	<i>First Nations Gazette</i> , the formal vehicle for giving legal notice to the general public of First Nations legislation, is launched.
	Federal legislation allows the Cowichan Tribes of Indians and the Westbank First Nation to impose taxes on the sale of tobacco products on their reserves by status and non-status persons.
1998	Memorandum of Understanding signed between the Assembly of First Nations and the Certified General Accountants' Association of Canada to implement a joint Accountability Project that will increase the accounting and auditing knowledge and skills of First Nations.
1999	The Quebec government and the Kahnawake First Nation reach a five-year agreement on tax exemption and tax collection.

Sources: Indian Taxation Advisory Board, various issues of their newsletter, *Clearing the Path*, available at [www.itab.org](http://www.itab.org), and Assembly of First Nations.

federalism — taxation. Similar patterns can be demonstrated for other Aboriginal groups and other fiscal matters. By such means is the new order emerging.

#### FINANCING ARRANGEMENTS FOR ABORIGINAL GOVERNMENT: PERSPECTIVES AND PRACTICES

The *Report of the Royal Commission on Aboriginal Peoples*, and the federal reply to it, *Gathering Strength*, both emphasize the importance of fiscal reform and express similar ideas concerning funding arrangements for Aboriginal governments. In addition, we identify five types of fiscal relations that either exist in current practices or in the form of policy proposals.

##### THE RCAP PERSPECTIVE

The RCAP final report emphasized the central importance of fiscal arrangements to determining a new relationship between Aboriginal and public governments in Canada.

Financing was presented as one of the fundamental ingredients of effective and good governance, closely intertwined with the two other basic attributes of legitimacy and power. As the commissioners observed, Aboriginal Peoples as a well as other Canadians and the federal and provincial governments want to have confidence in and support the fiscal arrangements. This legitimacy of financing depends on the adequacy and stability of funds, the accountability for and control over transferred funds, as well as the effectiveness in meeting the needs of Aboriginal citizens and communities. The legal and formal authority of any form of governance, Aboriginal or otherwise, needs fiscal resources to realize the capacity to act, to make and enforce laws, and to deliver programs and services.

On the current state of fiscal capacity and policy arrangements, the Royal Commission noted that Aboriginal governments are highly dependent on federal funding that has often been conditional, discretionary and, therefore, unpredictable over time. Embedded in this critique is a set of preferred features for financing Aboriginal governments. To support political autonomy and policy planning, a significant proportion of funding should be unconditional, predictable, and relatively stable through time. What the commissioners had in mind was the formula-funding approach in the fiscal arrangements between the federal and territorial governments. These arrangements are based on a set of indicators and reviewed every five years. Reporting requirements should be fairly simple and not necessitate elaborate administrative rules and structures. These criticisms are familiar ones. The solutions have been proposed before, by the Penner report in 1983, the last time Aboriginal fiscal issues were examined at length at the federal level.<sup>10</sup>



The RCAP expressed five objectives for financing Aboriginal governments. Financial arrangements for Aboriginal governments should advance and support the following fundamental goals:

- *Self-reliance* by encouraging the development of independent sources of revenue;
- *Equity* in the distribution of resources among and between Aboriginal governments and between Aboriginal and non-Aboriginal People as a whole;
- *Efficiency* in the use of limited resources for service delivery;
- *Accountability* for the use of public funds and for revenue decisions; and
- *Harmonization and cooperation* with adjacent jurisdictions with respect to program and service standards, and tax policies.

In essence, these goals are criteria for designing fiscal arrangements. They stress the principles of fiscal autonomy through own-source taxing authority, fiscal equity, program and management efficiency, public accountability, and economies of scale. The RCAP vision on financing recognizes that transfer payments from the federal and provincial governments will be needed, but to a lesser extent over time. The hope is that many Aboriginal governments would become largely self-financing in the long term through access to own-source revenues. Transfer payments ought to be freed from many of the restrictions on their use and accountability; and reporting requirements for Aboriginal governments should be no more onerous than those for the federal and provincial governments. The RCAP also recommended that new financing arrangements should provide opportunities for individual Aboriginal communities to aggregate their collective interests with neighbouring Aboriginal and/or non-Aboriginal jurisdictions. Whatever measures of cooperation in service delivery arrangements may take place, the level of services should be equalized so that programs delivered by Aboriginal governments meet the standards of comparable public services in adjacent public jurisdictions.

#### THE FEDERAL GOVERNMENT'S PERSPECTIVE: RESPONSE TO RCAP AND VISION OF TREATIES

*Gathering Strength: Canada's Aboriginal Action Plan*, released in 1997, is the federal government's response to the Royal Commission, self-described as "a framework for new partnerships with First Nations, Inuit, Metis, and Non-Status Indians. It is a first step toward more effective working relationships between the Government of Canada and Aboriginal people."<sup>11</sup> Initially, the second Chrétien government had three social priorities: jobs, youth, and health care. In the wake of the RCAP report, Aboriginal issues were added as

the fourth priority and *Gathering Strength* became a horizontal policy initiative, not simply a departmental one by Department of Indian Affairs and Northern Development (DIAND).<sup>12</sup>

More a course correction than a radical shift in federal policy, the action plan is very much about self-government and self-reliance. The plan has four core objectives: renewing partnerships; strengthening Aboriginal governance; developing a new fiscal partnership; and supporting strong communities, people, and economies. Our focus in this chapter is on the second and especially the third of these objectives. Strengthening Aboriginal governance is expressed in the federal government working with Aboriginal People, the provinces and territories, as well as other partners, to develop "practical, sustainable governance arrangements for Aboriginal people that are built on legitimacy, authority and accountability." Steps to do this include funding for Aboriginal women's organizations to assist greater participation of women in self-government processes and cost-shared Metis enumeration. Closely related to this aim is the objective of developing a new fiscal relationship.

Stronger Aboriginal governments obviously need fiscal autonomy and fiscal capacity. Echoing the RCAP, the federal government's action plan states that new fiscal relations mean arrangements that are "stable, predictable and accountable and will help foster self-reliance." The document mentions a number of specific measures:<sup>13</sup>

- Multi-year funding arrangements to increase the capacity of First Nations governments to spend according to community priorities. (DIAND reports the transfer of about \$1 billion to nearly 300 First Nations in 1996-97 under multi-year funding arrangements.)
- Reform to the processes for negotiating and implementing the multi-year funding arrangements. ("The overall aim will be to ensure that programs and services provided by Aboriginal governments and institutions are reasonably comparable to those provided in non-Aboriginal communities.")
- Consolidation of funding from different government departments into one funding arrangement. The only venture mentioned is a joint pilot project of Health Canada and DIAND.
- Establishment of joint fiscal-relations tables for the development of mechanisms for financial government-to-government financial transfer systems.

Six principles are evident in various sections of the action plan that pertain to the strategy of a new fiscal relationship.<sup>14</sup> These principles include: creating stable and predictable relations with multi-year funding arrangements, reducing administrative burdens by harmonizing federal fiscal reporting requirements across departments, and ensuring accountability to community members as

well as to maintaining accountability to funding governments. Further principles include: enhancing the internal generation of own-source revenue, strengthening the capacity to collect and analyze data on program performance and service results, and expanding access to investment equity and capital for Aboriginal businesses and communities.

With some adaptation, these principles are seen to apply not only to First Nations but also Metis, off-reserve groups, and Aboriginal groups in the North. Although DIAND has statutory responsibility only for status Indians and Inuit (as well as in a different sense, all territorial residents), *Gathering Strength* mentions the needs of two groups usually explicitly excluded from the department's ambit: Indians who do not live on reserves and Metis.

[T]he government has looked specifically at the unique requirements of Metis and off-reserve Aboriginal groups. The government will seek to create multi-year funding arrangements with these groups and to harmonize federal fiscal reporting requirements across federal departments wherever possible, while maintaining the principle of accountability. These initiatives will contribute to creating a more stable and predictable environment for Metis and off-reserve Aboriginal groups, and should lessen the administrative burden that they face.<sup>15</sup>

To implement these principles, steps identified in *Gathering Strength* directly relevant to financial matters include:

- new financial standards comparable to those for other governments in Canada, including a system of public accounts and consolidated audits that comply with generally accepted accounting principles;
- support for Aboriginal governments wanting to increase their level of financial independence by helping First Nations to develop their own sources of revenues, including taxation;
- Statistical Training Program for Aboriginal groups in order to improve data collection methods and routine information exchange between the federal government and Aboriginal governments; and
- an Aboriginal Peoples Survey following the 2001 Census of Canada to improve data collection.

The Royal Commission identified treaties as the central mechanism for restoring relations of mutual respect and fair dealing between Aboriginal and non-Aboriginal People. This view is rooted in the historical role played by treaties and in their status as constitutional documents by virtue of section 35 of the *Constitution Act, 1982*. Treaties — both historical and modern ones — are affirmed by the federal government as a key vehicle for addressing Aboriginal issues, implementing the inherent right of self-government. Comprehensive claims agreements are recognized to be modern treaties. For groups that do not have a treaty but wish to enter into such a relationship, the federal government's vision appears to be that of a treaty package with several

components.<sup>16</sup> These components embrace defined rights and powers over land and resources, defined rights and formal recognition of governance, an expanded land-base to the First Nation reserve that is recognized, plus a capital infusion and new fiscal relationship.

The federal perspective is that there will be a new government-to-government comprehensive fiscal transfer relationship rather than an *Indian Act* financial transfer arrangement. Funding should be flexible, stable, and sustainable for the long term. While the general principles on fiscal provisions may be included in a treaty and therefore will receive constitutional protection, the details on funding levels and program and taxation terms will not. Typically, fiscal financing agreements will be for five years with a defined process for renewal.

Accountability is mentioned here as well, as a matter of concrete concern to First Nations and to government:

Any new fiscal relationship must ensure that all Aboriginal governments and institutions are accountable to their members through frameworks built on the recognized principles of transparency, disclosure and redress common to governments in Canada. This includes the progressive implementation of government budgeting, internal controls, reporting and auditing standards.

Accountability to both community members and the Government of Canada will be enhanced through regular reporting of results against defined criteria and periodic evaluation of the effectiveness of financial arrangements with Aboriginal governments.<sup>17</sup>

Accountability for resource allocation and programming decisions is to be to Aboriginal citizens, likely addressed in an internal constitution that deals with transparency, disclosure, and redress provisions. Accountability to the transfer government(s) continues to exist for program and financial standards comparable to other governments. This will involve information-sharing and reporting on agreed-upon program terms and conditions. Whatever financial arrangements are negotiated with any one First Nation, Tribal Council or other Aboriginal group must be workable for other situations in the national context. Factors considered in negotiating the fiscal matters in a treaty take in the cost of proposed government institutions, the location and accessibility of the lands, and the population and demographic characteristics.

Ultimately, the fiscal capacity of an Aboriginal government under a new treaty must be adequate to provide public services at levels comparable to those in that region of the province. Treaty groups will continue to have access to existing and new Aboriginal federal programs that are not assumed under a fiscal agreement. The federal vision of a treaty sees financing of Aboriginal governments as a shared responsibility among the federal, provincial, and Aboriginal governments. The financial component of any treaty is guided by the principle of affordability for all three parties. Recognition of the legal

authority of an Aboriginal government does not automatically create specific financial obligations for the federal or the provincial government party to a treaty. On the other hand, the new authorities obtained by a treaty will include taxation powers and exemptions for government and the ability to borrow. Moreover, resource-related benefits within First Nation lands would probably include new opportunities for employment and revenue generation.

The federal perspective also holds that the revenue capacity of Aboriginal governments, especially own-source revenue (OSR), must be directly integrated into fiscal transfer agreements. OSR should come into effect over a phase-in period to allow for the transition to self-government. The aim is that reliance on transfers, where feasible, will be reduced over time, and that the incentive to raise OSR will be promoted rather than discouraged or penalized under fiscal agreements. A treaty has the potential to increase the capacity to generate and attract capital, conduct business on an equal footing, and manage natural resources throughout the territory.

#### CURRENT PRACTICES, PILOT PROJECTS AND POSSIBILITIES: A CLASSIFICATION

Surveying the state of Aboriginal fiscal federalism in Canada, five types of financial arrangements can be noted in the form of policy proposals or established practice. These are: customary DIAND funding arrangements, adaptations to transfer payments and arrangements, economic development measures focused on capital and contracts, new fiscal arrangements in part or in whole, and framework policies on a sectoral or national basis.

First, are the existing financial arrangements with First Nation/Indian band governments primarily from DIAND. These arrangements include Comprehensive Funding Arrangements, Alternative Funding Arrangements (AFA), Flexible Transfer Payments (FTP), Contributions, and Self-Government Funding Agreements (SGFA). In general these arrangements, still quite prevalent among First Nations, are restrictive funding authorities with limited powers, autonomy and local accountability.<sup>18</sup> In addition, there are funding vehicles such as the On-Reserve Housing Policy launched in 1996 and the Innovative Housing Fund announced in 1999 to address urgent housing needs on reserves across the country.

Second, there are modifications and adaptations to these existing arrangements. The introduction of SGFAs in the mid-1980s, for the Cree-Naskapi and the Kativik regional government in Quebec, and the Sechelt Indian Band in British Columbia were innovations in fiscal relations for their day. These reforms were followed in the later 1980s by AFAs and FTPs which both sought to modernize the DIAND-Indian band relationship. More recently, in the later 1990s, a new device, the Financial Transfer Agreement (FTA), has been introduced. Hailed by DIAND as a "more modern fiscal relationship," the FTA is a five-year arrangement to support long-term planning and greater flexibility in

program design and allocation of funds in line with community priorities. It is adjustable to reflect changes to the First Nation's population and covers a wide range of programs and services. Accountability to First Nation members is strengthened by FTAs incorporating the principles of transparency and disclosure in the delivery of programs, and redress of grievances between the Nation's leadership and its members. Ministerial responsibility to Parliament and First Nations people remains intact. As of March 1999, 13 First Nations in Saskatchewan had signed FTAs. In the Yukon, the seven self-governing First Nations have been allocated funds, as part of the capacity development theme under *Gathering Strength*, to work on gathering population statistics, and designing financial systems and auditing standards required for the self-government.

The transfer of program management responsibilities for Aboriginal friendship centres and cultural education centres to their respective national organizations is another example of this kind of adaptation. Still other examples include a pilot project between DIAND and Health Canada to create a simplified consolidated funding agreement for First Nations governments; and a project among First Nations, DIAND, and the accounting industry to develop financial statements that are credible and understandable to community members and other organizations.

Third, are measures by federal departments and agencies to invest funds in, and award contracts to Aboriginal businesses. Through its Opportunity Fund, the federal government is seeking to increase business equity funding for First Nations' enterprises. Furthermore, through its Procurement Strategy for Aboriginal Business, 39 federal departments and agencies have awarded contracts to Aboriginal business worth \$50 million in 1997 alone.<sup>19</sup> Such measures are explicitly aimed at strengthening economic development and self-reliance of Aboriginal communities and, in turn, Aboriginal governance and fiscal capacity. Aboriginal business arrangements do not just benefit the immediate partners in material ways. Such arrangements can build bridges across cultures, forging trust and fostering greater understanding between Aboriginal and non-Aboriginal communities; they assist the wider land claims and treaty processes; and they send positive signals to investors that stable and productive economic environments are being created.

Fourth, are fundamentally new fiscal arrangements in whole or in part for a particular First Nation and their members whether they reside on- or off-reserve. An example of a new component arrangement is the five-year tax agreement reached in March 1999 between the Quebec government and the Kahnawake Nation. This Mohawk First Nation will be able to charge tax-like levies on non-native people within the reserve, equivalent to the provincial sales tax, without applying that same fee to natives. The proceeds will remain within Kahnawake. Off their territory, Kahnawake Mohawks will be able to purchase goods and services for personal consumption tax-free when using

special magnetic identification cards. "The system will be computerized and the data shared with provincial authorities" and any taxes collected in advance on tobacco, gasoline, and alcohol "will be remitted directly to the band council rather than individuals." Grand Chief Joseph Norton called the agreement, "another step in a very historic process. I must pay tribute to the Quebec government for their willingness to take risks." According to the Quebec finance minister, "It will make everything transparent and make it harder for the minority to fraud the system."<sup>20</sup> The Quebec government will also pay \$2 million a year in user fees in recognition of the commuters that daily cross the reserve on three different provincial highways. An example of a new fiscal arrangement in whole is the fiscal relations and powers contained in the Nisga'a Treaty, which we examine in some detail in the next part of this chapter.

Fifth, are sectoral arrangements, accords with national Aboriginal organizations and, ultimately, a Canada-wide fiscal framework. The first two are emergent practices in Aboriginal fiscal policy, while the third is a dream espoused by the RCAP. Establishing fiscal relation tables in certain provinces, between the federal and provincial governments, such as in Saskatchewan, represent a sectoral approach to financial issues. These tables aim to develop government-to-government financial transfer systems for First Nation governments. The agreement between the federal Department of Human Resources Development Canada and the Inuit of Tapirisat of Canada, for the 1999-2004 period, illustrates the role of national accords in Aboriginal fiscal relations. Under the principles and goals of this accord, Aboriginal Human Resource Development Agreements will be signed with Inuit organizations across the country for the design and delivery of labour market programs and services at the local community level.<sup>21</sup>

The last aspect of this final type of financial arrangement is the most ambitious and least developed at present. It relates to the proposal by the RCAP that a Canada-wide fiscal framework be negotiated by representatives of the federal government and provincial and territorial governments, and national Aboriginal Peoples' organizations. Such a process would involve 14 public governments and at least five national Aboriginal organizations, and such a framework would have to be negotiated simultaneously alongside treaty negotiations and other Aboriginal policy initiatives. We will comment on the prospects for this proposal in the final section of the chapter within the current context of the social union and fiscal federalism more generally in Canada.

These five types of financial arrangements interrelate in a number of ways. Most focus on individual First Nations or Aboriginal groups, though the economic development measures and the RCAP vision of a Canada-wide fiscal framework are more national in nature. Each has a mix of strengths and weaknesses, risks and opportunities for Aboriginal governments and public governments. The first types of arrangements offer gradual capacity development and piecemeal reform within the administrative controls and policy

structure of the *Indian Act*. For the later kinds of fiscal relations, a policy context other than the Act is taken as the starting point, with sharper breaks from past federal government practices. Reform here would involve not just unconditional financing for programs and services, but the equivalent of an equalization program and perhaps tax-collection agreements.

**Table 2: Aboriginal Fiscal Relations: Practices and Possibilities**

<i>Types of Financial Arrangement</i>	<i>Focus</i>	<i>Extent of Reform</i>	<i>Degree of Fiscal Autonomy</i>	<i>Contribution to self-government</i>	<i>Impact on Canadian Federalism</i>
Existing arrangements DIAND-First Nation	Band level	Minor modifications	Limited/ restrictive	Little to modest	None
Adapted arrangements (SGFA, FTP, AFA,* transfer of program funding)	Band, First Nation, Organization (Friendship Centres)	Variable, but dynamic	Potential to grow; no emphasis on "own source"	Gradual capacity building	None
Investment in Aboriginal business	Businesses; financial sector	Potential to change economic circumstances	Variable but not large (grants and guarantees)	Transforming economic relations, separate from political change	Minimal
New component arrangements	First Nations' territories and members wherever they reside	Potential major breakthrough	Taxation power; potential to be large	Extends some governance powers over non-First Nation members on FN territory	Could be large; province is agent of change
Sectoral arrangements; Canada-wide	Government-to-government; government-to-Aboriginal National Organizations	Transfer of responsibility and funding	Potential to be large	Could be transformative	Very great potentially; not much in existence

Note: \* These acronyms refer to Self-Government Funding Agreements, Flexible Transfer Payments, and Alternative Funding Arrangements.



