

# WHAT YOU REALLY NEED TO KNOW ABOUT THE FISCAL IMBALANCE

by Murray Dobbin

**“WHETHER CANADA ENDS UP WITH ONE NATIONAL GOVERNMENT OR TWO GOVERNMENTS OR 10 GOVERNMENTS, THE CANADIAN PEOPLE WILL REQUIRE LESS GOVERNMENT NO MATTER WHAT THE CONSTITUTIONAL STATUS OR ARRANGEMENT OF ANY FUTURE COUNTRY MAY BE.”**

— STEPHEN HARPER, IN A 1994 NATIONAL CITIZENS COALITION SPEECH

In the months following the federal election we’ve heard a lot about the “fiscal imbalance.” Many of the premiers have demanded that Prime Minister Harper fix the fiscal imbalance, although they don’t always agree on what the source of problem is. The solutions that have been proposed include increasing federal transfer payments to the provinces and territories, cutting federal taxes, and transferring tax points to the provinces. If the issue seems confusing and obtuse to you – you’re not alone.

The short story is that the provinces want more money to fund social programs like education and health care. They point to the federal government’s billion-dollar surpluses, questioning why most provinces are facing deficits and

struggling to carry the financial load of providing social programs.

But don’t be fooled. Every time a right-wing, pro-business government wants to fundamentally change the role of government in favour of corporations, it comes up with a phrase that sounds innocuous. When Stephen Harper starts talking about fixing the country’s “fiscal imbalance,” it really means that he’s willing to erode the federal government’s power to take the lead in social policy and establish national objectives. He’s stated that the federal government should focus on justice, defence and foreign affairs, and leave any responsibility for and jurisdiction over social programs to the provinces.

Here are some facts to help you untangle the fiscal imbalance spin.

**Myth: Ottawa is sitting on huge surpluses while the provinces starve.**

**Fact:** The premiers do have a point. Paul Martin’s cuts to funding for social programs in the mid-1990s gutted Canada’s health care system. He made a radical move toward decentralization by repealing the Established Program Financing legislation, which forced provinces to spend the money on targeted areas – education and health care. Martin replaced it with the Canada Health and Social Transfer (CHST) – a

lump sum the provinces could spend as they pleased. Some have argued that this was a deliberate weakening of national policy and an indirect expansion of provincial powers.

But the provinces now have taxing powers that are virtually equal to Ottawa’s – they can set income taxes (and revenue) at any level they choose. And according to Marc Lee of the Canadian Centre for Policy Alternatives, if there is a gap between provincial responsibilities and provincial revenue, it is largely their own doing. While cuts to federal transfers have reduced revenue for medicare, education and social welfare, provinces have slashed their own taxes even more. Lee points out that between 1995 and 2005 provinces reduced their own tax revenue by between \$18 and \$23.3 billion – “substantially more than the loss of federal transfer revenue over the same period.”

**Myth: By placing any restrictions on the money it gives to the provinces and territories, Ottawa is meddling in their jurisdiction.**

**Fact:** Social programs are within provincial jurisdiction, but it’s the federal government that provides a significant portion of the financing. And the only way to ensure universal, accessible programs is to place restrictions on how the provinces and territories can spend the transfer money. This was part of



Natasha Geerts

the initial “deal” that was struck when the federal government first introduced universal medicare. The federal government agreed to pay for half of every province’s tab for the services included in the plan. That was in 1967 when only Saskatchewan had medicare. The “have-not” provinces could not have afforded it and the richer provinces were ideologically opposed. But it was an offer even wealthy Ontario and Alberta could not refuse.

Medicare became a popular program, and in 1984 the Liberal government strengthened it even further by passing the historic Canada Health Act (CHA). That act has served as a powerful barrier to for-profit health care. Because Ottawa cannot directly implement medicare – it’s still constitutionally a provincial matter – the power to enforce the act is strictly financial. If provinces violated the CHA, the federal government could – and did, on occasion – withhold some of its medicare transfer payments. And when Ottawa paid cash for half the total bill, that power was decisive. To weaken the act, both Conservative and Liberal governments reduced cash contributions – by some estimates to as low as 16 per cent (compared to the original 50 per cent) and progressively withdrew from policy debates. The less money Ottawa contributed, the weaker became its leverage to enforce the act.

It should come as no surprise then that those who are eager to profit from the \$91 billion in the public system have been attacking the Canada Health Act almost since the day it was passed. But those wishing to see the end of the CHA rarely attack it directly because Canadians prize their system so highly. The strategy has been subtler: neutralize the act by decentralizing health and social services in Canada.

**Myth: Decentralization will fix the inequalities between the provinces.**

**Fact:** Decentralization will further inequality among people in Canada, by contributing to a piecemeal approach to social programs and eroding the principle of universality. Since the disastrous social transfer cuts in the mid-90s, Canada has seen an explosion of social program cuts and privatization. This has already led to tremendous poverty in Canada, and further decentralization would only make the problem worse.

According to the National Council on Welfare, 15.6 per cent of Canadian children live in poverty – substantially more than in 1989, the year that Parliament unanimously voted to wipe out child poverty by 2000. The child poverty rates for families with a single parent stands at over 50 per cent, and child poverty

rates for Aboriginal children, immigrant children and children in visible minority groups are more than double the national average. Only 38 per cent of unemployed people in Canada qualify for Employment Insurance, compared to close to 80 per cent in 1985.

A recent Organization for Economic Cooperation and Development (OECD) study confirms that Canada is now spending just 18.9 per cent of its GDP on social programs, 15 per cent less than a decade ago. And in a 2003 study, the Canadian Centre for Policy Alternatives found that the gap between rich and poor in Canada, in relative terms, rivals anything in the Third World. The study found that the wealthiest 50 per cent of family units in Canada now control an almost unbelievable 94.4 per cent of the wealth, leaving only 4.6 per cent of the country’s wealth to be shared among the bottom 50 per cent of the population

**DON'T BELIEVE THE HYPE**

The idea of a “fiscal imbalance” manages to get some traction for Canadians simply because they are always hearing the provinces and their premiers complaining about lack of money. But it is a phoney issue. The real question is whether or not the federal government will live up to its historical responsibilities of establishing national standards for critical social programs and funding them – in a word, of nation-building. The flip side of the issue is the agenda of Canada’s largest corporations. They are pursuing two complementary goals with equal determination: ever lower taxes for corporations and their wealthy shareholders, and the cracking open of public services to for-profit providers. Let’s make sure we stop them in their tracks.

**Murray Dobbin is a freelance journalist, broadcaster, author and long-standing member of The Council of Canadians.**