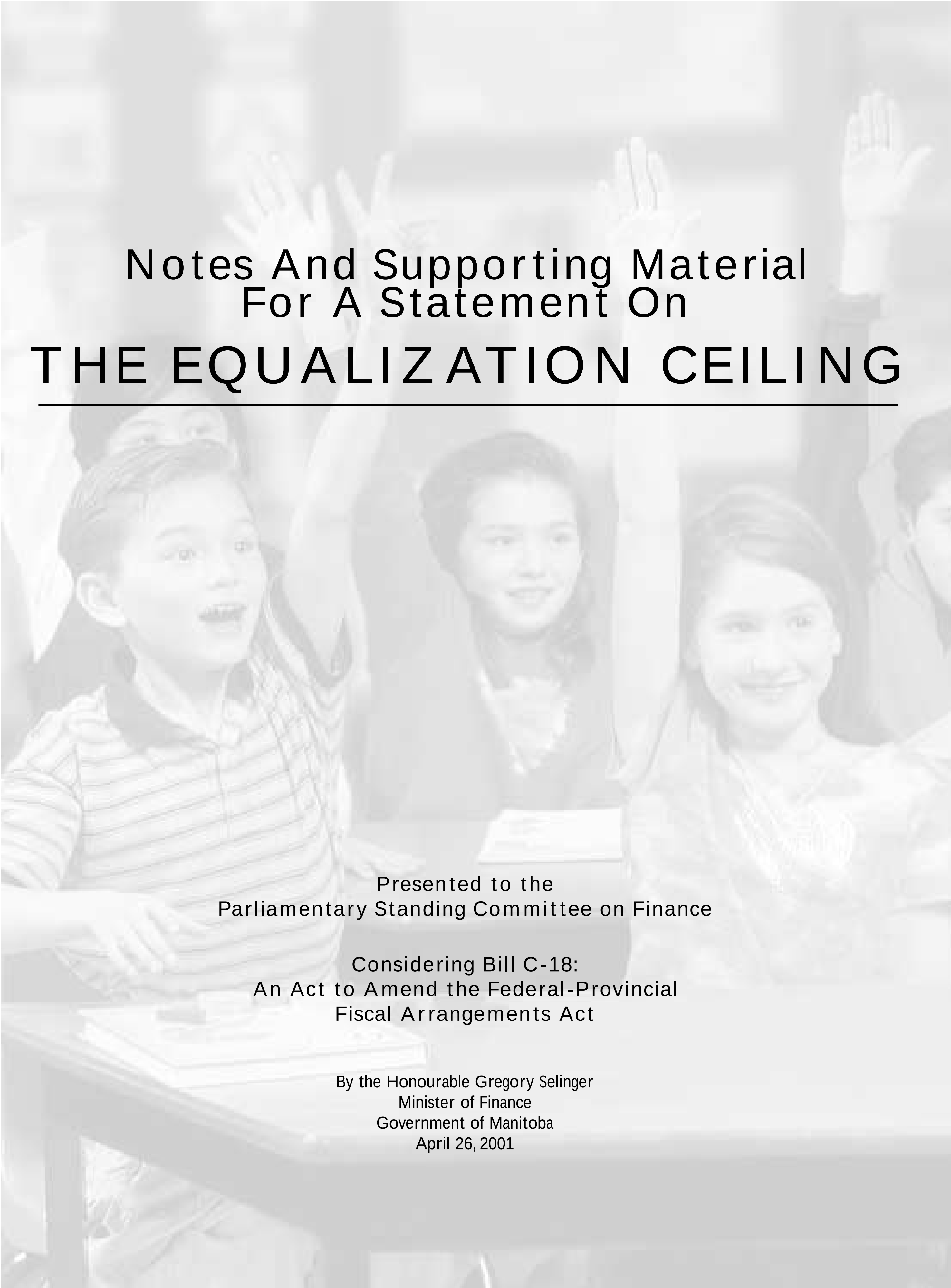

Notes And Supporting Material For A Statement On

THE EQUALIZATION CEILING

Presented to the
Parliamentary Standing Committee on Finance

Considering Bill C-18:
An Act to Amend the Federal-Provincial
Fiscal Arrangements Act

By the Honourable Gregory Selinger
Minister of Finance
Government of Manitoba
April 26, 2001

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April 26, 2001

Members of the Standing Committee:

Equalization is an important cornerstone of the Canadian Federation. So important that it has been recognized and incorporated into our Constitution. I submit that it is incumbent upon all of us to defend the principle of the program and to ensure that actions taken are consistent with the letter and spirit of the provisions in Section 36 of the Constitution.