Altogether, the five types represent a spectrum of possibilities on the present Aboriginal policy agenda. The types range over an increasing emphasis on own-source revenues that could include taxation, investment, borrowing, business fees and royalties, and proceeds from gaming and lotteries. They range from a low to a high level of fiscal autonomy and authority for Aboriginal governments. They also differ in terms of the degree of change and innovation. Several of these types can and do co-exist within particular First Nations or Tribal Councils. Some funding types, however, would be uneasy partners as they are built on different philosophies of governance and Aboriginal-public government relations. The appropriateness of a particular fiscal transfer or set of fiscal transfers for any given Aboriginal government relates to various considerations such as the capacity and willingness of the community and the transfer government. The RCAP view, for instance, is that individual First Nations or Indian bands are too small to reasonably exercise the right of self-government. Given the remarkable diversity among Aboriginal governments and groups across Canada, several forms of fiscal relations will continue to exist for a long time.

## EXISTING FISCAL ARRANGEMENTS IN TWO SITUATIONS

Emerging forms of Aboriginal self-government range from the "public government" model of the new territory of Nunavut, through the regional public government of Nunavik, reserve-based First Nation governments with varying levels of autonomy and funding arrangements, to visions of urban self-government. Also, there are the innovative composite forms of Aboriginal and public government created by modern treaties in, for example, Yukon and the Nisga'a territory. For reasons of space, our attention is on two differing situations: (i) the circumstances of urban and off-reserve Aboriginal People in the provinces; and (ii) the governing and fiscal arrangements created by the Nisga'a Treaty.

Each situation illustrates a distinctive and relatively new institutional expression of Aboriginal self-government, and each creates particular challenges and opportunities for fiscal federalism. We provide a brief description and analysis of each in turn, identifying instances of innovation.

### URBAN AND OFF-RESERVE ABORIGINAL PEOPLE

Almost everyone recognizes that fiscal arrangements and program delivery for the over 50 percent of Aboriginal People who live in cities (and the over 70 percent who do not live on reserves) are inadequate, complicated, unsuitable, and frequently unfair. There is less consensus on who is responsible for sorting the matter out, and who bears primary fiscal responsibility.

At the level of high policy, the federal government through the Ministry of Indian Affairs and Northern Development recognizes that Metis, non-status, and status people living off-reserve, are all Aboriginal People who are entitled to certain specific services, just as are status Indians living on reserves. For example, the federal response to the RCAP report, *Gathering Strength* was issued by the minister of Indian affairs and northern development, but includes commentary on Metis, Inuit, and off-reserve matters. At the level of active program development and service delivery, with a very few exceptions,<sup>22</sup> the Department of Indian Affairs and Northern Development continues the long-standing practice of funding services on reserves and for Inuit, only.

The fiscally driven distinctions among Aboriginal People create a myriad of problems. Aboriginal Peoples are categorized into unequal classes for funding and programming purposes. The consequences of this balkanization are several. It excludes different groupings of Aboriginal People from accessing established programs and services. It creates hierarchies and thus divisions among First Peoples. This balkanization also creates competition ("petty politics") for representation of off-reserve First Nation people among various Aboriginal leaders and their organizations, and complicates enormously the ability of urban-based and off-reserve Aboriginal communities and municipal authorities to collaborate on such matters as local service provision agreements. Furthermore, as more and more modern treaties are signed, the old distinctions between status and non-status Indians could well become less salient. And, of course, the 1982 entrenchment of existing Aboriginal and treaty rights recognized the bearers of these rights as "Indians, Inuit and Metis" — a provision that puts considerable pressure on DIAND's focus on status Indians only.

There are influential research and advocacy groups who seek to represent the interests of urban Aboriginal People, in a status-blind or at least status-neutral way. For many years, the Native Friendships Centres have provided services to all Aboriginal People (and, for that matter, other local residents) without regard to status or ethnicity. Through the National Association of Friendship Centres, the people active in this movement have advocated for Aboriginal People in cities and towns. Newer organizations that are also having an important effect include the Centre for Municipal-Aboriginal Relations, the Aboriginal Council of Winnipeg, Aboriginal Capital Corporations, perhaps the National Aboriginal Housing Association, and the Institute of Indigenous Government.

For many Aboriginal Peoples, and many leaders, it is hard to see how constitutional amendments and the existing treaty negotiating processes can address the urgent problems of the cities: unemployment, homelessness, youth prostitution, violence, and drug addiction. These linked social problems arise from racism, inadequate education systems, poverty on and off reserve, and (for some communities) several generations of social dislocation. They require immediate amelioration, as well as longer-term, big-P political solutions.<sup>23</sup>

The federal government has created the possibility of the negotiation of tripartite agreements on self-government, engaging with provincial and territorial governments, and provincial or territorial Aboriginal organizations. Although in the Maritimes, in British Columbia, and in the north there has been considerable interest in the possibilities for simplifying service delivery and achieving some stability, these discussions are hardly progressing. Participants report that a major stumbling block is federal-provincial jousting over jurisdiction and responsibilities. The federal government representatives are mandated to avoid all funding commitments off-reserve, even for status Indians. The provincial government representatives must guard against federal off-loading, and ensure that they make no open-ended commitments that could strain their much smaller resources. Negotiators on both sides have no control over the policies that so hamper their ability to make progress.

The 1990s cutbacks in many areas of federal expenditure have tended to exacerbate reserve/off-reserve or status/non-status inequities. The Canada Mortgage and Housing Corporation (CMHC) Rural and Native Housing Program, for instance, was cut. This program provided housing for Aboriginal People on and off-reserve. What has survived is funding for housing for status Indians, administered to an ever-increasing degree by band governments. Faced with burgeoning populations on reserves and relatively small and decidedly limited levels of funds, even bands who wished to assist off-reserve people would be hard pressed to do so.

The impact of the CMHC cutbacks on Inuit have been documented in a report prepared by Pauktutit, the Inuit Women's Organization:

Inuit do not live on reserves and have to compete with other non-Aboriginal Canadians for social housing. In 1993, the federal government eliminated its portion of cost-shared funds to the Government of the Northwest Territories, the Government of Quebec and the Government of Newfoundland and Labrador for the construction of new social housing units. This action ... has had an extremely negative impact on the Inuit housing crisis.

... Overcrowding, inadequate and unsafe housing conditions, and the lack of basic facilities including running water and indoor plumbing, all contribute to increased incidences of communicable diseases, increased infant mortality and shorter life spans for many Inuit ...

[Overcrowding] can leave residents of a household with little respite from the chronic high unemployment rates, the breakdown of the traditional culture and the general stresses associated with being frustrated and living in poverty.<sup>24</sup>

Cuts in just one program area have exacerbated an already difficult social condition.

Most funding for services for urban non-status Indians, Inuit, and Metis is project funding made available for specific and predefined purposes by one of several federal departments. On occasion provincial governments contribute

or fund other ventures. While such funding — for drug counselling, training, family violence protection, among other purposes — is probably helpful, it is rarely stable. The instability of funding is itself a very expensive feature of current arrangements for urban Aboriginal People. Negotiations over funding quite often delay the commencement of programs so that a hasty beginning jeopardizes their implementation. These days, projects are frequently housed in Aboriginally controlled and staffed policy or service delivery organizations that are themselves operating on an inadequate financial base. Usually there is no non-governmental funding. Staff in these organizations devote a great deal of their energies toward learning of new program opportunities, negotiating for funding, and reporting on how that funding was spent, while rarely enjoying the capacity to administer a service over a sufficient period of time in which to learn from experience and improve their practices. In fact, the need to justify activities to funders on a very short time frame (even three-year funding commitments are rare) can lead these organizations to overlook or actively avoid confronting “soft spots” in their delivery.

Given the different circumstances off-reserve and in the cities, it is obvious that innovative and cooperative fiscal regimes are required. These regimes must be adequately resourced, for the absolute numbers of people and their needs are great. Even if different institutions for different ethnic groups are appropriate to local circumstances (as, for example, on the prairies Metis and Treaty Indians wish and require separate service delivery mechanisms) *levels* of funding must surely be status-blind.

Two system-wide areas of reform require urgent action. First, federal and provincial jurisdictional “marching orders” for negotiators should be clarified at the policy level. The Royal Commission on Aboriginal Peoples argued for the following regime:<sup>25</sup>

1. The federal government should assume the full cost of establishing self-government on the extended territories that result from treaty negotiations, *and* off a land base.
2. Existing programs on reserves should continue to be the responsibility of the federal government until the programs would be assumed by Aboriginal governments, after which time funding would be a matter of generally negotiated fiscal arrangements.
3. The cost of programs off-reserve, in excess of provincially available funding levels would be borne by the federal government.
4. Parallel arrangements should be made for Metis.
5. Provincial and territorial governments should be responsible for off-reserve services ordinarily available to other provincial or territorial residents.

As the commission noted, these principles establish clear lines of responsibility, thus enhancing democratic government, and they follow the traditional lines of constitutional responsibility. We note further that to *clarify* responsibilities does not amount to *writing a blank cheque*: there are many areas of governmental responsibility where available funding limits activity below the optimum levels.

Clarification of responsibilities should go some distance toward introducing more stable funding regimes for service delivery. In the shorter term, devolution of responsibilities and funding should aim for longer renewal horizons and provide funding for internal program review and improvement.

#### THE NISGA'A TREATY: GOVERNANCE AND FISCAL ARRANGEMENTS

British Columbia is the only province in Canada in which the majority of its Aboriginal Peoples have not signed treaties. The Nisga'a Treaty, recently ratified by the provincial and federal legislatures, is the first modern-day treaty in the province. Nisga'a have been actively seeking a treaty for over 120 years.<sup>26</sup> The recent treaty negotiation process extended over 20 years and while it may not serve as a precise template for other treaties, the Nisga'a settlement is an important guide and symbol. As the treaty is ratified and implemented, the Nisga'a will enter an eight to twelve year phase-out period, after which Nisga'a citizens will be fully taxed. The Nisga'a Treaty is also noteworthy because the internal governance structure is a genuine federal system and because a variant of the equalization principle, a cornerstone of modern Canadian federalism, is enshrined in the fiscal arrangements.

The Nisga'a are a relatively large First Nation with about 6,000 members, most of whom live in urban centres. The governance structure is moving from a two-tier system of a Tribal Council and four Indian Bands to a three-tier system of the Nisga'a Lisims (or central) Government, four Village Governments and three Urban Locals for Nisga'a citizens who live off the territory. The Nisga'a have substantial experience with policy and management, having operated a Health Board, Board of Trustees of a School District, a Family Law Program, and a Child and Family Services Program for a number of years.

Three basic principles lie behind the governance structure and jurisdictional model of the Nisga'a Treaty.<sup>27</sup> First, the *Indian Act* no longer applies. Second, the treaty is comprehensive in that all potential jurisdictions are included and it is constitutional in that the rights therein receive section 35 protection in the *Constitution Act, 1982*. Third, federal and provincial constitutional division of powers remains intact; and fourth, that the Nisga'a's structure is a federal system with a single written constitution. Detailed descriptions of at least 26 areas of jurisdiction are contained in the treaty. Nisga'a lands will not

be reserves within the meaning of the *Indian Act*. Instead, they will become Nisga'a Land owned communally by the Nisga'a nation with title vested in the Nisga'a government. In turn the Nisga'a government will have the authority, in accordance with the treaty and their constitution, to create or transfer interest in Nisga'a Land without the consent of the federal or provincial governments.

In the treaty are several innovative and distinctive governance features. One concerns the process and financing of the process for determining membership as Nisga'a citizens. Under the treaty, the burden of demonstrating eligibility will be on the applicant. An Enrolment Committee will be established by the Nisga'a central government comprising eight Nisga'a persons, two from each of the four Nisga'a tribes. This committee will consider each application and either accept or reject it. The treaty provides for an Enrolment Appeal Board of three members, at least one appointed by the federal government. The federal and provincial governments will pay the reasonable and necessary costs of the committee and the board for an initial enrolment period of two years. After that, the Nisga'a central government will bear all costs associated with enrolment/citizenship, and the committee and board will be dissolved.

A treaty chapter on dispute resolution expresses the principles of intergovernmental cooperation, the resolution of conflicts through meeting, sharing information on issues, and notifying the other parties of intended actions. Dispute resolution procedures of consultation, conciliation, mediation, arbitration, and even judicial proceedings in the Supreme Court of British Columbia are set out. The parties to the treaty can call on technical advisors or create working groups or expert panels, as felt necessary, to reach a resolution, and the costs associated with such procedures will be shared on an equal basis between the participating parties. The treaty also provides that the Nisga'a constitution will initially include an amending process that requires an amendment be approved by at least 70 percent of Nisga'a citizen's voting in a referendum conducted for that purpose.

Key fiscal principles underlie the treaty as well. Law-making jurisdictions are not linked to funding obligations by the federal or provincial governments. Funding of Nisga'a governments and governance institutions is a shared responsibility among the three parties who all share the objective of reducing Nisga'a reliance on fiscal transfers. The Nisga'a government's own-source revenue capacity is taken into account in determining fiscal arrangements and payments; at the same time, there is a commitment to comparable public service levels in the northwest region of British Columbia.

From a constitutional perspective, the Nisga'a fiscal arrangements fall into two broad categories. As shown in Table 3, many of the fiscal matters are included as provisions in the treaty, thus receiving constitutional protection within the meaning of section 35 of the *Constitution Act, 1982*. At the same

time, a number of other fiscal matters are non-treaty provisions and therefore do not create an Aboriginal or treaty right. Both categories establish and regulate the workings of fiscal relations. The real effect of this distinction is that those items that are constitutionalized are perhaps more stable and binding over the long term, perhaps even "sacred" from an Aboriginal viewpoint. The other items are guided more by federal laws such as the *Income Tax Act*, *Excise Tax Act*, and *Indian Act*, provincial laws such as the *Motor Fuel Tax Act*, and by Department of Finance policy decisions. For example, Nisga'a governmental institutions will be exempt from a range of Canadian taxes as long as the institutions operate as public bodies exercising the functions of a government at all times during the year within Nisga'a Lands.

**Table 3: Nisga'a Fiscal Arrangements**

<i>Treaty Provisions</i>	<i>Non-Treaty Provisions</i>
<ul style="list-style-type: none"> <li>• Capital transfer payments</li> <li>• Negotiation loan repayment</li> <li>• Fisheries funds</li> <li>• Direct taxation power</li> <li>• Own-source revenue capacity</li> <li>• Capital taxation exemption</li> <li>• Citizen enrolment</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal Financing Agreements</li> <li>• Grants-in-lieu of property taxes</li> <li>• Tax administration agreements</li> <li>• Tax treatment of Nisga'a government institutions</li> <li>• Transitional tax treatment</li> <li>• Nisga'a taxation of real property</li> </ul>

Capital transfer payments entail \$190 million from Canada and British Columbia to the Nisga'a central government paid in annual instalments over 15 years. The payments will be adjusted to a federal price index to compensate for inflation, and will not be included in calculating the Nisga'a own-source revenue capacity. The negotiation loan repayment deals with repayment of the negotiation loans made by the federal government to the Nisga'a Tribal Council, including interest that has accrued. Fisheries Funds refer to \$10 million from Canada to establish the Lisims Fisheries Conservation Trust, along with an obligation by the Nisga'a government to contribute a certain amount, plus \$11.5 million for other fisheries-related activities.

On taxation, the Nisga'a central government has the jurisdiction to make laws in relation to direct taxation applicable to Nisga'a citizens on Nisga'a Land for Nisga'a government purposes. This power is granted with the proviso though that it does not limit the powers of the federal or BC provincial government to levy taxes. The treaty also specifies that the Nisga'a's own-source revenue capacity will be phased in over a 12-year period. Further, the

Nisga'a government will not be subject to capital taxation, including real property taxes and taxes on capital and wealth. This exemption does not apply, however, to the taxation of interests in Nisga'a Lands nor to the dispositions of any capital by Nisga'a governments. Likewise, private non-governmental activities and for-profit endeavours will be subject to federal and provincial taxation.

Section 87 of the *Indian Act* will no longer apply to Nisga'a citizens in respect of transaction (sales) taxes eight years after the treaty, and in respect of all other taxes 12 years after the treaty has been put into effect. The manner in which Nisga'a taxation will be coordinated with existing federal and/or provincial tax systems will be subject to future bilateral or multilateral negotiations. The three parties (Canada, British Columbia, and Nisga'a) commit to attempt to reach agreements in relation to grants, between them, in lieu of property taxes. Within 15 years of the effective date of the treaty, the Nisga'a government may request the federal and British Columbia governments to negotiate and seek to reach agreement on adjusting the tax powers and exemptions available to the Nisga'a government in light of land claim agreements subsequently reached.

The Nisga'a accord also includes a Fiscal Financing Agreement (FFA). Similar to federal-provincial fiscal agreements, this one lies outside the treaty itself and thus does not have constitutional status and rigidity. Every five years, or at such other periods as the three parties agree, a FFA will be negotiated. A three-way arrangement, there will be an annual transfer of \$32.1 million to support program and service delivery in a wide range of fields. Over 90 percent of this funding is already allocated to the Nisga'a by federal and provincial departments. The funding is to be provided to the Nisga'a governments at both levels of the system. A localized version of the equalization principle is expressed in the purpose of the Nisga'a FFA, namely, "to enable the provision of agreed-upon public services and programs to Nisga'a citizens and, where applicable, non-Nisga'a occupants of Nisga'a Lands, at levels reasonably comparable to those prevailing in Northwest British Columbia." Note there is no mention of the other side of the equalization concept, that is, at reasonably comparable levels of taxation. The intent and hope is that the Nisga'a governments will contribute in an increasing fashion to the cost of program and service provision over time.<sup>28</sup>

#### THE SOCIAL UNION, ABORIGINAL GOVERNANCE, AND FISCAL FEDERALISM

In recent processes to renew the federation and reform the social union, Aboriginal issues and Aboriginal Peoples have generally been marginal, despite the efforts of Aboriginal leaders to gain access to, and a place within these



structures of executive federalism. Consider, for example, the 1997 Calgary Framework for Discussion on National Unity, and the 1999 Social Union Framework Agreement. Triggered by the 1995 federal cuts to health and social transfer payments and the results of the 1995 Quebec referendum, the premiers undertook to articulate a vision of Canada, values and social programs. The Calgary Framework was such a declaration drafted by and agreed to by the premiers (except for Quebec) and territorial leaders in September 1997. The declaration was presented not as a deal among the governments but rather as an expression of ideas and principles for keeping Canada together and as a basis for any future constitutional discussions. These principles are shown in Table 4.

***Table 4: The Seven Principles of the Calgary Framework for Discussion on National Unity***

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1. All Canadians are equal and have rights protected by law.
  2. All provinces, while diverse in their characteristics, have equality of status.
  3. Canada is graced by diversity, tolerance, compassion, and an equality of opportunity that is without rival in the world.
  4. Canada's gift of diversity includes Aboriginal People and cultures, the vitality of English and French languages, and a multicultural citizenry drawn from all parts of the world.
  5. In Canada's federal system, where respect for diversity and equality underlines unity, the unique character of Quebec society, including its French-speaking majority, its culture, and its tradition of civil law, is fundamental to the well-being of Canada. Consequently, the legislature and Government of Quebec have a role to protect and to develop the unique character of Quebec society within Canada.
  6. If any future constitutional amendments confer powers on one province, these powers must be available to all provinces.
  7. Canada is a federal system where the federal, provincial, and territorial governments work in partnership while respecting each other's jurisdictions. Canadians want their governments to work cooperatively and with flexibility to ensure the efficiency and effectiveness of the federation. Canadians want their governments to work together particularly in the delivery of social programs. Provinces and territories renew their commitment to work in partnership with the Government of Canada to best serve the needs of Canadians.
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The Calgary Declaration was a premiers-led initiative that sought to reach out to the people of Quebec within the context of a broader expression of Canadian values and goals. The intent also was to draft a declaration that, in the words of Premier Romanow of Saskatchewan, was "[n]ot weighed down by a vast array of other interests seeking constitutional space in Canada."<sup>29</sup>

Aboriginal leaders understandably reacted with dismay over what was both included in the declaration and what was not there. At a meeting in Winnipeg in November 1997, national Aboriginal leaders presented to the premiers and territorial leaders a consensus statement of five participating National Aboriginal Organizations. These were the Assembly of First Nations, Congress of Aboriginal Peoples, Metis National Council, the Inuit Tapirisat of Canada, and the Native Women's Association. Their consensus statement outlined a framework of principles for a discussion of relationships between federal, provincial, and territorial governments and Aboriginal governments and peoples. These are listed below in Table 5.

