

The Politics of Fiscal Federalism in Canada

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Overview

- Federalism and social policy: three types of program;
- The political situation before COVID-19;
- The political effects of COVID-19 on fiscal federalism;
- The pandemic: a critical juncture in fiscal federalism?
- The Liberal minority government and what could drive policy change;
- Improving governance of fiscal federalism in the short- and long-term;

Federalism and Public Policy

- Keith Banting (2005) draws a line among three main types of social policies as they relate to federalism:
 - 1) classical federalism: social programs operated either by Ottawa or the provinces, acting independently in their own jurisdiction;
 - 2) shared-cost federalism: federal government offers fiscal support to provinces under specific terms to help them run their own programs;
 - 3) joint-decision federalism (e.g. Germany): formal agreement between two levels of government required for decisions: Canada Pension Plan as the main example but Carolyn Tuohy (2020) on long-term care.

Three Main Pillars of Shared-Cost Federalism

- Canada Health Transfer (CHT): by far the largest and the most vital from the provinces; politically the provinces are always asking for more money and recent federal governments, under both Harper and Trudeau, have avoided a grand and costly “grand bargain” such as Paul Martin’s 2004 10-year Health Accord; Harper used unilateralism and Trudeau a divide and conquest strategy (i.e. reaching separate deals);
- Canada Social Transfer (CST): even fewer strings attached than the Canada Health Transfer; it is both more modest and heterogenous in scope;
- Equalization policy: no strings attached and perceived as a zero-sum game, with some better-off provinces receiving nothing; provinces can band together to seek CHT and CST increases but consensus nearly impossible regarding equalization, which has become a divisive issue over the years, even if it remains the only constitutionalized federal transfer in Canada [Subsection 36(2) of the Constitution Act, 1982].

The Political Situation before COVID-19

- Fiscal federalism was already on the agenda before the COVID-19 situation led to a rapid worsening of public finances across the country;
- The grievances of Alberta and Saskatchewan vis-à-vis equalization policy and fiscal stabilization dominated the discussions;
- Especially dramatic was the rhetoric of Alberta Premier Jason Kenney about the need to hold a provincial referendum on equalization policy, a constitutionally-entrenched program that is entirely controlled by the federal government.
- The October 2019 federal elections and the lack of Liberal MPs in the subsequent Trudeau minority government exacerbated regional alienation related to issues such as pipeline building, which is not directly related to fiscal federalism and has tainted intergovernmental relations and territorial politics.

The Political Effects of COVID-19

- The advent of Chrystia Freeland as Minister of Intergovernmental relations after the 2019 federal elections helped diffuse some of the tensions between Ottawa and both Alberta and Saskatchewan;
- Later, the COVID-19 crisis led to a high level of coordination and cooperation between the federal government and the provinces, even those where Conservatives are in power, which is most of them;
- The federal government has provided emergency fiscal support to the provinces and territories and, since March we have seen little over intergovernmental conflict over fiscal federalism.

A Critical Juncture in Fiscal Federalism?

- This (temporary) decline in intergovernmental tensions over fiscal federalism should not hide the fact that the rapid economic and fiscal changes stemming from the COVID-19 crisis present an opportunity for transformative and permanent changes to fiscal federalism in Canada.
- Whether COVID-19 will in fact lead to a “critical juncture” in fiscal federalism remains unanswered, but the possibility is real, especially if the current economic crisis lasts long enough to make permanent transformative changes seem inevitable (Béland, Lecours, Paquet and Tombe, 2020).

Potential Political Drivers of Policy Change

- Minority government: having a Liberal minority government and an NDP that might be willing to support it in exchange for progressive fiscal and social policies could bring about an even bolder “big spending” agenda (remember Lester B. Pearson and Paul Martin?);
- Provincial governments facing enormous fiscal challenges are likely to push for larger transfers, but consensus is likely to be impossible on equalization due to the program’s zero-sum game nature;
- Additional federal support is more likely in areas such as childcare and long-term care, both of which have proved central issues during the current pandemic. The September 23 throne speech might allude to potential federal “investments” in key areas of provincial jurisdictions.

Improving Governance of Fiscal Federalism

- Considering the enduring reality of vertical fiscal imbalance and the new challenges stemming from the COVID-19 crisis, we should find ways to temper federal unilateralism in shared-cost federalism while giving a stronger voice to municipalities, which are seldom involve in key debates;
- With support from IRPP and Canada West Foundation, we are in the process of putting together a non-governmental commission on fiscal federalism that should assess current arrangements and make recommendations to address key policy issues (Béland, Dahlby and Orsini, 2020).
- This future commission should not hide the need for a permanent, arms-length body that could advise the federal government on equalization and other transfer payments, as to make fiscal federalism more transparent and less overtly partisan (Béland, Lecours, Marchildon, Mou and Olfert, 2017).

Thank You!!!