I have arranged to speak before this Committee concerning the provisions of Bill C-18 and the potential effects of the ongoing ceiling on Equalization payments. It is an unusual procedure for a Minister from Manitoba to appear before a Committee of Parliament, but this should underscore the importance of the issue to the Government of Manitoba. In fact, the ongoing ceiling on the Equalization Program has been a matter of concern to all provincial and territorial Ministers of Finance and indeed all Premiers.

During the current year, I am the Chair of the Provincial and Territorial Ministers of Finance. In this capacity, I hosted a meeting with my colleagues in Winnipeg in December 2000. At that meeting, all provinces and territories reiterated their support for the position that the equalization ceiling should be removed from the program. The full communiqué from the meeting is contained within the package of materials I am providing to you today.

I would like to point out that this support for the removal of the ceiling is not new. Provinces and territories, recipients and non-recipients of equalization entitlements alike, have consistently supported such action. And I am here today to ensure that this position is clear - the ceiling on the Equalization program is an impediment to its adequacy and must be permanently removed.

Earlier today, you will have heard from the Finance Ministers of the Atlantic Provinces about what an adequate Equalization Program means to them. I believe that our messages will be similar, but I would like to highlight a few of the points I tabled in the Manitoba Legislature recently, as a Budget Paper. This Paper is also contained within the package of materials I have presented to you today.

In particular, I would like to emphasize the important role Equalization plays in contributing to the strength, vibrancy and unity of Canada. Equalization works to provide greater opportunity and economic growth across our country, a fact that has often been denied or distorted in the public press.

The purpose of Equalization is clearly stated in our Constitution in Section 36(2).

> Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

With the ability to provide comparable services at comparable tax rates, all provinces can compete effectively for economic growth and jobs which all Canadians desire. Without comparable services, some Canadian citizens will be less prepared to take on available opportunities. Without comparable tax rates, business location decisions will be made on factors other than the fundamental economics of those decisions.

There is evidence that the Equalization program has served the nation well. A recent longitudinal study by Professors Richard Bird and François Vaillancourt showed that, since the Equalization Program was introduced in 1957, per capita economic growth in the recipient provinces over the past four decades has been slightly higher than the growth in the non-recipient provinces. I think that this is a remarkable result, which refutes the commonly-held notion that Equalization is a detriment to economic growth.

The growth has not been strong enough either to prevent net migration from recipient provinces, nor to completely eliminate the differences in per capita disparities. However, we are making progress. Recently, the situation with respect to migration in Manitoba has turned around, such that we now have net in-migration. And we need that to occur, because a shortage of skilled workers is one of the factors which is inhibiting our economic growth. Maintaining comparable personal tax rates and costs is important to attracting and keeping people in Manitoba. Equalization payments help to level the playing field for provinces seeking to compete, not only in Canada, but also in the increasingly global economy.

The other way we are taking direct action to increase the supply of skilled workers is to increase education and training opportunities. Once again, the Equalization Program plays a part in our ability to provide necessary public services. I am pleased that our government recently was able to make the largest investment in post-secondary education facilities in the Province's history. However, we will need to keep making such investments to ensure our province has a well-trained workforce that is equipped with the necessary skills to keep our economic growth strong.