The premiers and territorial leaders agreed to receive and consider the Winnipeg statement. They also joined with the Aboriginal leaders in calling on the federal government to recognize their treaty, constitutional, and fiduciary obligations toward Aboriginal People, to acknowledge its responsibility to provide programs and services for all Aboriginal People and to end its policies of off-loading these responsibilities to other orders of government. These are not difficult words for provincial and territorial leaders to support since they basically say that Ottawa should assume most if not all the spending responsibilities associated with Aboriginal Peoples across Canada. In contrast, the long-standing federal position is that it has primary but not exclusive responsibility for First Nations on reserve and Aboriginal Peoples north of 60 degrees, and that the provinces have primary, but not exclusive, responsibility for off-reserve Aboriginal Peoples. Without any real compromise on these policy stances by both the federal and provincial orders, the ability to build sustainable Aboriginal communities, particularly in urban areas will be seriously frustrated.

According to Premier Romanow, the national Aboriginal leaders,

suggested ways to improve the Calgary Declaration. At the same time, they made it very clear to us that they supported the Declaration's "open hand" to Quebec and are anxious that the Premiers' initiative succeed. Their contribution was so constructive that I have sometimes taken to calling our consultation document the Calgary-Winnipeg Declaration.<sup>30</sup>

In a press release, the premiers and territorial leaders also acknowledged that in any future constitutional review process affecting Aboriginal rights and interests they will support the participation as equal partners of the five national Aboriginal organizations.<sup>31</sup> Tellingly, no similar commitment was made with respect to the social policy renewal process playing out in the

**Table 5: *The Winnipeg Consensus Statement by National Aboriginal Organizations: A Framework for Discussion on Relationships between Federal, Provincial and Territorial Governments and Aboriginal Governments and Peoples***

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1. The Government of Canada has the historic and primary fiduciary responsibility to all Aboriginal Peoples as evidenced by constitutional, treaty and Aboriginal rights.
  2. The Aboriginal Peoples of Canada have, and enjoy, the inherent right of self-government, a right recognized in Section 35 of the Canadian Constitution and in agreements between the federal government and institutions and governments of the Aboriginal Peoples and in tripartite and other agreements amongst federal, provincial, territorial, and Aboriginal governments and peoples.
  3. Provincial, territorial, and federal governments and Aboriginal governments and peoples should seek to work together to resolve issues of resource-sharing and management in a manner that will promote economic and social development with certainty and public acceptance without extinguishing or diminishing Aboriginal rights, treaty rights, and Aboriginal title.
  4. The re-balancing of Canadian federalism must always be undertaken and accomplished in a manner that does not derogate from the Aboriginal and treaty rights and jurisdictions of the Aboriginal Peoples of Canada. It also must not diminish, in any way, the fiduciary and constitutional responsibilities of Canada and its capacity to honour its commitments and obligations to all Canadians, including the Aboriginal Peoples. There must be a willingness to enter into partnerships rejecting federal off-loading to the provinces and to Aboriginal governments and peoples in favour, rather, of joint efforts to maximize best possible uses of available resources.
  5. Canada is a federal system in which federal, provincial, and territorial governments and Aboriginal governments and peoples work in partnership while respecting each other's jurisdictions, rights, and responsibilities. Nothing in the Calgary communiqué can minimize or derogate from that principle or from existing Aboriginal and treaty rights.
  6. References in the Calgary communiqué to Aboriginal Peoples and cultures as one part of Canada's "gift of diversity" must not negate the uniqueness of the place of Aboriginal Peoples in Canada, a relationship that finds affirmation in the treaties and part II of the Canadian constitution.
  7. The Aboriginal Peoples of Canada, the first peoples to govern this land, enjoy their own status and rights, including the equality of Aboriginal men and women, and have the right to ensure the integrity of their societies and to strengthen their relationships with their lands. The role of Aboriginal Peoples in the protection and development of their languages, cultures, and identities is recognized and supported by Canadians.
  8. All governments must be committed to promoting and strengthening identifiable social, political, and economic developments which will lead to improved education, housing, and infrastructure and to stronger and healthier Aboriginal communities and people, particularly the young and those with special needs.
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country at the time. This was apparent in December 1997, when the first ministers (with the exception of the premier of Quebec) agreed to mandate their lead social policy ministers to commence negotiations on a framework agreement for Canada's social union that would apply to federal, provincial, and territorial governments.

In May 1998, in Quebec City, five National Aboriginal Organizations (the Assembly of First Nations, Inuit Tapirisat, Congress of Aboriginal Peoples, Metis National Council and Native Women's Association of Canada<sup>32</sup>) held an Aboriginal Summit, prior to meeting with federal and provincial and territorial Aboriginal affairs ministers, the first such meeting in four years. The five Aboriginal leaders released another consensus document. In part, the Quebec statement reaffirmed the principles of the Winnipeg declaration; in part, it commented favourably on the recommendations of the Royal Commission on Aboriginal Peoples; and, in part, it argued for inclusive Aboriginal participation at all levels in changes to the social policy renewal process including seats on the federal/provincial/territorial Ministerial Council on Social Policy Renewal.<sup>33</sup> Again this final claim was not adopted.

In early February 1999, days before the first ministers agreed to the Framework Agreement on the Social Union, the National Chief of the Assembly of First Nations, Phil Fontaine, wrote to the prime minister calling on the federal government "to ensure that the interests and rights of First Nations peoples are included and protected in any new intergovernmental arrangements." In his open letter, Chief Fontaine reminded the prime minister and the premiers of the shared agreement among the federal, provincial and territorial governments and Aboriginal organizations at the Quebec City meetings the year before, that "the needs of and resources for Aboriginal peoples are considered in appropriate future federal-provincial-territorial agreements or arrangements."<sup>34</sup> Yet leaders from neither the Assembly of First Nations nor the other national Aboriginal organizations were direct parties to the social union and health accord negotiations.

Later, in a meeting in Regina in March 1999, between the leaders of the five national Aboriginal organizations and six premiers and two territorial leaders, support was expressed for their involvement in the implementation of the new social union agreement "wherever such implementation has implications for aboriginal union." The premiers and representatives of the five Aboriginal organizations issued a call for the prime minister to hold a first ministers and Aboriginal leaders meeting to discuss the Royal Commission's recommendations and, by implication, the federal government's action plan, *Gathering Strength*.<sup>35</sup> The premiers and leaders of the territories did not, however, endorse a proposal by Fontaine that a companion agreement be created to the social union deal, one that would give Aboriginal organizations a formal role in participating in any future negotiations between the federal and provincial and territorial governments.

These episodes, we believe, are not random events but rather reflect deeper structural features of Canadian federalism and Aboriginal politics. We mention five such features here and some policy questions they raise. All are worthy of further research and debate. One feature of our federalism, noted already, is the age-old difference between the federal government on the one side and the provinces on the other, regarding the financial responsibilities of each order for meeting the needs and rights of Aboriginal Peoples in Canada. How can this buck-passing be resolved? A second issue is the mixed opinions and tepid support for including Aboriginal national leaders at the conference table of future intergovernmental talks and negotiations on social policy, economic, and fiscal matters. Will it require the consent of all governments, or just Ottawa and six provinces representing at least two-thirds of the population, to invite Aboriginal leaders to the table? A third issue concerns the tax-exempt status of registered Indians. Under the *Indian Act*, the personal property of status Indians or bands situated on reserves is exempt from retail taxation. Should tax-exempt status be granted to urban-based and/or their organizations, if just for a transition period, to facilitate capacity-building? Will all First Nations engaged in treaty negotiations be expected and be willing to forego their traditional tax exemptions as have the Nisga'a?

A fourth feature is the competition between Aboriginal organizations, at the national level and between national and regional organizations, in representing certain constituencies of Aboriginal Peoples, especially the urban-based population.<sup>36</sup> Which leaders, then, of which Aboriginal organizations are to be included in intergovernmental meetings, and for whom do they speak? Lastly, a fifth feature relates to the inherent differences between executive federalism as typically practised by federal and provincial/territorial leaders and the consensual decision-making commonly practised by Aboriginal governments and communities. Ponting and Gibbins perceptively observed several years ago, "If Indian governments were to join this intergovernmental process, they would have to negotiate on behalf of their constituents without having to worry about subsequent ratification from individual bands, tribal associations or provincial organizations. Thus the price of admission to executive federalism and effective participation in the intergovernmental process will be a substantial loss of autonomy."<sup>37</sup>

If, however, the social union agreement indicates a willingness and ability among governments to somewhat democratize executive federalism, then the terms and conditions of participation by Aboriginal leaders and the ratification of any agreements could, themselves, be open to discussion and negotiation. The price of admission to executive federalism, in other terms, need not be fixed.

To guide the redesign of fiscal relationships among the orders of government, the Royal Commission on Aboriginal Peoples called for a forum convened under the authority of the first ministers of federal, provincial, and

territorial governments and leaders of national Aboriginal organizations. Along with treaty renewal and new treaty making, the redistribution of land and resources, and the clarification of spheres of shared and independent jurisdiction, the Royal Commission's vision was of a Canada-wide framework agreement on financial matters.

This leads us back to Smiley's thesis that Aboriginal governance may weaken or impair the power of the provinces in the federal system. In the light of the features and issues just enumerated, we are not convinced that this is necessarily so or that it is an either/or situation. Provincial governments are direct parties to treaty negotiations; virtually all provincial laws remain paramount; all provinces have developed some government structure for managing Aboriginal affairs; and most funds for self-government will come from Ottawa not from provincial capitals. Furthermore, the certainty that will come from settled treaties will generate economic benefits for local and provincial economies, and the probability of a Canada-wide framework on macro fiscal relations seems a distant dream. That we live in an era of political decentralization there can be little doubt.

## NOTES

1. It is difficult to generalize meaningfully about the hundreds of different circumstances of First Nations and Aboriginal communities, but it is very important to have an overview. For useful analyses concerning (status) First Nations' circumstances, see Terry Goodtrack, "Financial Accountability in Aboriginal Governments," unpublished Master of Arts Thesis, Carleton University, 1997; Daniel J. Caron *et al.*, *Evaluation Report for the Evaluation of the Long Term Impacts of Alternative Funding Arrangements* (Ottawa: Evaluation Directorate, Policy and Consultation, Indian and Northern Affairs Canada, 1993).
2. In a rich 1989 analysis, David Hawkes and Allan Maslove made a similar observation, and proposed a framework for developing policy that is in its general lines still useful today. David Hawkes and Allan Maslove, "Fiscal Arrangements for Aboriginal Self-Government," in *Aboriginal Peoples and Government Responsibility: Exploring Federal and Provincial Roles*, ed. David Hawkes (Ottawa: Carleton University Press, 1989).
3. Donald V. Smiley, *The Federal Condition in Canada* (Toronto: McGraw-Hill Ryerson, 1987), p. 191.
4. *Ibid.*, p. 73.
5. In May 1999, Inuit in Labrador signed a Land Claims Agreement in Principle with federal and provincial negotiators; the Micmac Nation of Geseg signed a framework agreement for negotiating self-government with the federal and Quebec governments; and the minister of Indian affairs and northern development signed the Nisga'a Final Agreement prior to its consideration by Parliament. For details on these, and other recent developments, see [www.inac.gc.ca/news](http://www.inac.gc.ca/news).

While instances of progress and momentum are evident, some treaty tables are struggling and risk falling apart, resulting in litigation rather than negotiation. Either way, to settle all outstanding land claims and treaty processes across Canada will take many, many more years.

6. There are too many important cases to cite, but we mention two recent decisions that have had far-reaching implications: *Delgamuukw v. R.* [1997] S.C.C.; *R. v. Marshall* [1999] S.C.C.
7. Frank Cassidy and Robert L. Bish, *Indian Government: Its Meaning in Practice* (Lantzville: Oolichan Books and The Institute for Research on Public Policy, 1989).
8. An interesting discussion of this matter appears in Brian Maracle, *Back on the Rez.: Finding the Way Home* (Toronto: Penguin, 1997).
9. Fred W. Martin, "Federal and Provincial Responsibility in the Metis Settlements of Alberta," in *Aboriginal Peoples and Government Responsibility*, ed. Hawkes.
10. For detailed discussion of the Penner report and of the main funding arrangements between Indian Affairs Canada and First Nation governments as they evolved through the early 1980s to the mid-1990s, see Michael J. Prince, "Federal Expenditures and First Nation Experiences," in *How Ottawa Spends 1994-95: Making Change*, ed. Susan D. Phillips (Ottawa: Carleton University Press, 1994), pp. 261-99.
11. *Gathering Strength: Canada's Aboriginal Action Plan* (Ottawa: Supply and Services Canada, 1997), p. 3.
12. The development of what came to be the *Gathering Strength* report, earlier in draft form called "Charting a New Course," was overseen by a committee of deputy ministers and supported by a committee of assistant deputy ministers drawn from several federal departments and agencies.
13. *Gathering Strength*, p. 20.
14. We drew these from *Gathering Strength*, pp. 19, 22, 29, and 34.
15. *Gathering Strength*, p. 22. A reviewer of our chapter pointed out that the original constitutional responsibility for "Indians and the lands reserved for Indians" identified in the *British North America Act* (now *Constitution Act, 1982*, 91(24)) does not differentiate between status and non-status.
16. The following discussion is based on *Gathering Strength*, internal documents, and confidential conversations with federal government officials. The interpretation of this vision is, of course, our own.
17. *Gathering Strength*, pp. 20-21.
18. For a review of these financing arrangements, see Prince, "Federal Expenditures and First Nation Experiences."
19. *Gathering Strength*, p. 29.
20. Tu Thanh Ha and Erin Anderssen, "Quebec Mohawks Win Special Treatment," *The Globe and Mail*, 31 March 1999, pp. A1-A2

21. The Nunavut Territorial government is currently funded under the same institutional auspices as the former Northwest Territories government, out of which Nunavut was created, and roughly the same as applies to Yukon Territory and the new Northwest Territories. For background on Nunavut's first Formula Financing Agreement, see [www.icon.gov.nu.ca](http://www.icon.gov.nu.ca)
22. One important exception is federal participation (with the city and the province) in funding the impressive Aboriginal Centre being constructed in north Winnipeg, as a centrepiece of downtown revivification.
23. *Report of the Royal Commission on Aboriginal Peoples*, Vol. 4, *Perspectives and Realities* (Ottawa: Supply and Services Canada, 1996), ch. 7, "Urban Perspectives."
24. Pauktuutit Inuit Women's Organization, *Inuit Women: The Housing Crisis and Violence*, paper prepared for Canada Mortgage and Housing Corporation, Ottawa, n.d., p. 1.
25. *Perspectives and Realities*, pp. 519-621.
26. Daniel Raunet, *Without Surrender, Without Consent: A History of the Nisga'a Land Claims* (Vancouver: Douglas and McIntyre, 1996). The Nisga'a ratified the final agreement in November 1998 and the provincial legislature of British Columbia ratified the treaty in April 1999. The federal Parliament began considering the treaty in October 1999, when the federal government tabled legislation entitled, *The Nisga'a Final Agreement Act*.
27. This discussion is based on a review of the Final Agreement itself as well as related information about the treaty. For more details, see the Websites of the Nisga'a Tribal Council at [www.ntc.bc.ca](http://www.ntc.bc.ca) and the Department of Indian and Northern Affairs at [www.inac.gc.ca/subject/agree/nisga/index.html](http://www.inac.gc.ca/subject/agree/nisga/index.html)
28. For a wider discussion, see Bert Waslander, "Government Expenditures on Aboriginal People: The Costly Status Quo," *Canadian Tax Journal* 45(5):959-78; and Brian Scarfe, "Financing First Nations Treaty Settlements," in *Prospering Together: The Economic Impact of the Aboriginal Title Settlements in B.C.*, ed. Roslyn Kaunin (Vancouver: The Laurier Institution, 1998), pp. 275-304.
29. Roy Romanow, "Notes for Remarks," Canada Seminar at Harvard University, Boston, Massachusetts, 23 February 1998, p. 9, available at <http://www.gov.sk.ca/premier/harvard.html>.
30. *Ibid.*, p. 13.
31. See the Press Release, 18 November 1997, available from the Government of Manitoba at <http://www.gov.mb.ca/cgi-bin/print...y/relation.html>.
32. There are actually three national organizations representing Aboriginal women. Besides NWAC, there is Pauktuutit, the Inuit Women's Organization and the Metis National Association of Women. Quite frequently but not always, NWAC is included with the AFN, MNC and ITC, at the exclusion of the other two.
33. "Statement of the Aboriginal Summit," Quebec City, 19 May 1998 available at [http://www.scis.gc.ca/cinfo98/83061640a\\_e.html](http://www.scis.gc.ca/cinfo98/83061640a_e.html).



34. Phil Fontaine, National Chief, Assembly of First Nations, "Letter to the Prime Minister," 2 February 1999, p. 1, available at <http://www.afn.ca/press/LetterToPm.html>.
35. Canadian Press, "Premiers Back Aboriginals Over Stake in Social Union," 23 March 1999. Also see David Roberts, "Premiers Agree to Mull Native Role in Social-Union Talks," *The Globe and Mail*, 23 March 1999, p. A4. The six premiers present at the meeting were from the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia. Together, these six jurisdictions contain about 70 percent of the overall population and 82 percent of the Aboriginal population of Canada, according to the 1996 Census. This combination of provinces and population would, with a consensus, meet the requirements for a possible new intergovernmental accord based on the federal spending power.
36. Roberts, "Premiers Agree to Mull Native Role in Social-Union Talks."
37. J. Rick Ponting and Roger Gibbins, "Thorns in the Bed of Roses: A Socio-Political View of the Problems of Indian Government," in *Pathways to Self-Determination: Canadian Indians and the Canadian State*, ed. Leroy Little Bear, Menno Boldt and J. Anthony Long (Toronto: University of Toronto Press, 1984), p. 131.



V

A Comparative  
Perspective

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## Federal Financial Relations: A Comparative Perspective

Ronald L. Watts

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*Une étude comparative des relations financières dans les fédérations montre qu'il existe d'énormes variations attribuables aux différences quant à la diversité interne des sociétés visées, à leurs institutions politiques et au caractère de la décentralisation. Il demeure que toutes les fédérations ont vécu des déséquilibres horizontaux et verticaux qui ont requis d'importants transferts fédéraux, bien qu'on observe des différences quant à la forme, à l'étendue et au caractère conditionnel de ceux-ci. La caractéristique centrale des relations financières intergouvernementales dans toutes les fédérations a été le processus sous-jacent de négociation politique, bien que la nature véritablement «intergouvernementale» de ces négociations ne soit pas partout pareille. De manière générale, les relations financières intergouvernementales dans les fédérations dépendent beaucoup plus des différences en termes de société, d'économie, de culture politique, de valeurs et d'institutions politiques entre celles-ci que de la théorie économique normative.*

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### INTRODUCTION

At a time when the financial arrangements within the Canadian federation are under review, there is some value in considering the patterns of intergovernmental financial relations in other federations in the contemporary world.

At the outset it should be noted that the comparison of financial arrangements in federations may provide insights but also requires caution.<sup>1</sup> There is no single pure model of federalism that is applicable everywhere. Indeed, the basic notion of involving the combination of shared-rule for some purposes and regional self-rule for other purposes within a single political system so that neither is subordinate to the other has been applied elsewhere in different ways to respond to different circumstances. One cannot therefore just pick models off a shelf. Even where similar institutional arrangements have been adopted, different circumstances may lead them to operate differently, a classic

example being the different operational outcomes of similar procedures for formal constitutional amendments in Switzerland and Australia.<sup>2</sup>

Nevertheless, as long as these cautions are borne in mind, there is a genuine value in undertaking comparative analyses. Indeed, many of the problems in federal financial relations that we face in Canada are common to those in many other federations. Comparisons may help us in several ways: they may help to identify options that might otherwise be overlooked, and they may allow us to foresee clearly the possible consequences of particular changes to arrangements being advocated. Through identifying similarities and differences they may draw attention to certain features of our own arrangements whose significance might otherwise be underestimated. Comparisons may suggest both positive and negative lessons: we can learn not only from successes but also from the failures of other federations and of the mechanisms and processes they have employed to deal with federal financial relations.

A major theme of this chapter is that in considering the dynamics of financial relations within federations, it is necessary to consider the broader context in which these financial relations operate. Federal financial relations cannot be considered purely analytically and technically in isolation from the social fragmentation and diversity and the political institutions with which they interact. The particular dynamics and specific intergovernmental financial arrangements will vary with the degree and kinds of social fragmentation and with the political structures and processes within which they operate. For instance, the degree and kinds of social diversity (linguistic, ethnic, religious, cultural, and historical), whether this diversity is territorially distributed or non-territorial, and whether the different forms of diversity are reinforced by being cumulative or moderated by being cross-cutting will have significant influence. The kinds of federal political and constitutional arrangements, such as the degree of legislative and administrative decentralization, the allocation of taxing powers, expenditure responsibilities, and the scope for financial transfers, the extent of intergovernmental collaboration, interaction and autonomy, and the degree to which the governments of the constituent units participate in or influence central policy-making varies significantly among federations affecting their financial intergovernmental relations. Thus, different combinations of interacting factors tend to require their own distinctive form of intergovernmental financial relations to increase or sustain decentralization.<sup>3</sup> Technical financial solutions which do not take account of how they interact with the social and political context are likely to be counter-productive. This chapter therefore emphasizes the importance of attempting to understand how intergovernmental financial relations have worked in different social and political contexts.

Some common elements affecting federal financial arrangements considered will be: patterns in the allocation of revenue resources and powers to

different orders of government; patterns in the allocation of expenditure responsibilities and powers to different orders of government; the size and nature of vertical and horizontal imbalances and the role of transfers adjusting these; equalization transfers; and the political processes and institutions established for adjustment of intergovernmental financial relations.

## THE ALLOCATION OF REVENUE RESOURCES AND POWERS

The allocation of revenue resources and the degree of their decentralization within federal systems is important for two reasons: first, the financial resources available enable or constrain the various orders of government in the exercise of their legislative and administrative responsibilities; and second, taxing powers represent important levers enabling the particular governments to which they are assigned to influence or regulate the economy.

A common characteristic of the allocation of taxing powers in nearly all federations is that the majority of major revenue sources have been assigned to the federal government.<sup>4</sup> Even where some tax fields are placed under concurrent jurisdiction or shared, the federal governments have tended to predominate because of the federal power to occupy a major portion of the field of concurrent jurisdiction and because of the federal power to determine the level of taxes from which proceeds are shared with the governments of the constituent units. Several factors have contributed to this pattern. One has been the widespread assumption that policies for economic development are likely to be more coherent if handled by federal governments. A second is that the concentration of resources in the federal government is seen as necessary if it is to perform the redistributive role usually expected where there are substantial regional economic disparities. A third has been the influence of Keynesian theories concerning policies for economic stability and development prevalent at the time that many of the current fiscal arrangements were developed in these federations. The emphasis upon central Keynesian policies has varied considerably, however, being much stronger in the non-European federations, and it has waned considerably in recent years.<sup>5</sup> A fourth is the mobility of tax bases that is more easily accounted for at the federal level than at the provincial or state level. A fifth is that in federations in which the constituent governments have significant independent taxing power, such systems are often considered to face substantial problems of tax coordination in terms of federal-state and interstate relations.<sup>6</sup> While some federations such as the United States, Switzerland, and Canada have accepted the costs of considerable independent taxing powers for their constituent units as an important element supporting their political autonomy, many other federations have tended to concentrate major taxing powers under the federal

government and to rely on other means such as constitutionally guaranteed shares of federal tax proceeds or the use of intergovernmental grants as the major way of decentralizing revenues.

In addition to taxation, there are two other important sources for governmental funds. The first is public borrowing, a source open to both orders of government in most federations, although foreign borrowing in some cases (most notably Austria, India, and Malaysia) has been placed under exclusive federal jurisdiction. In the case of Australia, all major public borrowing by both orders of government is coordinated through the operation of the intergovernmental Loan Council with specified voting rules. For many decades the strong federal taxing powers gave the federal government a dominant position in negotiations through its ability to underwrite the coordinated borrowing. In recent years the influence of the Australian Loan Council has declined, however. It still plays a coordinating role, but the states have been left much freer to borrow externally. The second source is the operation of public corporations and enterprises, the profits of which may serve as a source of governmental income. In most federations this has been a source of revenue open to both orders of government, but the scope for such revenue has

**Table 1: Federal Government Revenues Before Intergovernmental Transfers as a Percentage of Total (Federal-State-Local) Government Revenues**

	1986	1996
Malaysia	87.2	89.9
Spain	87.9	84.0*
Austria	71.6	72.8†
Australia	74.4	69.1
United States	64.7	65.8
India	68.2	64.6*
Germany	64.5	64.5
Canada	48.4	47.7‡
Switzerland	48.1	44.7‡
European Union	0.9	1.2

Notes: \* These figures are for 1994.

† These figures are for 1995.

‡ These figures are for 1993.

Source: Ronald L. Watts, *The Spending Power in Federal Systems: A Comparative Study* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1999), p. 52.

varied depending on the degree of constitutional decentralization of legislative and administrative responsibilities.

The range of variation among federations in the degree of centralization of revenue resources has varied enormously. As Table 1 indicates, a comparison of federal government revenues before intergovernmental transfers as a percentage of total (federal-state-local) revenues in a representative group of federations in the mid-1990s ranged from 89.9 percent in Malaysia to 44.7 percent in Switzerland, Canada being the second most decentralized at 47.7 percent.

### THE ALLOCATION OF EXPENDITURE RESPONSIBILITIES AND POWERS

Broadly speaking, the allocation of expenditure responsibilities and powers in federations corresponds to the legislative and administrative jurisdiction assigned to each government within a federation.<sup>7</sup> The extent of decentralization of these responsibilities and powers in a federation is heavily influenced by the degree and character of its social diversity and fragmentation leading to pressures for regional self-government over a substantial range of matters, and thus is often considerably greater than the decentralization of revenue resources.

In this respect three points need to be noted. First, where the administration of a substantial portion of federal legislation is constitutionally assigned to the governments of the constituent units, as in Switzerland, Austria, Germany, India, and Malaysia, the constitutional expenditure responsibilities of the regional governments have as a consequence been significantly broader than would be indicated by the distribution of legislative jurisdiction taken alone.

Second, expenditure requirements of different areas of legislative and administrative responsibility may vary significantly, and therefore, the expenditure requirements of regional governments may depend on which responsibilities have been assigned to them. For instance, in relative terms the provision of services such as health, education, and social services usually involves much higher expenditures than jurisdiction relating to functions which predominantly take the form of regulation.

Third, in most federations the spending power of each order of government has not been limited to their constitutionally specified legislative and administrative jurisdiction. Governments have usually been understood to possess a *general* spending power, either as a result of judicial review and convention in the older federations or explicitly in the constitutions of many of the newer federations.<sup>8</sup> Federal governments have often used this general spending power to pursue their own objectives in areas of state or local jurisdiction, for instance,

by providing conditional cash transfers or matching grants to induce state or local governments to provide services or meet standards they otherwise could not afford. This federal "golden lead," as it is sometimes referred to in Germany, while widely used in many federations, has often been contentious, being viewed as a way of distorting state or local priorities and subverting their autonomy. This has particularly been the case where the federal spending on matters within regional authority has been commenced uninvited and then subsequently withdrawn unilaterally. Not only in Canada but in the United States such unilateral withdrawals of assistance have led to charges of "off-loading" and of "fend-for-yourself-federalism."

In the United States a trend that has occasioned considerable contention has been the imposition upon the states by Congress of unfunded mandates which has led some commentators to ascribe the label of "coercive federalism" to these federal-state relations.<sup>9</sup> It has been suggested that the reduction in Canada of federal transfers in the field of health during the 1990s has in effect represented a "quasi unfunded mandate."<sup>10</sup>

An important issue in the federal exercise of its general spending power in areas of state or provincial jurisdiction is the role, if any, that the governments of the constituent units are able to play in the design or withdrawal of such programs, either through formal representation in the federal institutions (of which the most effective example is the German Bundesrat which is composed of ministerial delegates from the Länder and has a veto on all legislation affecting the Länder, including financial arrangements) or in intergovernmental negotiations. By comparison with other federations the role of the Canadian provinces in the past in policy-making relating to the exercise of the federal spending power has been considerably less than their German and Swiss counterparts, but the highly developed processes of consensual intergovernmental negotiations in Canada has given them a role comparable to that of the Australian states and more than that of the states in the United States of America.<sup>11</sup>

While on the subject of spending powers, it should be noted that governments of the constituent units for their part have in a number of federations such as the United States and Australia, like Canada, used their own general spending power to establish trade and promotion offices outside the federation even when no constitutional jurisdiction in external affairs was specified.

As in the case of revenue allocations among governments within federations, there has also been enormous variation among federations in the degree of overall expenditure centralization or decentralization, although in virtually every case expenditure distribution has been considerably more decentralized than revenue allocation. This variation in distribution of expenditure responsibilities reflects the different intensities in pressures for decentralization arising from the particular character of diversity or fragmentation within each federation. Among a representative group of nine federations, federal



**Table 2: Federal Government Expenditures after Intergovernmental Transfers as a Percentage of Total (Federal-State-Local) Government Expenditures**

	1986	1996
Malaysia	82.4	85.6
Austria	70.5	68.8†
Spain	79.4	68.5*
United States	56.0	61.2
India	47.3	54.8*
Australia	52.7	53.0
Germany	35.7	41.2
Canada	41.4	40.6‡
Switzerland	35.0	36.7†
European Union	2.1	2.5

Notes: † These figures are for 1995.

\* These figures are for 1994.

‡ These figures are for 1993.

Source: Ronald L. Watts, *The Spending Power in Federal Systems: A Comparative Study* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1999), p. 53.

government expenditures after transfers ranged in the mid-1990s from 85.6 percent in Malaysia to 36.7 percent in Switzerland, the comparable figure for Canada being 40.6 percent (see Table 2). In each case this was substantially less than the proportional allocation of revenues before transfers listed in Table 1.

## VERTICAL AND HORIZONTAL IMBALANCES AND THE ROLE OF TRANSFERS

Given the pattern noted in the preceding two sections whereby the degree of decentralization of expenditure responsibilities has been considerably greater than the decentralization of revenue-raising powers, virtually every federation has been faced with the need to correct the resulting vertical financial imbalance. A further reason for the constant need to correct vertical imbalances is that no matter how carefully political leaders initially attempt to match revenue resources to expenditure responsibilities, over time the financial significance and proceeds of different taxes and other revenue sources and the significance and relative costs of expenditure responsibilities assigned to the

constituent units of government tend to change in unforeseen ways. Consequently, all federations have found it necessary to adjust these imbalances regularly over time.

A second kind of imbalance which has almost always required correction has been the horizontal imbalances that occur when the revenue capacities of different constituent units within a federation vary so that they are not able to provide their citizens with services on the same level with comparable tax levels. In addition to horizontal revenue imbalances among the constituent units, there can also be interstate imbalances on the expenditure side. Differences in expenditure needs may arise from variations or changes in population dispersion, urbanization, social composition or age structure, and the cost of providing services affected by such factors as the scale of public administration, the particular physical and economic environment, and the distinct cultural and social practices. Thus, as in the case of correcting vertical imbalances, most federations have felt a need to make regular adjustments to correct for horizontal financial imbalances.

At the most general level there are three ways in which vertical and horizontal imbalances in federations may be corrected. One is by relocating the assignment of revenue sources to the different orders of government in order to better match the actual total cost of their expenditure responsibilities. A second is by reallocating expenditure responsibilities carried out by each order of government in order to better match the actual proceeds from the revenue sources assigned to them. Some federations have pursued either or both these paths, but in practice political pressures and realities have usually confined such adjustments to a modest level. The third approach, and the most common within federations, has been to accept the pressures for greater decentralization of expenditure responsibilities than of revenue sources, and to reduce the vertical and horizontal imbalances by substantial transfers from the federal government to the regional units of government. These intergovernmental transfers have taken a variety of forms: specified shares of particular federal taxes, unconditional block grants, and specific-purpose conditional grants, with the particular mixture of these varying from country to country. The size and significance of these intergovernmental transfers have also varied greatly among federations, depending in large measure on the size of the imbalances resulting from the dominant political and social pressures for centralization or non-centralization within each federation. For example, as Table 3 indicates, in a representative group of nine federations in the mid-1990s, intergovernmental transfers as a percentage of total state or provincial revenues ranged from 77.6 percent in Spain to 17.9 percent in Malaysia, the Canadian figure being 19.8 percent.

Not only the size, but the particular forms of intergovernmental transfers relied upon in a given federation are significant because of their effect upon the ability of the federal government to influence the way they are used and

**Table 3: Intergovernmental Transfers as a Percentage of Provincial or State Revenues**

	1986	1996
Spain	77.4	77.6*
Austria	31.9	43.6†
Australia	54.4	40.7
India	44.0	39.4*
United States	20.5	29.6*
Canada	20.1	19.8‡
Switzerland	21.7	18.9†
Germany	15.5	18.3
Malaysia	29.5	17.9

Notes: \* These figures are for 1994.

† These figures are for 1995.

‡ These figures are for 1993.

Source: Ronald L. Watts, *The Spending Power in Federal Systems: A Comparative Study* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1999), p. 53.

the amount of resulting degrees of dependency or autonomy for the governments of the constituent units. Where conditions are attached to the federal transfers, especially if the conditions are detailed or matching requirements are attached to them, this may provide a lever for a federal government to influence strongly the priorities and policies of state or provincial governments in the exercise of their own responsibilities. To avoid undermining the autonomy of the governments of the constituent units, transfers in some federations have taken the form of unconditional transfers, either set percentages of certain federal tax proceeds or unconditional block grants. Most federations have employed a mix of conditional and unconditional transfers, but the mix has varied enormously. Indeed the proportion of federal transfers which were in the form of conditional transfers in the mid-1990s varied from virtually 100 percent in the United States to 23.5 percent for those Autonomous Communities in Spain with "high level" responsibilities.<sup>12</sup> The comparable figure for Canada if the Established Program Financing and Canada Health and Social Transfer (CHST) semi-conditional cash transfers are included in the category of unconditional transfers was 6.8 percent of total cash transfers.<sup>13</sup> The conditions attached to these semi-conditional grants in Canada have been far less precise and specific than the conditional transfers in most other federations and therefore for comparability it seems best to treat them as

unconditional. One measure of the impact of conditional grants upon the autonomy of the governments of the constituent units is the proportion of total state or provincial revenues (after transfers) that these conditional cash transfers constitute. Here too, there is a considerable range: 29.6 percent in the United States, 21.6 percent in Australia, 18.2 percent in Spain, 15 percent in India, 12.3 percent in Switzerland, 12.2 percent in Malaysia, 9.8 percent in Germany, and 1.2 percent in Canada (although if the semi-conditional CHST cash transfers are classified as conditional the figure would be 11.9 percent).<sup>14</sup>

Arguments have been advanced in support of, or against, both conditional and unconditional transfers. In the United States the prevailing emphasis has been on the principle of financial responsibility and accountability. This is based on the view that Congress, which has the nasty task of raising the bulk of the taxes, should, in the interest of accountability to the taxpayer, be the body that controls the use of these funds by the governments to which they are transferred. Consequently, in recent decades, conditional grants have predominated in the federal transfers in the United States. Countering this has been the concern to which more attention has been paid in some other federations, that conditional grants are likely to undermine the autonomy of the regional governments that represent the interests of distinct minorities or regional groups by inducing these governments to undertake expenditures not necessarily in tune with their own priorities. Furthermore, in those federations that, unlike the United States, have parliamentary executives responsible and accountable in the states or provinces to their own legislatures, it has been argued that in the case of unconditional transfers administrative accountability for expenditure is achieved by means of the executive accountability to their own legislatures. This perhaps helps to explain why conditional transfers as a percentage of total federal transfers are lower in all the parliamentary federations than in the United States or Switzerland, both of which have fixed-term executives with a separation of powers between the executive and the legislature.<sup>15</sup>

## EQUALIZATION TRANSFERS

Systems of "equalization" transfers to correct horizontal imbalances arise from a commonly held view in federations, that all citizens wherever they live should be entitled to comparable services without having to be subject to excessively different tax rates. Furthermore, equalization transfers have usually been regarded as particularly important because disparities among regions within a territorially diverse society have almost invariably had a corrosive effect upon political cohesion within a federation. Indeed, for this reason, in most European federations, equalization transfers have been labelled "solidarity" transfers.

The extent and form of equalization has, as with other aspects of federal financial arrangements, differed enormously from federation to federation.<sup>16</sup> Several points should be noted. First, the *extent* of equalization transfers varies considerably. Most federations, with the exception of the United States, have some formal equalization scheme, but the scope of such transfers has been greater in countries such as Germany, Canada, and Australia than in others such as Switzerland. Second, in all but the German case where a large component of the equalization transfers takes the form of interstate transfers, equalization has been achieved by differential federal transfers to the regional governments to compensate the poorer units. Third, in most cases, as in Canada, the effort to correct horizontal imbalances has focused primarily on adjusting for the differential revenue capacities of the regional units, but in some, most notably in Australia, historically there was an effort to account as well for differential expenditure needs.<sup>17</sup> Fourth, the determination of equalization transfers to regional units of government has varied. There are those that are based on an agreed formula or formulas, as in Switzerland, Canada, Germany, Austria, Malaysia, Belgium, and Spain, although in some cases the process of agreement on a formula has in fact been dominated by the federal government. In others, such as Australia, India, and South Africa, the allocations have been largely based on the recommendations to the federal government of standing or periodic independent commissions which may themselves use a variety of formulas to arrive at their recommendations.

The question is sometimes raised whether there is a relationship between the degree of decentralization within a federation and the need for equalization arrangements. For instance, it could be argued that the more decentralization there is, the more it is likely that financial disparities among the constituent units will be significant, and hence the greater the need for equalizing mechanisms. But in practice that does not always appear to be the case. Indeed, as Bird has rightly noted, the extent of equalization in different federations does not seem to be directly related either to the extent of regional disparities or any other simple causal factor.<sup>18</sup> Two general factors would appear to affect this pattern. The first is the importance of the prevailing political culture and the degree to which it emphasizes equality of citizens and uniformity of services available to them. The second is the degree to which greater decentralization within a federation is itself the result of social fragmentation producing stronger pressures for regional distinctiveness, autonomy, and resistance to dependency upon federal funding aimed at inducing uniformity. Thus, it would appear that equalization in federations has varied in terms of the tolerance of their citizens to lack of uniformity and horizontal imbalances. For example, egalitarian Australians, blessed with relatively modest interstate disparities in revenue capacity compared to many other federations, have over the years gone to great lengths in their efforts to equalize. In this respect Germany has been similar, although the absorption of the new eastern Länder

added some new stresses in the 1990s. On the other hand, the United States, with relatively large interstate disparities but no formal, systematic equalization scheme at all, appears to have a much greater tolerance for horizontal imbalances. Switzerland and Canada, two of the most decentralized federations and influenced by their linguistic, religious, and cultural diversity, lie somewhere between these extremes. Clearly a major factor affecting variations in the tolerance for horizontal financial imbalances in different federations is the relative value placed in their prevailing political cultures upon equity as opposed to non-centralization and regional autonomy.