I have focussed on just a few examples to demonstrate the importance of the Equalization Program to Manitoba and to Canada as a whole. There are many more. However, I think that most members of this Committee recognize the value of this program. That is why I am encouraged that the federal Government has tabled Bill C-18, which will remove the ceiling for 1999/2000 fiscal year entitlements under the Program. It is also why I am perplexed and disappointed that the Government of Canada has not yet chosen to remove the ceiling for the 2000/01 and subsequent years.

The ceiling **will** impact on receipient provinces unless further action is taken. However, I would argue that this does not demonstrate a failure of the program. In fact, the narrowing of per capita fiscal disparities over the years has allowed the program cost to decline as a proportion of GDP. The ceiling is impacting, because it has been lowered arbitrarily **three times** during the past two decades, most recently in 1999. The lowering of the ceiling is outlined in the materials I have presented to you, including in my recent communication to Mr. Martin and my Budget Paper. The ceiling has been lowered from an effective rate of 1.33% of GDP in the period from 1982 to 1987, to 1.04% of GDP today.

Ceiling reductions have been made without due regard to the level of entitlements necessary to fulfill the program's mandate. The Equalization Program formula is designed to calculate entitlements in an objective fashion. There are always technical improvements, which are being proposed, but these are matters for discussion as the Program is renewed at regular five-year intervals.

Unless the ceiling is removed for the 2000/01 fiscal year and beyond, Equalization payments will be flat and could well decline from their 1999/2000 levels. This result is not in keeping with the offer made by the Prime Minister to Premiers just last September. That offer stated that the ceiling on 1999/2000 entitlements would be lifted, and that entitlements would be allowed to grow at the rate of GDP growth after that.

In the documents I have provided to you, there is also a table which shows the combined effect of the increases in CHST against the potential clawback of the equalization ceiling for 2000/01 and subsequent fiscal years. This table shows that the offer made by the Prime Minister in September would provide net benefits **solely to the three most affluent provinces**, unless Equalization is allowed to grow and not clawed back by the ceiling provision.

No one should be under the illusion that the current ceiling will allow equalization entitlements generated by the formula to be paid for 2000/01 and subsequent years. All the economic and fiscal data, which has yet to factored into the calculations, point to the effect of the ceiling being greater in 2000/01 than in 1999/2000. The potential loss of revenue to Manitoba for the 2000/01 fiscal year entitlements alone has been estimated at about $100 million. That is a significant sum in Manitoba. $100 million in lost revenue inhibits our ability to provide better health care, to improve access to education and training and to continue to lower taxes to be comparable to our neighbours, west, east and south.

I would add one further comment. When the equalization ceiling was first introduced, the federal government had large and growing deficits. In the past year, the federal government had a surplus exceeding $10 billion. It is unconscionable that the federal government should be amassing surpluses by clawing back entitlements from the seven less affluent provinces in Canada.

I urge the Members of this Committee to reflect further on the importance of the Equalization Program, on our collective commitment to equal opportunity for all Canadians which resonates in our Constitution, and on the fact the we are stronger as a nation when all regions prosper. The equalization ceiling should be removed.

CORRESPONDENCE

MINISTER OF FINANCE

Legislature Building
Winnipeg, Manitoba, CANADA
R3C 0V8

March 22, 2001

The Honourable Paul Martin
Minister of Finance
Government of Canada
L'Esplanade Laurier, East Tower
140 O'Connor Street
Ottawa ON K1A 0G5

Dear Minister:

I am writing to urge your government to amend Bill C-18 to remove the ceiling on Equalization payments for the fiscal year 2000/01, as it will do for 1999/2000, and to allow payments to grow in line with GDP after that.

In follow up on our discussion in Vancouver earlier this month, I wish to convey Manitoba's concerns about the ceiling on the Equalization Program. As you know, Equalization is intended to allow provinces with lower fiscal capacities to fund health, education, and other provincial programs at tax rates comparable with those in more affluent provinces. The ceiling threatens to override the entitlements generated by the formula and undermine the objectives of the Program.