### PROCESSES AND INSTITUTIONS FOR ADJUSTING FINANCIAL RELATIONS

As already noted, the values of revenue resources and the costs of expenditure responsibilities inevitably change over time. Consequently, adjustments are constantly required to reduce vertical and horizontal imbalances. As a result a major feature of intergovernmental financial relations in all federations has been the regular process of political bargaining between governments. Federal-regional conflicts, conflicts between rich and poor regions, conflicts between different interests in different regions, and conflicts between political parties, have all had to be accommodated in these processes.<sup>19</sup>

The nature of the political institutions within which this bargaining takes place is, thus, a fundamental factor shaping the dynamics of intergovernmental financial relations within a federation. Because in a federal system both the federal and regional units of government have their own constitutional powers empowering each to deal directly with its citizens in the exercise of its legislative, administrative, and taxing authority; and each is directly elected by its citizens, adjustments in practice inevitably involve a process of intense political bargaining between governments.

The dynamics of this intergovernmental bargaining are affected by the extent to which governments at each level are characterized by a separation of executive and legislative powers or by fused parliamentary executives. In the former case, as in the United States, Switzerland, and the Latin American federations, intergovernmental bargaining is diffused through a variety of channels with the federal legislature providing the ultimate arena for reconciling interests. In parliamentary federations on the other hand, the common tendency to predominance of their executives in their legislatures has meant that the primary arena for intergovernmental financial negotiations has been through the processes of "executive federalism" focusing upon the executives representing the federal and regional units of government. This character of intergovernmental financial relations is not unique to Canada but is generally typical of all parliamentary federations.<sup>20</sup>

In terms of the actual procedures for adjusting intergovernmental financial relations four patterns can be identified.<sup>21</sup> In Australia, India, Papua New Guinea, and South Africa, although in different forms, standing or periodic expert commissions have been given the primary task of determining the distributive formulas and recommending these to the federal parliament. Nevertheless, this occurs within a context where there is considerable political intergovernmental deliberation on financial issues, as, for example, took place in the past in the Australian annual financial Premiers' Conferences and since the tax reform of 1999 in Ministerial Council meetings. A second pattern is the constitutional provision for an intergovernmental council composed of federal and state representatives as the primary forum to reach agreement on financial arrangements, the Malaysian National Finance Council being an example. A more narrowly restricted example is the Australian Loan Council, a constitutionally established intergovernmental body which can make decisions regarding public borrowing binding on both federal and state governments. A third pattern is that found in Germany, Switzerland, Austria, the United States, and Belgium where grants to states are determined by the federal government, but there is some effective participation of state governments, legislatures or interests within the federal institutions. Among examples are the state representatives in the German Bundesrat who take part in approving financial matters affecting the states, the cantonal legislators with dual membership in the federal parliament in Switzerland, the representatives in the federal second chamber elected by state or community legislatures in Austria and Belgium, and the direct election of senators on a state-wide basis in the United States and Australia. A fourth pattern is that found in Canada where the determination of the major components of intergovernmental financial arrangements is under the control of the federal government whose legislature contains no provision for effective representation of provincial governments or interests as a result of the Senate's lack of legitimacy. Not surprisingly, because of the importance of intergovernmental financial issues, the result has been that federal-provincial financial relations have been the subject of extended discussion in the extra-parliamentary arena of innumerable committees of federal and provincial ministers and officials, and the source of much political polemics between federal and provincial governments.<sup>22</sup>

In virtually all federations, but most notably Australia, India, Germany, and Canada, a variety of intergovernmental councils, commissions, and committees have been developed to facilitate the adjustment of financial arrangements. Australia has perhaps gone the furthest in developing such institutions with the Premiers' Council over the years playing a key role in the discussion of financial issues, the Loan Council (a body established by constitutional amendment in 1927 and empowered to make decisions binding on both levels of government) coordinating federal and state borrowing, and the independent Commonwealth Grants Commission, a standing body that since

1933 has advised the Australian federal government on equalization and "relativities" relating to federal transfers to the states. In Germany, the Bundesrat and its committees, because of its unique character and powers as a federal second chamber composed of the Land executives and with a veto on all federal legislation affecting the Länder, has played a key role in intergovernmental deliberations relating to the adjustment of financial relations. In other federations, including Switzerland and Belgium, periodic commissions have from time to time advised governments on the adjustment of intergovernmental financial relations.

## CONCLUSIONS

From the comparative examination of federal finance in federations some broad conclusions may be drawn. First, there is an enormous range of variations in the financial arrangements within federations. These are related to differences in the degrees of internal social diversity and hence in degrees of constitutional and political non-centralization and emphasis upon provincial autonomy, and also to the degree of provincial or state representation within the institutions for federal policy-making.

Second, all federations have experienced major vertical and horizontal financial imbalances requiring substantial federal transfers in order to adjust for these. Related to this is the fact that all federations have been marked by considerable overlap and interdependence in the performance of their relative functions, especially because of their cost and regional significance in the area of social policy and programs. Disentanglement and independent jurisdiction of the different orders of government combined with adequate and independent revenue sources for each government may have a seductive appeal as a way of ensuring the federal principle that neither order of government should be subordinate to the other. But in practice it has proved simply impossible to divide functions in federations into watertight compartments, particularly in the realm of revenues and expenditures. This has made necessary, in virtually all contemporary federations, an acceptance of the interdependence and interpenetration of the functions of different orders of government, not the least in the distribution of revenues and expenditure responsibilities, of regular adjustments of financial arrangements, and of the use of the federal spending power to facilitate flexibility.

Third, in terms of overall longitudinal trends relating to fiscal federalism as an instrument of decentralization, it would appear that in the period 1950-80 most federations in the developed world underwent a pattern of decentralization both in terms of government revenues and expenditures.<sup>23</sup> Central government receipts in Canada, the United States, Australia, Austria, Germany, and Switzerland as a percentage of total government receipts de-



clined to the point where on average the figures for 1980 were 94 percent of those in 1950 (the Canadian figure exhibited one of the sharpest drops, arriving at 72 percent). Central government expenditures as a percentage of total government expenditures also declined in these federations in 1980 to an average of 84 percent of those in 1950 (the comparable Canadian drop being to 76 percent). In the period 1986-96 the pattern in different federations was less consistent, some exhibiting a relatively stable pattern or even a slight reversal, but with modest further decentralization of both receipts and expenditures in Australia, Switzerland, and Canada (see Tables 1 and 2). During this latter period intergovernmental transfers as a percentage of provincial or state revenues increased in the United States, Germany, and Austria, but declined in Australia, Switzerland, and Canada (see Table 3).

Fourth, a fundamental feature of the dynamics of intergovernmental financial relations in all federations has been the underlying process of intergovernmental political bargaining. These processes therefore have been heavily influenced by the relative strength of the social and political pressures arising from the particular character of internal diversity or fragmentation within each federation and by the particular political structure and processes established by their constitutional frameworks. As Bird has noted, in such a context what has mattered most in intergovernmental financial relations has been the character of the political bargaining, who determines the rules for that bargaining, and how those rules are changed.<sup>24</sup>

Fifth, the extent to which political bargaining relating to issues of federal finance has been truly "intergovernmental" has varied among federations. The degree to which there are provisions for the representation of regional governments or interests in the institutions of federal policy-making has been a factor with Canada providing the least in this respect. Thus, federal-provincial bargaining on financial matters has had to focus in Canada, more than in any other federation, upon the extra-parliamentary processes of executive federalism to influence federal policy-making affecting financial matters. The processes of executive federalism have been significant in other federations such as Germany and Australia, but the representatives of the *Länder* in the German Bundesrat and of state interests in the directly elected Australian Senate provide additional channels for state interests to influence federal policy-making.

Sixth, among federations Canada clearly stands out in its emphasis upon provincial autonomy. Next to Switzerland, it is the most decentralized in terms of the allocation of pre-transfer revenues and of post-transfer expenditure responsibilities, as indicated in Tables 1 and 2. Furthermore, the relatively low degree of conditionality of most federal transfers to the Canadian provinces, a substantial portion of which takes the form of semi-conditional CHST transfers which contain much less specific conditions than those in most other federations including Switzerland, has been a product of the emphasis upon

provincial autonomy and of the role of Quebec within the Canadian federation. A feature that further distinguishes Canada from Switzerland is the degree of asymmetry exemplified by such arrangements as the Quebec Pension Plan and the *Framework for the Social Union*. The Canadian situation has also been influenced by the extent to which the constitution emphasizes the exclusive legislative powers of each order of government with fewer constitutionally concurrent areas of jurisdiction than in any other contemporary federation.<sup>25</sup>

Seventh, generally the pattern of intergovernmental financial relations has reflected the particular character not only of the economy but also of the society, political culture, values, and political institutions in the federation concerned, rather than being derived from normative economic theory. Thus, for instance, the emphasis in their intergovernmental relations upon equity and equalization in Australia, upon uniform social benefits and inter-locking federal-state relations in Germany, upon a complex balance of cooperative intergovernmental and autonomous cantonal and local decision-making in Switzerland, and upon a multitude of non-systematic grant programs within the United States each reflects the particular predominant political culture and reality within these federations. Similarly, the Canadian federal financial relations have reflected the political character of the Canadian federation with its emphasis upon the autonomous action of each order of government. These variations are not surprising since the dynamics of financial arrangements in federations depends so much on the processes of political bargaining within each federation.

## NOTES

1. See, for instance, R.M. Bird, "A Comparative Perspective on Federal Finance," pp. 293-322, esp. pp. 293-98 and R. L. Watts, "Comment: The Value of Comparative Perspectives" pp. 323-28 both in *The Future of Fiscal Federalism*, ed. K.G. Banting, D.M. Brown and T.J. Courchene (Kingston: School of Policy Studies, Queen's University, 1994).
2. R. L. Watts, *Comparing Federal Systems*, 2<sup>d</sup> ed. (Kingston: McGill-Queen's for the School of Policy Studies, Queen's University, 1999), p.2.
3. Some authors have preferred to use the term "non-centralization" to "decentralization" in relation to federations on the grounds that the latter implies a hierarchy with power being devolved from the top as is typical of decentralized unitary systems whereas the former infers a constitutionally structured dispersion of power representing better the character of a federation. (See for instance, D.J. Elazar, *Exploring Federalism* (Tuscaloosa: University of Alabama Press, 1987), pp. 34-36. However, because the term decentralization is in such widespread public use, it will normally be used in this chapter.
4. For an outline of the actual distribution of taxing powers and revenue sources in 12 federations, see Watts, *Comparing Federal Systems*, pp. 43-44 and 126.

5. See also the Quebec Tremblay Commission critique of Keynesianism in shaping policy.
6. Bird, "A Comparative Perspective on Federal Finance," pp. 305-08.
7. For an outline of the actual distribution of legislative and administrative jurisdiction in 12 federations, see Watts, *Comparing Federal Systems*, pp. 35-41 and 125-30.
8. For a fuller comparative analysis of the spending power in federal systems, see R.L. Watts, *The Spending Power in Federal Systems: A Comparative Study* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1999).
9. John Kincaid, "From Cooperative to Coercive Federalism," *The Annals of the American Academy of Political and Social Science* 509 (May 1990):139-52, esp. pp. 148-50; J. Kincaid, "From Cooperation to Coercion in American Federalism: Housing, Fragmentation and Preemption 1780-1992," *The Journal of Law and Politics* 9, 2(1993):333-430.
10. An interesting suggestion made to the author by François Vaillancourt.
11. Watts, *The Spending Power*, pp. 54-56.
12. *Ibid.*, p. 56.
13. If the EPF and CHST semi-conditional transfers were categorized as conditional, the Canadian figure would have been 67.4 percent of cash transfers. The source for the Canadian figures is *Finances of the Nation* (Toronto: Canada Tax Foundation, 1996), Table 8.1. For the other federations, see Watts, *The Spending Power*, p. 56.
14. Watts, *The Spending Power*, p. 57.
15. *Ibid.*, p. 56.
16. Watts, *Comparing Federal Systems*, pp. 50-53 and Table 12. See also Bird, "A Comparative Perspective on Federal Finance," pp. 301-05; B. Dafflon, *Fédéralisme et solidarité: Étude de la péréquation en Suisse* (Fribourg: Institut du Fédéralisme, 1995); U. Exter, "Financing German Federalism: Problems of Financial Equalization in the Unification Process," *German Politics* 1, 3 (1995): 22-37.
17. See D.M. Brown, *Equalization on the Basis of Need*, Reflections Paper No.15 (Kingston: Institute of Intergovernmental Relations, Queen's University, 1996), also the various reports of the Commonwealth Grants Commission in Australia.
18. Bird, "A Comparative Perspective on Federal Finance," pp. 301-03.
19. *Ibid.*, p. 310.
20. R. L. Watts, *Executive Federalism: A Comparative Analysis* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1989).
21. Watts, *Comparing Federal Systems*, pp. 53-54 and Table 13; and Bird, "A Comparative Perspective on Federal Finance," pp. 304-05.
22. Bird, "A Comparative Perspective on Federal Finance," pp. 304-05.
23. See, for instance, Richard Bird, *Federal Finance in Comparative Perspective* (Toronto: Canadian Tax Foundation, 1986), pp. 17-18.

24. Bird, "A Comparative Perspective on Federal Finance," pp. 311-12.
25. Watts, *The Spending Power*, pp. 58, 65.



# VI

## Chronology

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## Chronology of Events July 1998 – December 1999

*Estée Garfin and Felina Arsenault*

An index of these events begins on page 427

4 July 1998  
*Western Canada*

The annual conference of western premiers wraps up in Yellowknife. The leaders of the western provinces and territories release a final statement demanding that the federal government restore money previously cut from the transfer payments for education, health care, and social services. Now that the federal government has reduced its deficit the premiers would like to see the money returned to the transfer payments. Another topic of discussion at the conference is the proposed social union. The provinces have tabled a proposal to work with Ottawa in setting national standards for social programs, determining funding, and making arrangements for dispute resolution. Social union negotiations will resume in a few weeks.

9 July 1998  
*Fisheries*

Federal Fisheries Minister David Anderson announces that negotiations between Canada and Alaska over salmon fishing have failed. BC Premier Glen Clark has been very critical of Anderson's negotiations, saying that he has "sold out" to the Americans in other deals cut with Washington State and expects more of the same with the Alaskan negotiations. The BC government is urging Ottawa to tax American fishing vessels traveling through Canadian waters and to prohibit US navy testing on Vancouver Island.

- 13 July 1998  
*Environment*
- Alberta's Premier Ralph Klein states that Alberta will not ratify the Kyoto Accord, which Canada has agreed to sign. The accord calls for a large reduction in the emission of fossil fuels. Klein criticizes the accord for being too strict, saying that it will damage Alberta's economy, which is largely dependent on the fossil fuels industry.
- 15 July 1998  
*Aboriginal Peoples/  
Nisga'a*
- In British Columbia, agreement is reached between the Nisga'a people, the province, and the federal government to settle a land claim that is over a hundred years old. The BC government hopes that this deal will act as a template for future settlements of native land claims. The treaty grants the Nisga'a 1,992 square kilometres of land, ownership of the resources on the land, and self-government. Premier Clark plans to allow a free vote when the treaty is tabled in the legislature. Despite the excitement of the negotiators, there is much dissent. The Gitanyow and Gitxsan native bands claim that much of the territory granted to the Nisga'a in the agreement traditionally belongs to the Gitanyow and Gitxsan. In addition, the Reform Party and the provincial Liberal Party say that the agreement creates another level of government, grants too many powers to the Nisga'a, and creates racial inequality. Some have been calling for a provincial referendum on the treaty. An official ceremony will be held in the Nisga'a territory on 4 August 1998.
- 15 July 1998  
*Aboriginal Peoples*
- A law suit is launched by the Cree in the Superior Court of Quebec against the federal and provincial governments and the forestry industry. The Cree of northern Quebec argue that the forestry industry has been using logging practices that are not environmentally safe and have been violating the Cree's land rights. The law suit seeks full environmental assessments by both orders of government and a share of the logging profits and jobs.
- 15 July 1998  
*Senate*
- Reform Party member Deborah Hanly announces her bid for one of the two senators-in-waiting positions in Alberta. Premier Klein has been lobbying Ottawa to begin Senate reform which will include the move to an elected Senate. To this end, Klein announced in April that Alberta will elect two senators-in-waiting to take up any of Alberta's

six Senate seats that may become vacant. Alberta is not expected to have a Senate seat vacancy until 2001. So far only the Reform Party has put forward nominations for the senators-in-waiting election race.

15 July 1998  
*Health*

A report is released by the Canadian Institute for Health Information indicating that Canada has one of the lowest rates of organ donation among industrialized countries. The federal and provincial governments are working together to develop a national plan to increase Canada's rate of organ donation.

27 July 1998  
*Saskatchewan*

Saskatchewan and the federal government agree to spend \$40 million on economic development focusing on job creation, business incentives, and diversification of the province's economy. Manitoba and Alberta have developed similar accords with the Canadian government.

31 July 1998  
*Political Parties*

Nominations for the federal Progressive Conservative Party leadership race close with five nominees: Joe Clark, Michael Fortier, David Orchard, Brian Pallister, and Hugh Segal. The leadership vote will be held 24 October.

6 August 1998  
*Nova Scotia/  
Newfoundland*

Nova Scotia Premier Russell MacLellan announces that a dispute with Newfoundland over an ocean floor border will go to arbitration. The controversy concerns hydrocarbon potential in the ocean bed. MacLellan is criticized by opposition MLAs for legitimizing Newfoundland's unfounded claim to the area.

6-7 August 1998  
*Premiers' Meeting*

The annual Premiers' Conference takes place in Saskatoon. All of the leaders, including Quebec's Premier Lucien Bouchard, pledge to work together to negotiate with Ottawa for a new social union. In addition, the premiers and territorial leaders unanimously agree that the focus of new spending should be health care and demand that the federal government increase spending on health. The conference concludes with the leaders making a list of demands on the federal government: to continue negotiating with the provinces concerning hepatitis C compensation; to create a national transportation plan; to consult the provinces on future international trade agreements and to protect the rights of Canadians in a more



strident manner; and to eliminate Employment Insurance (EI) premiums for youth and reduce EI premiums for other workers.

17 August 1998  
*Environment*

Ottawa announces that it will go ahead and ratify the Kyoto Accord concerning fossil fuel emissions without the support of the Alberta provincial government.

20 August 1998  
*Separation*

The Supreme Court of Canada hands down its decision concerning Quebec secession. It states that Quebec cannot unilaterally secede, but that if a "clear majority" of people in Quebec vote yes to a "clear question" on secession, then the Government of Canada would be obliged to negotiate the terms of separation with the province. These negotiations would have to respect what the court termed the fundamental characteristics of Canada: the rule of law, federalism, democracy, and respect for minorities. The court, however, did not indicate what would constitute a "clear" question or a "clear" majority. It suggested that these are political questions which must be resolved by elected officials. Both the federalists and the separatists claim this decision as a victory. The federalists say that this means that Quebec would not be able to dictate the terms under which it would leave Canada. The separatists say that this decision gives Quebec the right to separate from Canada.

28 August 1998  
*Senate*

Jean Forest, an Alberta senator, steps down from the Senate for personal reasons. This leaves an unexpected vacancy among Alberta's six Senate seats. Alberta Premier Ralph Klein pressures the prime minister to choose a candidate by election in Alberta rather than by appointment.

4 September 1998  
*Fisheries*

Quebec Premier Bouchard criticized the recent fishing quotas instituted by the federal government in the fishing communities of eastern Quebec. Federal Fisheries Minister David Anderson explained that the cap on fishing is necessary for conservation purposes. The fishers of eastern Quebec are furious and have organized protests, even occupying a federal fisheries ship.

14 September 1998  
*Quebec*

The Bloc Québécois (BQ) wins the federal by-election in Sherbrooke. The by-election was called after Jean Charest, MP for Sherbrooke and leader of the federal Progressive Conservative Party gave up his seat to lead the provincial Liberal Party in Quebec. Gilles Duceppe, the leader of the Bloc Québécois, says that the BQ's win shows that the sovereigntist movement is very strong. Prime Minister Jean Chrétien suggests otherwise and points out that the number of federalist votes far outnumbered the votes for the BQ.

17 September 1998  
*Social Union*

Prime Minister Chrétien is criticized by the Ontario and Quebec premiers for comments he made in a news interview. In the interview, Chrétien said that the provinces are demanding too much control over financial resources and programs in their quest for a social union. Ontario Premier Mike Harris says that the provinces are not seeking more power, but are trying to come up with a better formula for sharing federal and provincial powers. Quebec Premier Lucien Bouchard accuses the prime minister of being arrogant.

17 September 1998  
*Senate*

Douglas Roche is appointed to the Senate to fill the vacant Alberta seat. Premier Ralph Klein angrily states that Prime Minister Chrétien has ignored the wishes of Albertans in making the appointment without waiting for the election of senators-in-waiting next month. Earlier this month the Federal Court of Canada ruled that the prime minister has the authority under the constitution to appoint senators. The case was launched by the Reform Party to prevent Prime Minister Chrétien from appointing a senator without an election.

17 September 1998  
*Health*

The provincial and territorial health ministers release a statement pledging to maintain a financially viable publicly funded health-care system. To this end they are calling on the federal government to reinstate previously cut funds to the Canada health and social transfer. The ministers agree to work together to develop a comprehensive anti-smoking strategy; as well, they plan to focus on improving Aboriginal health care.

- 18 September 1998  
*Health*
- Federal Health Minister Allan Rock presents an offer to the provinces in an effort to resolve outstanding issues concerning hepatitis C victims. Last spring the federal and provincial governments committed to spending \$1.1 billion in compensation to people who contracted the virus between 1986 and 1990 (the period wherein the governments may be legally liable for the spread of the virus). This new offer arises in response to calls from Ontario and Quebec to compensate pre-1986 victims. The proposed deal would spend money on increased health services to all people infected with hepatitis C but does not include financial compensation to the victims. Ontario has committed to spending \$200 million in compensation to pre-1986 victims.
- 24 September 1998  
*Transportation*
- The provincial and territorial transport ministers meet in Regina to discuss highway construction and rail-line abandonment. Despite a report that says Canada urgently needs to upgrade its highways, the federal government will not commit to financing such a project. The report calls for \$17 billion in construction, but says that the improved roads would result in a net return of \$13 billion, much of that from increased trade. The other topic, rail abandonment, is a problem in the prairies as rail lines that are not profitable have been shut down, thus increasing shipping costs for farmers. David Collenette, the federal transport minister, says that he will work with the provinces to address these two issues.
- 29 September 1998  
*Gun Control*
- The Alberta Court of Appeal decides that the federal government does have the jurisdiction to make gun control legislation, including the requirement that firearms be registered. The governments of Alberta, Saskatchewan, Yukon, the Northwest Territories, and Ontario launched the suit complaining that Ottawa is overstepping its constitutional powers in making laws dealing with private property.
- 8 October 1998  
*Aboriginal Peoples*
- Cree leaders in Quebec and that province's government will recommence negotiations over logging rights. On the agenda are forest allotments for Cree communities, a shared land-use strategy, an end to new logging areas, and an audit of current forestry laws and policies. The Cree

are still pursuing a \$700 million claim against the Quebec government for allegedly unlawful logging practices.

12 October 1998  
*Aboriginal Peoples*

A federal study concerning the quality of life of Aboriginal peoples in Canada is released. The findings demonstrate that the standard of living for native Canadians, especially those living on reserves, falls far below the national average. Life expectancy is 7.5-10 years lower for Aboriginal peoples and wages for Aboriginal peoples are more than 50 percent below that of non-Aboriginal Canadians.

14 October 1998  
*Budget*

Federal Finance Minister Paul Martin delivers his annual fall budget update. His message to Canadians is that while the Canadian economy is in fairly good shape, it is necessary to be cautious in economic forecasting and in the planning of future spending, given the rough shape of the world economy. Martin says that there may not be the money expected earlier this year to cut taxes and increase spending in next year's budget due to lower than predicted growth rates.

14 October 1998  
*Fisheries*

Federal Fisheries Minister David Anderson reveals a plan to cut down the size of British Columbia's fishing fleet. The government will buy back licences and will develop even stricter quotas; the goal is to have a smaller, more profitable fishing fleet. The current quotas have already been sharply criticized by the BC government and fishers.

19 October 1998  
*Senate*

Alberta finally elects its senators-in-waiting, Ted Morton and Bert Brown. The two are Reform Party members; Reform was the only party to nominate candidates for the election, although two independents also ran. The Chief Returning Officer says that many voters did not fill out ballots for the Senate vote which was held in conjunction with municipal elections.

19 October 1998  
*Aboriginal Peoples/  
Nisga'a*

Gordon Campbell, leader of the British Columbia Liberal Party, launches a bid to have the Nisga'a treaty deemed unconstitutional in the BC Supreme Court. He is asking the court to rule that a provincial referendum is necessary to ratify the agreement. He argues that it creates another level of government by granting the Nisga'a law-making

- powers and contravenes the *Charter of Rights and Freedoms* by allowing only Nisga'a band members to participate in the Nisga'a government. Campbell deems this to be racial discrimination.
- 24 October 1998  
*Political Parties*
- The Progressive Conservative Party holds its leadership vote. Joe Clark comes out ahead but fails to garner 50 percent of the vote, necessitating a second ballot. Hugh Segal, Brian Pallister, and Michael Fortier will not be competing in the second round. This leaves David Orchard, a Saskatchewan farmer, as Mr. Clark's only challenger for the second ballot. The second vote will be held 14 November.
- 27 October 1998  
*Media*
- The *National Post*, the newest of the Southam Inc. papers, makes its debut. The Toronto-based paper is being billed as providing "truly" national news coverage.
- 28 October 1998  
*Quebec*
- A general election is called in Quebec for 30 November 1998. Lucien Bouchard states in his election announcement that the Parti Québécois will hold a referendum on the question of secession if it is elected. Liberal leader Jean Charest explains that his party will focus on improved federalism, tax cuts, and restricting government's role in the economy.
- 10 November 1998  
*Agriculture*
- Saskatchewan asks Ottawa to develop an emergency farm aid strategy. Farming incomes have fallen drastically due to low commodity prices and a subsidy war on agricultural products between the United States and the European Union.
- 12 November 1998  
*Aboriginal Peoples/  
Nisga'a*
- The Nisga'a First Nation holds a referendum on the approval of their treaty with the BC and federal governments. The accord is ratified as 61 percent of eligible voters voted in favour. Despite attempts by the BC Liberal Party and the BC Fisheries Survival Coalition to thwart the provincial legislature's ratification of the deal, both the premier and the prime minister say they will speed up the process in their respective legislative assemblies.
- 14 November 1998  
*Political Parties*
- Joe Clark wins the Progressive Conservative party leadership with 77 percent of the second-round ballots. Clark

says that his agenda as the new leader includes eliminating the party's debt, readying an election platform, and attracting more support from Canadians. He has dismissed the United Alternative movement as being ineffective and refuses to become involved in discussions with the Reform Party about a possible union between the parties.

26 November 1998  
*Northwest Territories*

Don Morin steps down as premier of the Northwest Territories amid accusations that he broke conflict-of-interest rules. He is resigning as premier, but will maintain his seat in the government. Morin denies any wrongdoing and will fight the allegations made against him.

30 November 1998  
*Quebec*

The Parti Québécois (PQ) wins a majority in the Quebec provincial election, renewing Lucien Bouchard's term as premier. While the Liberal Party had a higher percentage of the popular vote, 44 percent compared to 43 percent for the PQ, the distribution of voters meant that the PQ won 75 seats and Liberals took 48. The PQ's modest win means it is unlikely that the new government will call a referendum in the near future.

30 November 1998  
*Aboriginal Peoples/  
Nisga'a*

The BC government opens a special session of the legislature to introduce the bill to ratify the Nisga'a treaty.

1 December 1998  
*Gun Control*

Canada's gun registry law comes into effect. The law requires that every gun owner be licensed by 2001 and that all firearms be registered by 2003. Some of the provinces are appealing the law in a case before the Supreme Court of Canada.

4 December 1998  
*Fisheries*

Brian Peckford submits his final report on the west-coast fishery and Ottawa's management thereof to the Government of British Columbia. The report slams the current system and suggests that a new agency is needed to replace both the federal Department of Fisheries and Oceans and the BC Fisheries Ministry. The new agency would be located on the west coast and would be a shared project between British Columbia and the federal government.

7 December 1998  
*Social Services*

Prime Minister Chrétien announces that a youth-employment program will be extended for a second three-year

period. It is a shared-cost program between federal and provincial governments and helps young people gain work experience through subsidies to employers. The announcement is attacked by the premiers who were not consulted in the decision to extend the program and yet are expected to continue funding it. The provinces are demanding that they be consulted on new social spending; federal-provincial consultation is a key part of the social union talks.

10 December 1998  
*Agriculture*

Federal Agriculture Minister Lyle Vanclief announces that the federal government will commit \$900 million to a farm aid plan. The problem in getting the money to farmers is how to structure the program so as not to incite US anger at what might be perceived as an agricultural subsidy.

10 December 1998  
*Northwest Territories*

Jim Antoine is elected premier in the Northwest Territories to replace Don Morin who stepped down last month. Antoine was a leader in the Dene community and a long-time member of the NWT legislature. His term will last until 1 April 1999 when the territory will split in order to create the new eastern Arctic territory of Nunavut.

14 December 1998  
*Financial Services*

In a much anticipated announcement, Finance Minister Paul Martin rejects the merger plans of four of Canada's most prominent banks. The decision came after almost a year of deliberation and reports from different groups on the likely outcome for consumers of the proposed bank unions. Two reports in particular influenced the government's decision: one from the Bureau of Competition Policy and the other from the Superintendent of Financial Institutions, which stated that services to customers would likely be compromised and prices would increase. The banks argue that they would be better equipped to compete internationally with the larger pool of resources which would result from the mergers. The government will continue to implement changes to its financial services policy which are intended to increase competition.

17 December 1998  
*Western Canada*

The prairie provinces and the two territories announce plans to work together to promote economic development and attract international business and tourism. The group says that it is the fastest growing region in Canada and criticizes the federal government for doing little to improve transportation.

18 December 1998  
*Health*

The federal government finally reaches a compromise with hepatitis C victims on a compensation package. Hepatitis C sufferers were angered several days ago when health ministers across the country offered financial payments to Canadians who contracted the AIDS virus through a partner or parent infected by the tainted blood supply when the same ministers have been slow in addressing the claims of hepatitis C patients.

21 December 1998  
*Aboriginal Peoples/  
Metis*

The Metis gain recognition as a distinct Aboriginal People by the Ontario Court. The official recognition is part of a ruling that absolves two Metis of any wrongdoing in hunting a bull moose. The Metis have long faced difficulties in gaining the recognition, not only in Ontario but across the country. The difficulties arise in that it is difficult to define Metis, and because the different levels of government argue over who has jurisdiction over off-reserve Aboriginal people. Approximately 210,000 Canadians are identified as Metis.

30 December 1998  
*Transportation/  
Agriculture*

Willard Estey's report on Canada's grain transportation system is made public by the Ministry of Transport Canada. Estey, a former Supreme Court Justice, was called upon to investigate the issue last year when farmers suffered huge financial losses due to delayed grain shipments. The report recommends that the Canadian Wheat Board should give up control of grain transportation to private companies.

10 January 1999  
*Newfoundland*

Newfoundland plans celebrations in honour of its fiftieth year as a Canadian province. Newfoundland joined confederation in 1949. The celebrations are also expected to boost tourism, which has been growing since the 1997 festivities marking the 500<sup>th</sup> anniversary of explorer John Cabot's arrival in Newfoundland.

12 January 1999  
*Social Union*

Ottawa agrees to limit its ability to introduce new shared-cost programs at a federal-provincial meeting in Halifax. The ministers met to discuss the social union, and while no deal has yet been agreed to, all parties have been compromising and are optimistic that a deal will soon be reached.



- 14 January 1999  
*Unity*
- Saskatchewan Premier Roy Romanow declares that the federal government's choice not to ratify the Calgary Declaration is insignificant. The Calgary Declaration is a statement made by the nine federalist premiers recognizing Quebec's unique character. The Declaration was seen as a provincial initiative and not one that requires Ottawa's approval. The Declaration has been rejected by Quebec as insubstantial.
- 14 January 1999  
*Homelessness*
- Toronto's task force on the homeless concludes its study by saying that the stereotype of homeless people is not accurate; in fact there are many families and children who are homeless and the fastest growing segment is youth under 18 years of age. The report suggests that shelter allowances should be higher in Toronto and that the working poor should be given rent payment assistance. Costs of the report's suggested programs are approximately \$26 million for the city, \$262 million for the Ontario government, and \$84 million for the federal government.
- 18 January 1999  
*Newfoundland*
- Newfoundland Premier Brian Tobin calls a provincial election for 9 February. He explains that he needs to renew his government's mandate in the face of two important agreements for natural resource development. Others speculate that he has called the election so as to have another term in office before moving on to compete for the federal Liberal Party leadership when Chrétien decides to step down.
- 19 January 1999  
*Bilingualism*
- A report released by the federal Task Force on Government Transformations and Official Languages states that bilingualism has deteriorated as a result of federal government downsizing to provincial governments and due to increased privatization of services.
- 21 January 1999  
*Revenue*
- Revenue Canada begins collecting outstanding debts for the provinces. Revenue Canada will deduct monies owed to the provinces, such as student loans, sales tax, etc. from federal income tax refunds. It already does so for debts owed to the federal government. So far only Ontario, Nova Scotia, and British Columbia have asked that this measure be implemented on their behalf.

26 January 1999  
*Aboriginal Peoples*

The British Columbia and federal governments reach an agreement with the Sechelt First Nation. If signed, it will be the first such agreement under the BC Treaty Commission; the agreement with the Nisga'a band did not fall under this commission because negotiations began before the commission's inception in 1991. The deal with the Sechelt First Nation includes 933 hectares of land and \$42 million.

26 January 1999  
*Justice*

The federal Justice and Attorney General of Canada announces that it will join the British Columbia government in an appeal in the BC Supreme Court in a child pornography case. A lower court in BC overturned a law prohibiting possession of child pornography saying that it violates the right to freedom of thought, belief, opinion, and expression.

29-30 January 1999  
*Social Union*

Federal and provincial ministers meet in Victoria for social union talks. The provinces and the federal government have yet to reach a compromise on the most crucial issues. The provinces are demanding that they have more input into the design of social programs and want to have the power to opt out of Ottawa's programs and yet still receive federal funds if they run similar programs. Ottawa will not agree to these demands, and moreover is asking the provinces to remove barriers to social services to out-of-province Canadians. The provinces also want to prevent the federal government from being able to decrease transfer payments without consulting the provinces; the provincial ministers are calling on Ottawa to increase social transfers to their pre-1995 levels.

4 February 1999  
*Quebec*

A new poll suggests that nationalist sentiment in Quebec is weakening. The poll indicates that over 65 percent of Québécois do not want a referendum in Premier Lucien Bouchard's current term in office, and almost half said they do not want another referendum at any time.

4 February 1999  
*Social Union*

The federal government and the provinces, minus Quebec, sign a social union deal. The signing provinces are finally convinced to sign when Prime Minister Jean Chrétien promises to make a large increase to health-care funding. Ottawa will maintain its *de jure* control over the

interpretation and enforcement of the *Canada Health Act*, but a conflict-resolution process will be adopted as a concession to the provinces' demands. The federal government agrees to give the provinces three months warning about new policies and a greater say in the development of new policies. New shared programs will require the agreement of a minimum of six provinces and again provincial input will be sought in determining shared program costs and goals. The social union deal also relaxes the provinces' obligations to spend federal money on specific programs. The signing provinces agreed to remove provincial barriers to employment, postsecondary education, health care, and social assistance within three years. Quebec chose not to sign the deal because the federal government did not agree to allow provinces that choose not to participate in shared programs to use the federal money for a different but related service. Despite Quebec's refusal to sign the deal, Ottawa says it will allow the province to participate in any new initiatives. Quebec Premier Lucien Bouchard criticized the other provinces for agreeing to the social union and said that the deal signed without Quebec is evidence that there are growing differences between Quebec and the rest of the country.

9 February 1999  
*Newfoundland*

The Liberal Party wins a majority of seats in the Newfoundland provincial election, giving Brian Tobin another term as the province's premier. The total number of seats won by the Liberals was down to 32 from the 36 held when the election was called. The Conservatives won 14 seats and the New Democratic Party, 2.

10 February 1999  
*Water*

The federal government makes a proposal to the provinces to institute a nationwide suspension of large volume water diversions or sales. The government would like to use the suspension period to achieve an agreement with the provinces for an environmentally sound strategy to manage the country's water resources.

15 February 1999  
*Nunavut*

The first election is held in Nunavut to choose the 19 new legislature members. As there are no political parties in the territory, the 19 members will choose a premier and Cabinet from among themselves. The legislature will operate like that of the Northwest Territories in that decisions

will be made by consensus. Most of the administration for the new territory is already in place in anticipation of the establishment of Nunavut as an independent territory on 1 April.

16 February 1999  
*Budget*

The federal government delivers its budget, focusing on health care and modest tax cuts. It is the second balanced budget in a row and Finance Minister Paul Martin promises balanced budgets over the next two years. To keep Ottawa's promise during social union negotiations the federal government pledges to increase health transfers by \$11.5 billion over the next five years and to spend more money on research and innovation in health care. As for tax relief, the basic personal exemption will increase by \$675 and a surtax on income above \$50,000 instituted in 1985, said to be temporary at the time, will be repealed. Other areas being targeted for increased spending include youth employment, information technology, improved salaries and benefits to the military, Aboriginal Canadians and the Department of Indian Affairs, and an emergency contingency fund. In addition, \$3 billion will be spent on paying down the \$579.9 billion debt.

In response to the budget, anti-poverty activists point out that the budget makes a very weak attempt to address the growing poverty rate. Health groups were also critical. While they applaud the infusion of money to health care, they say it will not be enough to maintain an effective system. In contrast with the demands for greater spending, the Reform Party chides the government for not making greater tax cuts. Quebec Premier Lucien Bouchard complains that the change in CHST transfer payment calculations, now made on a per capita basis, will short-change Quebec. The prime minister responds that the federal equalization payment will make up for the change in transfers, emphasizing that the money is a benefit of federalism in that it comes primarily from Ontario's growing economy.

22 February 1999  
*Media*

The Canadian Radio-Television and Telecommunications Communications Commission grants approval to Canada's first Aboriginal television network. The Aboriginal People Television Network will be carried as part of basic cable.

- 24 February 1999  
*Agriculture*
- Agricultural ministers from across the country meet in Victoria to sign an agreement on farm aid. All of the provinces, except Nova Scotia, grudgingly sign onto the federal government farm aid program. The program is designed to compensate farmers who have suffered economic hardship due to low commodity prices. The program will cost \$1.5 billion, 60 percent to be paid by Ottawa and 40 percent by the provinces. Despite signing the accord, Manitoba and Saskatchewan say that it is too expensive for their agriculture-based economies. Nova Scotia withdrew from the agreement at the last moment because it says the program does not address the needs of its farmers which differ from the needs of prairie farmers.
- 5 March 1999  
*Nunavut*
- Paul Okalik is chosen as Nunavut's first premier. He will lead the territory once the official transfer of power takes place on 1 April.
- 8 March 1999  
*Aboriginal Peoples*
- Parliament approves legislation to transfer control of reserve lands to band councils away from the federal government. This means that leases, licences, and property management regulations will come under the jurisdiction of the local band. Critics say it gives the reserve councils too much power to expropriate land. Native women's groups say that the bill does not entrench women's equal right to property, especially in divorce.
- 10 March 1999  
*Agriculture*
- The Saskatchewan and federal governments pledge a further \$85 million in relief for Saskatchewan farmers. This money supplements the money from the national farm aid program introduced this year.
- 11 March 1999  
*Aboriginal Peoples*
- Natives of the Treaty 7 bands in Alberta try to exercise their rights over natural resources. They have launched a suit against the federal government saying that they have maintained their rights to natural resources even with the Treaty 7 agreement, signed in 1877. The federal government says those rights belong to the Alberta government; the rights were transferred from the federal government to Alberta in 1930.
- 15 March 1999  
*Quebec*
- Premier Lucien Bouchard says that Quebec needs to have an independent voice from the federal government in

international relations concerning culture. Bouchard's comments follow Prime Minister Chrétien's statement in the House of Commons reinforcing the concept that diplomatic relations be conducted between countries and not provinces and countries. Earlier this month the culture minister from France invited representatives from both the Canadian and Quebec governments to a conference. Federal Heritage Minister Sheila Copps boycotted the affair because Quebec was invited independently.

22 March 1999  
*Aboriginal Peoples/  
Premiers*

Aboriginal leaders meet with six of the premiers and territorial leaders to discuss the role of natives in implementing the social union. Native leaders criticized the social union process because they were not included. The premiers and territorial leaders support their demand to be consulted in future planning, but did not approve a proposal by First Nations' Assembly Chief Phil Fontaine that Aboriginals play a formal role. The conference did not determine what the role of Aboriginal leaders is to be, and native participation in the social union process must still be endorsed by Ottawa. Included in the Aboriginal leader delegation are the Assembly of First Nations, the Congress of Aboriginal Peoples, the Metis National Council, the Native Women's Association, and the Inuit Tapirisat. The premiers of Newfoundland, New Brunswick, Prince Edward Island, and Quebec do not attend the meeting.

25 March 1999  
*Quebec*

Ottawa rejects a Quebec proposal that would allow it to have a formal role in international cultural and trade organizations such as UNESCO and the World Trade Organization. The federal government did say that it would work with Quebec to develop better federal representation for Quebec abroad. The Quebec Cabinet passed a resolution on 24 March saying that Quebec must "speak with its own voice in the name of the Quebec people."

25 March 1999  
*Homelessness*

Toronto hosts a summit on homelessness. Accusations fly between the city, provincial, and federal governments as to which government is to blame for the enormous problem. Two days before the conference, Ontario Social Services Minister Janet Ecker pledged to spend \$45 million on affordable housing and housing for people suffering

from mental illness. As well, the federal government has appointed its first minister on homelessness.

30 March 1999  
*Aboriginal Peoples*

In an historic accord, Mohawk natives on Quebec's Kahnawake reserve will now be able to tax non-natives on the reserve. The deal allows the same natives the benefit of being exempt from sales tax when making purchases off the reserve in Quebec. The federal government will not participate in the deal and still demands that Kahnawake reserve natives pay GST on off-reserve purchases. Critics of the deal, including the federal government, say that it is unfair to tax some people and not others on reserves.

30 March 1999  
*Justice*

The Alberta Court of Queen's Bench upholds a law banning the possession of child pornography. The decision states that possession of child pornography endangers the right to privacy and protection of children. The decision is the reverse of a recent ruling in British Columbia which struck down the law as a violation of the right to freedom of thought, belief, opinion, and expression. The British Columbia and federal governments are appealing the BC court decision in the BC Supreme Court.

1 April 1999  
*Nunavut*

Nunavut, Canada's newest territory, is born. Nunavut is created from the eastern portion of the Northwest Territories and covers two million square kilometres with a population of 25,000. Per capita annual income is \$11,000 and the unemployment rate is 22 percent. Nunavut's budget will be approximately \$600 million, most of which will come from the federal government.

7 April 1999  
*Quebec*

The federal government grants another \$175.2 million to Quebec in disaster aid. The money will pay for further repairs needed as a result of the 1998 ice storm and the 1996 Saguenay floods.

12-15 April 1999  
*Atlantic Canada*

The Atlantic premiers and business leaders travel through four northern states on a trade mission to expand cross-border trade. The trip is sponsored by the federal Atlantic Canada Opportunities Agency and is deemed to be a success by both the Canadian and American participants.

22 April 1999  
*Aboriginal Peoples*

Brian Craik, spokesperson for the Cree, says that the Cree of northern Quebec have started a law suit in the Federal Court of Canada claiming that some 100 islands in the Hudson Bay and James Bay are part of their traditional lands. The islands are now part of Nunavut and were previously part of the Northwest Territories. The Cree say that they were not consulted when the boundaries of Nunavut were determined.

27 April 1999  
*Aboriginal Peoples/  
Nisga'a*

The Nisga'a treaty is signed by the British Columbia government and the Nisga'a band during an opening ceremony for the annual Nisga'a convention. The BC legislature ratified the accord on 22 April after the NDP government closed the debate in order to be able to sign the accord at the Nisga'a annual convention. The opposition Liberals were incensed by the close of debate and highlighted the fact that one-third of the document remains to be debated. The federal government is not expected to introduce the accord for ratification in the House of Commons until next fall when there will be more time available for debate.

29 April 1999  
*Newfoundland*

Newfoundland changes its name to Newfoundland and Labrador. The legislation concerning the name change receives unanimous approval in the provincial legislature on 29 April. The House of Commons and the Senate must approve the change before it can come into effect.

29 April 1999  
*Revenue*

The federal government creates the new Canada Customs and Revenue Agency. This single body would save about \$60 million in tax-collection costs if used by all governments: federal, provincial, and municipal. Federal Revenue Minister Herb Dhaliwal expects that it will take a great effort to convince the other governments to use the centralized tax-collection system, although Revenue Canada currently collects personal income taxes for the nine provinces, and some other taxes for certain provinces.

5 May 1999  
*Ontario*

Premier Mike Harris calls an election in Ontario for 3 June. The Progressive Conservative Party platform includes more tax cuts, health-care spending, and strong leadership. The Liberal Party campaign focuses on the health-care issue, which has been a hot topic in Ontario



and across the country this past year. The NDP platform also promises increased health spending, but includes spending on education, increased shelter allowances for people on social assistance, the re-implementation of labour laws repealed by the Tory government, and improved environmental protection.

7 May 1999  
*Provinces*

Federal and provincial leaders introduce a National Children's Agenda at a conference in Saskatoon. While the agenda lacks detail and does not address the issue of funding, it does target certain areas for future policy development: The four areas covered by the agenda are physical and emotional health, safety, success in learning, and becoming responsible and socially engaged citizens. All of the provinces with the exception of Quebec will participate in this endeavor.

8 May 1999  
*New Brunswick*

A general election is announced by New Brunswick Premier Camille Theriault. Theriault says that his Liberal Party will address jobs, health care, and leadership. The leadership question is important as it is the first election after long-time premier and Liberal leader Frank McKenna's retirement. Important issues in the campaign will include tax cuts, which are favoured by the Liberal and Progressive Conservative Parties, and the question of tolls on a new highway running between Fredericton and Moncton.

12 May 1999  
*British Columbia*

Federal Fisheries Minister David Anderson responds to a confidential report by the BC Forests Ministry, which was leaked a day earlier. He announces that the federal government will not provide relief funds for forestry industry restructuring. The report states that over 18,000 jobs will be lost in the industry over the next two years and calls for federal aid to alleviate the economic impact. Anderson says the federal government will not provide help both because forestry falls under provincial jurisdiction and because the industry's problems are the result of mismanagement by the BC government.

12 May 1999  
*Nunavut*

Nunavut's legislature opens for the first time. It is reported in the Throne Speech that the government will make itself as accessible as possible, and it introduces Inuktitut as the

territory's official government language. Nunavut plans to join the other two territories to negotiate a greater share of resource revenues from Ottawa.

14 May 1999  
*Transportation*

Federal and provincial transport ministers meet to discuss highway improvements. The provinces are asking Ottawa to share half the costs of proposed roadwork. Currently, all parties involved are finding it difficult to raise the money needed to improve the country's highways. They are necessary to maintain and increase trade.

15 May 1999  
*British Columbia*

British Columbia Premier Glen Clark announces that his province will resume discussions with the federal government concerning Ottawa's lease of the area at Nanoose Bay. The federal government has leased the area since 1965, and it allows the United States military to use the area as a torpedo testing range. At issue is British Columbia's demand that the federal government pledge to ban vessels carrying nuclear weapons in the leased area. The federal government says that it cannot make such a commitment because, for security purposes, the US will not divulge whether or not a ship is carrying nuclear warheads. Ottawa had said a day earlier that it would move to expropriate the land given the suspension of negotiations with BC. BC has used the Nanoose Bay lease as a bargaining chip in a dispute over fishing with the federal government.

19 May 1999  
*Quebec*

Quebec Premier Lucien Bouchard returns home from a trade mission to Mexico with millions of dollars of business contracts. Bouchard says his government will quadruple spending to promote Quebec internationally and plans to conduct similar trips to Argentina and Chile. Quebec's attempt to make itself known internationally and to conduct relations with other states without the federal government has angered federalist politicians in Ottawa. Chrétien's government refused to help Bouchard arrange a meeting with Mexican President Ernesto Zedillo.

20 May 1999  
*Aboriginal Peoples*

The Supreme Court of Canada hands down a decision allowing off-reserve natives to vote in band elections. The requirement that natives be ordinarily resident on their reserves was found to be discriminatory. Many natives have been forced to move off-reserve in order to find work and

better housing. The ruling will be particularly beneficial to native women who were forced off the reserves and lost their band membership when they wed non-natives prior to a 1985 ruling which ended that practice and reinstated band membership. However, often women were not permitted by their communities to return. This latest decision will now allow these women to participate in the election of their band leaders.

20 May 1999  
*Justice*

The Supreme Court of Canada ruled that the definition of "spouse" in the *Ontario Family Law Act*, which applies only to heterosexual couples, is unconstitutional because it discriminates on the basis of sexual orientation. The ruling grants Ontario six months to update the Act and implies that other provincial laws ought to be changed as well to eliminate discrimination against gays and lesbians in the law. This means that other provinces will likely be forced to re-examine their own statutes. However, Premier Ralph Klein has suggested that his government may invoke the notwithstanding clause to avoid changing the definition of spouse in Alberta statutes.

20-21 May 1999  
*Western Canada*

Postsecondary education tops the agenda at a meeting of western premiers and territorial leaders. They are asking the federal government to budget more money for postsecondary education transfers. The leaders say that postsecondary programs need ongoing support. The programs have not received support because of the social transfer cuts over the past several years. Also on the agenda is the development of a process to resolve cross-border disputes with the United States. To this end they met with North Dakota Governor Ed Schafer. The leaders of western Canada have been invited to attend the semi-annual meeting of western governors in Wyoming in June.

3 June 1999  
*Ontario*

Ontario elects the Tories to a second term in government. It is the first election in the province in over 30 years where a party wins back-to-back majority governments. The Conservatives win 59 seats, the Liberals 32, and the NDP are down to just 9, which does not meet the required 12 needed for official party status.

3 June 1999  
*Fisheries*

Federal Fisheries Minister David Anderson endorsed changes to the Pacific Salmon Treaty signed with Alaska, Washington, Oregon, and US native groups. The changes include fishing caps based on the fish available, not quotas, and a focus on conservation. However, BC fishers, environmentalists, the BC government, and natives are furious about a deal they see as selling out their interests.

7 June 1999  
*New Brunswick*

In a surprise election landslide the Progressive Conservative Party comes to power in New Brunswick. The party wins 44 seats compared to the 9 held when the election was called. The Liberal Party went from a majority government to holding just 10. High unemployment on the Acadian peninsula, road tolls, and cuts to the numbers of health-care workers and police were among the reasons cited for voter dissatisfaction with the previous Liberal government. Bernard Lord will be the new premier of the province.

10 June 1999  
*Supreme Court of  
Canada*

Louise Arbour is appointed to the Supreme Court of Canada. She will resign as chief United Nations' war-crimes prosecutor in order to fulfill the appointment. The vacancy comes after Justice Peter Cory's recent retirement.

17 June 1999  
*Nova Scotia*

Premier Russell MacLellan's Liberal government is defeated in Nova Scotia. The Conservative Party joined the NDP in voting down the government's budget, thus toppling the government. At the dissolution of the legislature, the Liberals and NDP each held 19 seats and the Tories held the balance at 13. The Tories had agreed to support a Liberal minority government on the condition that the budget would be balanced. They withdrew their support when it was not. The Liberals have defended themselves by saying that the extra money would be spent on a much needed infusion into the health-care system. The election is called for 27 July.

21 June 1999  
*Aboriginal Peoples*

An agreement in principle is reached between the Dogrib First Nation and the federal government. If ratified, the deal would grant the Dogrib \$90 million, 39,000 square kilometres of the Northwest Territories, a share of resource revenue, and mineral rights to the land covered by the treaty

with the exception of current mining claims being honoured by the federal government. The agreement also sets the stage for self-government.

21 June 1999  
*New Brunswick*

The Conservative government led by Bernard Lord is sworn in in New Brunswick. Lord has reduced the size of the Cabinet and says that the government will be much leaner than the Liberal government it replaces. Lord promises to raise the minimum wage, fight the federal gun control law, resolve outstanding issues with health-care workers, remove highway tolls, and create 300 new nursing positions.

30 June 1999  
*Justice*

The British Columbia Court of Appeal upholds a lower court ruling, which found a law criminalizing the possession of child pornography to be unconstitutional. The appeal was initiated by the BC government and the federal government; federal Justice Minister Anne McLellan says that the governments are disappointed with the decision and that they will institute an appeal in the Supreme Court of Canada.

30 June 1999  
*Agriculture*

Agriculture ministers from Manitoba and Saskatchewan meet with their federal counterpart in Ottawa to ask for more farm aid from the federal government. Lyle Vanclief, the federal minister, says that no more money will be spent on agricultural aid at this time, but he did commit to helping the provinces find money in other departments for disaster compensation.

5 July 1999  
*Political Parties*

The Liberal task force on the west wraps up its meetings with a trip to Saskatchewan this week, after some discouraging news that Alberta tends to mistrust the central government. The task force was established by the prime minister in January in order to build a Liberal presence in the traditionally hostile region.

26 July 1999  
*Alberta*

Albertan municipalities lash out at the Progressive Conservative provincial government for downloading its spending onto municipal governments. The municipalities have their hands tied when it comes to spending by a law that prevents them from running a deficit. This means that municipal governments can either raise taxes or delay infrastructure improvements.

- 27 July 1999  
*Nova Scotia*
- Led by John Hamm, the Progressive Conservative Party won the provincial election in Nova Scotia, capturing 29 of the legislature's 52 seats.
- 27 July 1999  
*Political Parties*
- The United Alternative holds a press conference in Toronto to kick off the next step in its unite-the-right crusade. As co-chair of the United Alternative steering committee, Ontario Tory minister Tony Clement announced the co-chairs of eight action committees and revealed changes to the United Alternative's executive council.
- 1 August 1999  
*Northwest Territories*
- A Supreme Court decision is forcing the government of the Northwest Territories to alter the number of seats in its Legislative Assembly after concerns were raised that non-Aboriginals represent the majority of people in the Northwest Territories after its split with Nunavut. The new system was also giving preference to urban rather than rural areas, which was an issue of great concern to many Aboriginals. The Legislative Assembly has until 1 September 2000 to make the necessary changes.
- 13 August 1999  
*Political Parties*
- Former Tory MP Bill Matthews of Burin-St. George, Newfoundland announced his resignation from caucus and joined the Liberals. As the Tory fisheries critic and deputy House leader, Matthews departure has humbled Progressive Conservative Party members and bolstered Liberal confidence.
- 16 August 1999  
*Premiers' Meeting*
- At their annual conference, premiers and territorial leaders unanimously called for full restoration of the CHST to fund social programs, with a specific focus on postsecondary education. The premiers attacked the rise in federal budgetary surpluses claiming that provincial expenditure responsibilities are outstripping provincial tax revenue. However, there were differences between the premiers over the need for increased transfers versus substantial tax cuts. Premiers Harris and Klein were particularly strident in their demands for tax cuts, but the other premiers were less enthusiastic in their support. The federal government has already announced that it will divide future revenue surpluses between debt reduction, tax cuts, and new spending.

16 August 1999  
*Party Politics*

Jean Chrétien makes a mid-summer Cabinet shuffle that gets political circles buzzing. Among the shuffle, all-but-unknown Liberal backbencher, Toronto MP Maria Minna, was put in charge of international cooperation. The move shows a definite shift to the left and is also likely meant to cool the leadership aspirations of right-leaning Liberal Finance Minister Paul Martin.

16 August 1999  
*Alberta*

The Alberta Urban Municipalities Association (AUMA) meets with provincial Treasurer Stockwell Day to ask that the school portion of property taxes be given to local government. The cash-strapped municipalities are suffering from a downloading of responsibilities from the provincial to the local level coupled with a decrease in provincial grants to municipalities from \$75 in 1993 to \$25 in 1994. In addition to the changes to taxation, the AUMA is also lobbying the Alberta government to draw up a charter delineating provincial and municipal responsibilities.

21 August 1999  
*British Columbia*

Premier Glen Clark met with Lieutenant-Governor Garde Gardom and tendered his resignation. Clark continues to maintain his innocence in regard to the police allegations against him, but admits that he should have recognized that his actions had tarnished his public reputation. The NDP caucus announces that Deputy Premier Dan Miller will replace Clark as acting premier of the province.

23 August 1999  
*Ontario*

At a Toronto meeting of the Association of Municipalities of Ontario, municipal leaders highlight the implications of province-wide restructuring of services. Changes to public services, in particular the health system and the education system, were discussed.

30 August 1999  
*Supreme Court of  
Canada*

The appointment of Beverley McLachlin as the new Chief Justice of the Supreme Court of Canada, replacing Antonio Lamer, has generated criticism about the system of judicial appointments. There are concerns that the current procedures for appointing Supreme Court Justices are too vague and may reflect partisan interests. McLachlin is the first woman to be named as the Chief Justice of the Supreme Court of Canada.

- 9 September 1999  
*Trade*
- Prime Minister Jean Chrétien cancelled a Team Canada trade mission to Australia after several provincial premiers dropped out for various reasons.
- 12 September 1999  
*Political Parties*
- Reform Party leader Preston Manning and Progressive Conservative leader Joe Clark share the stage in Edmonton for a press conference updating the press on their pursuit of common ground between the two right-wing parties.
- 13 September 1999  
*Political Strategy*
- The narrow win in the Reform Party referendum to create the United Alternative raises concerns. Many of the yes voters were recruited after the beginning of the referendum campaign, which suggests that an aggressive pro-United Alternative campaign took place after it became obvious that the referendum would not be supported by the old rank and file Reformers.
- 13 September 1999  
*Governor General*
- Adrienne Clarkson is appointed to succeed Romeo LeBlanc in the Governor General's office.
- 17 September 1999  
*Supreme Court of Canada*
- The Supreme Court of Canada upholds an Aboriginal treaty signed in 1760 that allows Aboriginal People in Atlantic Canada to fish year-round for commercial purposes. The case was initiated by Mi'kmaq native Donald Marshall, who was initially made famous when he was wrongly convicted for murder and spent 11 years in jail.
- 21 September 1999  
*Manitoba*
- The New Democratic Party wins the provincial election with 32 out of 57 legislative seats. The new premier is Gary Doer.
- 26 September 1999  
*Homelessness*
- Federal Labour Minister Claudette Bradshaw wraps up a cross-Canada tour of shelters and programs related to homelessness with a commitment to seek short-term federal aid for homelessness while at the same time seeking a long-term solution.
- 27 September 1999  
*Political Parties*
- New Brunswick MP Angela Vautour, who represents the Beausejour-Petitcodiac constituency, announces her move from the New Democratic Party to the Progressive Conservative Party. The move means that both the NDP and the Progressive Conservatives occupy 19 seats in the House of Commons.



- 27 September 1999  
*Political Parties*      The Reform Party has had to drop the idea of merging with Progressive Conservatives and instead is pursuing the creation of an entirely new party, the United Alternative. Although the third option of sharing candidates in some constituencies has not been dismissed by the Reform Party, the Tories are trying to ensure the presence of a Tory candidate in every riding.
- 28 September 1999  
*Atlantic Canada*      Atlantic members of the Liberal caucus draft a report on the economic renewal of the region. The report targets government investment in high-tech industries and tax incentives as ways to improve the economic prospects of the region.
- 28 September 1999  
*Political Leaders*      Finance Minister Paul Martin declares that he will run for re-election even if Jean Chrétien opts to retain the Liberal Party leadership. The finance minister has hinted at aspiring to the office of prime minister in the past, but continues to declare his support for Prime Minister Jean Chrétien.
- 29 September 1999  
*Education*      Political wheeling and dealing may prevent students in Quebec from getting their share of the Millennium Scholarship Fund. Federal Human Resources Minister Jane Stewart and Quebec Education Minister François Legault cannot seem to agree on anything — from the colour of the cheques to the language in which they're printed. Both sides accuse the other of holding up the process, but neither seems willing to yield.
- 30 September 1999  
*Aboriginal Peoples*      A Nova Scotia fishing group, the Scotian Fundy Mobile Gear Fishermen's Association, demands that the federal government compensate non-native fishers if Atlantic Aboriginal people are allowed to fish without restrictions. At the same time, Aboriginal chiefs from the Atlantic region are encouraging natives to continue fishing despite the rising tension.
- 30 September 1999  
*Health*      Federal Health Minister Allan Rock requests that the Alberta College of Physicians and Surgeons wait until the Alberta Legislature reintroduces Bill 37 before making decisions on accrediting private hospitals. Bill 37 was dropped earlier this year by the government after critics charged that it would open the door to private health care.

30 September 1999  
*Social Services*

NDP leader Alexa McDonough calls on the Liberal government to live up to its 1993 promise to create 150,000 new child-care spaces. The federal government has not created any new child-care spaces and McDonough argues that only 9 percent of children who need daycare receive it.

1 October 1999  
*Aboriginal Peoples*

Federal Fisheries Minister Herb Dhaliwal announces his intentions to step into the east-coast fishing fray in order to negotiate an interim agreement with Aboriginal fishers so that a long-term solution — satisfying both native and non-native fishers — can be found. Unrest in east-coast fishing communities has been on the rise since a 17 September Supreme Court ruling allows east-coast Maliseet and Mi'kmaq Aboriginals to hunt and fish year-round without a licence.

2 October 1999  
*Alberta*

On the last day of the Alberta Urban Municipalities Association convention in Edmonton it appears that the provincial government is prepared to meet some municipal demands for financial support.

3 October 1999  
*Aboriginal Peoples*

Tensions run high in Burnt Church, New Brunswick where non-native fishers carry out threats to destroy any lobster traps put in the water after the official season closed. Over 3,000 traps were destroyed. Non-native fishers also stormed fish-processing plants accused of accepting off-season lobster from native fishers. The conflict stems from the 17 September Supreme Court decision confirming Aboriginal treaty rights to commercial fishing.

4 October 1999  
*Aboriginal Peoples*

Leaders of five Innu communities in Quebec issue an ultimatum to the federal government saying that if Ottawa does not get involved in ensuring that Innu concerns over the impact on the environment and their territorial rights of the Churchill Falls hydroelectric project are addressed they will go to court. The provincial governments of Quebec and Newfoundland are jointly working on the Labrador-based project, but neither government has satisfied Aboriginal concerns for the integrity of their land. Talks between the Innu and the provincial governments currently appear to be at a standstill.

- 5 October 1999  
*Forum of Federations* The Liberal government tries to downplay a scheduled meeting between US President Bill Clinton and Quebec Premier Lucien Bouchard as a mere courtesy call. Quebec sovereignists, on the other hand, argue that the meeting is symbolic recognition of Quebec sovereignty. The private meeting is scheduled as part of the International Conference on Federalism beginning in Mont-Tremblant, Quebec, 6 October 1999.
- 6 October 1999  
*Forum of Federations* The International Conference on Federalism opens in Mont-Tremblant, Quebec. Prime Minister Jean Chrétien and Quebec Premier Lucien Bouchard face off over issues of Canadian federalism before the international crowd. Organizers attempt not to let the conference be overridden by Canada-specific issues.  
Former Prime Minister Brian Mulroney defends Canadian federalism. Speaking at the conference, Mulroney claims that given the vast geography and diversity of Canada, specific provincial interests are served well, and that federalism is here to stay.
- 8 October 1999  
*Forum of Federations* President Bill Clinton spoke on the issue of unity in Mont-Tremblant, Quebec. The 45-minute impromptu speech was applauded by federalists, but has Premier Lucien Bouchard fuming as it lays out tough criteria for any group seeking independence. The US president is said to have taken a special interest in Canadian unity and has done extensive research on the topic.
- 11 October 1999  
*Aboriginal Peoples* Department of Fisheries and Oceans officers crack down on native fishers who are not covered by the 17 September Supreme Court decision to allow Mi'kmaq and Maliseet east-coast Aboriginals to hunt and fish year-round without a licence. Metis fishers are arrested for fishing illegally on a Mi'kmaq boat.
- 12 October 1999  
*Aboriginal Peoples* Eighteen charges are laid in connection with the destruction of thousands of Aboriginal lobster traps in New Brunswick. The RCMP announce that 25 people have been charged with 49 Criminal Code offences and a spokesperson for the Department of Fisheries and Oceans announces that an undisclosed number of non-native fishers will be charged with having lobster traps on the boats

during the closed season. The charges all arise from the tension surrounding the 17 September Supreme Court decision.

12 October 1999  
*Throne Speech*

In the Speech from the Throne the Liberal government restates its promise to use half the federal surplus on debt and tax reduction and the other half on increased social spending. Emphasis is placed on children and the role of the family. Using investment in areas that support the knowledge-based economy is also touted as a way to keep highly trained and skilled professionals in Canada. Critics of the speech say it lacks vision and merely represents more of the status quo.

12 October 1999  
*Quebec*

In anticipation of today's Speech from the Throne, Quebec Premier Lucien Bouchard attacks the Liberal government's centralist approach to politics and intervention in provincial jurisdictions such as health and education.

13 October 1999  
*Gay and Lesbian Rights*

Attorney General Jim Flaherty claims that Ontario needs more time to comply with the Supreme Court of Canada ruling that struck down its definition of a common-law spouse. Flaherty has just one month to allow same-sex, common-law spouses to claim alimony payments in the event of a separation. Critics claim that the Ontario government is dragging its heels for political reasons and argue that the province should be forced to obey the start date of 20 November.

17 October 1999  
*Aboriginal Peoples*

James MacKenzie, lead negotiator for federal Fisheries Minister Herb Dhaliwal, visits Yarmouth, Nova Scotia to address the demands of commercial fishers who want to have native fishing restricted. Tensions in Yarmouth have been rising since the Supreme Court of Canada decision allowing year-round fishing without a licence, and there are fears that the dispute may get out of hand.

18 October 1999  
*Aboriginal Peoples*

Mi'kmaq Chiefs meet with federal Fisheries Minister Herb Dhaliwal in an attempt to bring peace to the growing east-coast lobster dispute. The minister calls for a self-imposed moratorium on lobster fishing, but only 25 of the 35 Chiefs agree and many band members refuse to heed the moratorium.

A group representing the non-Aboriginal Nova Scotia lobster fishing industry requests that the Supreme Court of Canada review its controversial ruling which allows Mi'kmaq and east-coast Maliseet Aboriginals to earn a livelihood from hunting and fishing year-round without a licence. There is no deadline for the court's response.

19 October 1999  
*Quebec*

A letter from federal Intergovernmental Affairs Minister Stéphane Dion to his Quebec counterpart Joseph Facal is released to the public. The letter suggests that Quebec is subject to the Supreme Court of Canada ruling made last year in which Quebec was denied the right to secede unilaterally. Meanwhile, some members of the Liberal caucus urge Prime Minister Jean Chrétien to put on the backburner a plan to establish federal ground rules for a future referendum on Quebec sovereignty. These caucus members worry that laying down the law to separatists will fuel their dissent.

20 October 1999  
*Quebec*

Judge Danielle Cote rules that the provincial government failed to prove that the French language is still in jeopardy in Quebec. This means that section 58 of the French language charter is invalid and that the French language no longer has to be predominant on signs. The case was initiated by Gwen Simpson and Wally Hoffmann, who were fined \$75 under the Language Charter for not making the French letters on the signs in their gift shop larger than the English letters.

21 October 1999  
*Quebec*

Quebec Premier Lucien Bouchard lashes out against the ruling made by Judge Danielle Cote in which the Judge stated that the French language is not endangered. Bouchard argues that the French language is very much in danger and that the Québécois people have the right to take action to preserve it. The Quebec government is appealing Cote's ruling. However, lawyers for the government chose not to present arguments demonstrating that French is still at risk in the province. Liberal Leader Jean Charest described the case as "either provocation or incompetence at the highest level." He suggested that the government was deliberately trying to instigate a language debate in the province in order to generate support for sovereignty.

21 October 1999  
*Aboriginal Peoples*

Indian Affairs Minister Robert Nault promises to pass the Nisga'a treaty in Parliament before the new year, even if it means quashing debate. The treaty was signed by the Nisga'a of British Columbia, the province, and the federal government earlier in the year but in order to be implemented it must be passed by Parliament. Only the Reform Party has threatened to delay its passing.

22 October 1999  
*Aboriginal Peoples*

Nova Scotia Fisheries Minister Ernie Fage gives his support to a seven-point plan developed by non-native fishing groups in the region. The plan calls for one fishery with one set of rules that would apply equally to everyone and would bring an end to out-of-season Aboriginal fishing for commercial purposes.

22 October 1999  
*Aboriginal Peoples*

Tenants on Musqueam land, in southwest Vancouver, have seen their rent soar and have become embroiled in a bitter fight that is taking them to the Supreme Court of Canada. The rent, which was typically about \$400/year previous to 1997, was raised without dispute to \$10,000/year in 1997 to reflect changing land values. However, the Musqueam band appealed that decision and last December the Federal Court of Appeal awarded rents in the \$28,000 range. Leaseholders are refusing to pay that much, while the band is demanding more. Both sides have requested leave to appeal to the Supreme Court of Canada and in the meantime the land rent will average \$10,000 a year and those refusing to pay will receive eviction notices.

25 October 1999  
*Atlantic Canada*

The Atlantic Institute for Market Studies publishes research that examines Ottawa's mismanagement in transferring wealth to the Atlantic provinces. The research shows both inefficiency and negative economic impacts of the transfer payments on the Canadian economy.

1 November 1999  
*Political Parties*

A growing number of grassroots Reform Party members are organizing in opposition to the new approach the Reform Party is taking to politics. Members of GUARD (Grassroots United Against Reform's Demise) are critical of Preston Manning's proposed United Alternative as well as his pandering to Ontario audiences in order to gain a stronger electoral backing.

- 3 November 1999  
*Finance/Health*
- Finance Minister Paul Martin threatens to act unilaterally to raise tobacco taxes if the provinces cannot agree to work together. In 1994 the federal government and five provincial governments cut tobacco taxes in order to counter smuggling. Martin is also working with the RCMP to ensure that incidences of smuggling do not go up as a result of a tobacco tax increase.
- 3 November 1999  
*Aboriginal Peoples*
- The all-party Commons committee responsible for reviewing the proposed Nisga'a treaty begins reviewing the controversial treaty. The meeting quickly becomes hostile.
- 8 November 1999  
*Agriculture*
- Saskatchewan Premier Roy Romanow decries federal Agriculture Minister Lyle Vanclief's decision not to implement a massive farm aid package. Vanclief commented that a bailout package was not worthwhile when it seemed that many farmers were going out of business anyway and such a package would only delay the inevitable. Vanclief lost his personal farming operation in 1998. However, this has not softened his stance to the plight of Canadian farmers.
- 14 November 1999  
*Children*
- Campaign 2000's Report Card reports that child poverty has increased 60 percent in the last decade. This statistic undermines the commitment made by the House of Commons in 1989 to eliminate child poverty.
- 22 November 1999  
*Justice*
- A former prominent Liberal organizer, John Richard, is appointed to the Federal Court of Canada as the new Chief Justice. The court has a large backlog of cases and it is expected that the new Chief Justice will be able to help with the crisis.
- 25 November 1999  
*Political Parties*
- Irwin Cotler, a McGill Law professor, wins a landslide victory in the Mount Royal by-election. A member of the Liberal Party, Colter wins 92.3 percent of the vote, a possible Canadian record. Cotler is firmly positioned on the left-wing of the Liberal Party and has already spoken to increased social spending.
- 29 November 1999  
*Aboriginal Peoples*
- Reform House Leader Randy White announces that the Reform Party will work hard to delay passing the Nisga'a treaty. He argues that Reform opposition to the treaty is a

response to the Canadians who are against the treaty and threatens to join forces with the Bloc Québécois in order to gain more support for the delay.

1 December 1999  
*Social Services*

Alberta Treasurer Stockwell Day announces that he is exploring Alberta's options for opting-out of the Canada Pension Plan. Day says that he has brought up concerns about the plan with the federal government. Finance Minister Paul Martin argues that Day's questions are currently being addressed.

3 December 1999  
*Quebec/Clarity Bill*

Quebec Premier Lucien Bouchard weighs in on the Quebec separation debate, arguing that Jean Chrétien is only playing tough with Quebec sovereignists in order to prepare for the next federal election. Bouchard assures the media that Quebec will determine the next referendum question, not Ottawa.

13 December 1999  
*Political Strategy*

Government House Leader Don Boudria and other Members of Parliament discuss how to prevent legislation from being delayed by filibusters. The previous week saw the Reform Party stage a three-day voting marathon to delay the passing of the controversial Nisga'a treaty.

17 December 1999  
*Quebec/Clarity Bill*

Prime Minister Jean Chrétien and Minister of Intergovernmental Affairs Stéphane Dion table a bill in the House of Commons which stipulates the conditions under which Ottawa would negotiate the separation of Quebec from Canada following a *yes* referendum vote. The bill indicates that after the Government of Quebec announces a referendum question on sovereignty, the House of Commons will meet to determine if the question is "clear." The bill also indicates that after a *yes* vote in the referendum, the House of Commons will determine if the majority is sufficiently "clear" to warrant negotiating separation with the province. As with the Supreme Court reference decision on secession, the federal legislation does not indicate what would comprise a "clear" question or a "clear" majority.



## Chronology: Index

- Aboriginal Peoples* 15 July 1998, 8 October 1998, 12 October 1998, 26 January 1999, 8 March 1999, 11 March 1999, 30 March 1999, 22 April 1999, 20 May 1999, 21 June 1999, 30 September 1999, 1 October 1999, 3 October 1999, 4 October 1999, 11 October 1999, 12 October 1999, 17 October 1999, 18 October 1999, 21 October 1999, 22 October 1999, 3 November 1999, 29 November 1999
- Aboriginal Peoples/Metis* 21 December 1998
- Aboriginal Peoples/Nisga'a* 15 July 1998, 19 October 1998, 12 November 1998, 30 November 1998, 27 April 1999
- Aboriginal Peoples/Premiers* 22 March 1999
- Agriculture* 10 November 1998, 10 December 1998, 24 February 1999, 10 March 1999, 30 June 1999, 8 November 1999
- Alberta* 26 July 1999, 16 August 1999, 2 October 1999
- Atlantic Canada* 12-15 April 1999, 28 September 1999, 25 October 1999
- Bilingualism* 19 January 1999
- British Columbia* 12 May 1999, 15 May 1999, 21 August 1999
- Budget* 14 October 1998, 16 February 1999
- Children* 14 November 1999
- Education* 29 September 1999
- Environment* 13 July 1998, 17 August 1998
- Finance/Health* 3 November 1999
- Financial Services* 14 December 1998
- Forum of Federations* 5 October 1999, 6 October 1999, 8 October 1999
- Fisheries* 9 July 1998, 4 September 1998, 14 October 1998, 4 December 1998, 3 June 1999
- Gay and Lesbian Rights* 13 October 1999
- Governor General* 13 September 1999
- Gun Control* 29 September 1998, 1 December 1998
- Health* 15 July 1998, 17 September 1998, 18 September 1998, 18 December 1998, 30 September 1999
- Homelessness* 14 January 1999, 25 March 1999, 26 September 1999
- Justice* 26 January 1999, 30 March 1999, 20 May 1999, 30 June 1999, 22 November 1999
- Manitoba* 21 September 1999

- Media* 27 October 1998, 22 February 1999
- New Brunswick* 8 May 1999, 7 June 1999, 21 June 1999
- Newfoundland* 10 January 1999, 18 January 1999, 9 February 1999, 29 April 1999
- Northwest Territories* 26 November 1998, 10 December 1998, 1 August 1999
- Nova Scotia/Newfoundland* 6 August 1998
- Nova Scotia* 17 June 1999, 27 July 1999
- Nunavut* 15 February 1999, 5 March 1999, 1 April 1999, 12 May 1999
- Ontario* 5 May 1999, 3 June 1999, 23 August 1999
- Party Politics* 16 August 1999
- Political Leaders* 28 September 1999
- Political Parties* 31 July 1998, 24 October 1998, 14 November 1998, 5 July 1999, 27 July 1999, 13 August 1999, 12 September 1999, 27 September 1999, 1 November 1999, 25 November 1999
- Political Strategy* 13 September 1999, 13 December 1999
- Premiers' Meeting* 6-7 August 1998, 16 August 1999
- Provinces* 7 May 1999
- Quebec* 14 September 1998, 28 October 1998, 30 November 1998, 4 February 1999, 15 March 1999, 25 March 1999, 7 April 1999, 19 May 1999, 12 October 1999, 19 October 1999, 20 October 1999, 21 October 1999
- Quebec/Clarity Bill* 3 December 1999, 17 December 1999
- Revenue* 21 January 1999, 29 April 1999
- Saskatchewan* 27 July 1998
- Senate* 15 July 1998, 28 August 1998, 17 September 1998, 19 October 1998
- Separation* 20 August 1998
- Social Services* 7 December 1998, 30 September 1999, 1 December 1999
- Social Union* 17 September 1998, 12 January 1999, 29-30 January 1999, 4 February 1999
- Supreme Court of Canada* 10 June 1999, 30 August 1999, 17 September 1999
- Throne Speech* 12 October 1999
- Trade* 9 September 1999
- Transportation* 24 September 1998, 14 May 1999
- Transportation/Agriculture* 30 December 1998
- Unity* 14 January 1999
- Water* 10 February 1999
- Western Canada* 4 July 1998, 17 December 1998, 20-21 May 1999