When the Equalization Program was renewed in 1999, the ceiling was arbitrarily reduced by roughly $1 billion per year, to $10 billion in 1999/2000 and indexed by GDP growth in subsequent years. The Program ceiling is now lower, as a proportion of GDP, than entitlements have ever been under the current five-province standard. The impact on Equalization through the ceiling imposed in 1999 is real and substantive. To illustrate this point, if the current ceiling had been in effect from 1992/93 on, nearly $3 billion would have been cut from Equalization entitlements in the seven years through 1998/99.

At the time the ceiling was reduced, federal Finance officials indicated that their projections showed that this ceiling level would provide ample room to accommodate entitlements over the present renewal period. Recent estimates, however, have proven those projections to be incorrect. The current estimate of Equalization entitlements for the 1999/2000 fiscal year–the very first year of the new arrangements–exceeds the ceiling by close to $800 million.

The impact on Manitoba of the ceiling for 1999/2000 is presently estimated at $76 million and both provincial and federal officials anticipate that the cost could rise substantially for fiscal year 2000/01 and beyond. Repeated lowering of the ceiling means that the ceiling track is now over 25% below where it was first set in 1982. To confirm my point, I have attached a table outlining the three reductions made to Equalization since 1987.

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In September 2000, the Prime Minister made a commitment to remove the Equalization ceiling for the 1999/2000 fiscal year and to allow payments to grow by the rate of growth in the economy in subsequent years. He also offered to partially restore CHST payments to provinces. We felt these commitments were a good first step toward re-establishing a partnership between the federal and provincial governments in the funding of health, education and other public services. The relevant section of the communiqué from that meeting read as follows:

> *"First Ministers raised the issue of the Equalization. The Minister of Finance will examine this issue further after consultation with provincial Ministers of Finance. While final revisions for Equalization purposes for the fiscal year 1999/2000 likely will not be known until October 2002, the Prime Minister agreed to take the necessary steps to ensure that no ceiling will apply to the 1999/2000 fiscal year. Thereafter, the established Equalization formula will apply, which allows the program to grow up to the rate of growth of GDP."*

I appreciate that the Legislation you recently introduced does remove the ceiling for 1999/2000, and this has a positive impact on Equalization entitlements for Manitoba. While your Legislation does not preclude you from lifting the ceiling for 2000/01, or indeed removing this constraint entirely, in its present form it falls short of our understanding of the commitment offered by the Prime Minister in September.

In Manitoba, our estimates show the present track for the ceiling will not be adequate to pay full entitlements in 2000/01. While the current economic and fiscal data is not yet formally factored into the Equalization calculations, indications are that entitlements for 2000/01 will grow well beyond the current estimate of $10.8 billion, and therefore, will be substantially above the ceiling. **The potential cost to Manitoba for 2000/01 is about $100 million. Application of the ceiling to 2000/01 Equalization entitlements may actually result in lower payments than for 1999/2000, despite a significant increase in entitlements as generated by the formula.**

The potential ceiling reduction in equalization entitlements is equivalent to the additional CHST offered last September by the Prime Minister. A table outlining the potential cost of the ceiling in comparison to the CHST funding offered in September is also attached. In Manitoba's view, such a result would not be consistent with the objective of the Prime Minister's September commitment.

I would respectfully suggest that the removal of the ceiling–especially for 2000/01–does not appear to be an issue of affordability for your government. Recently, your Department issued a press release, which stated that the federal government would have a surplus in 2000/01 of at least $10 billion. The revenue revisions that would result in the ceiling being triggered would almost certainly imply that federal revenue is substantially higher than your current official projections.

In my view, it is not justifiable for the federal government to build larger federal surpluses at the expense of the less affluent provinces through imposing an artificial ceiling on Equalization entitlements. This is a fundamental question of fairness. Should an artificially low Equalization ceiling be imposed for fiscal years 2000/01 and beyond, it will affect our public services and damage our ability to offer competitive taxes for economic growth. Not only does imposing a

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ceiling on Equalization inhibit the economic growth of Canada as a whole, it also adds to the fiscal and economic challenges already facing governments in recipient provinces.

There are other issues to be addressed in the Equalization Program. It is important that Equalization be based on a comprehensive measurement of the capacity of provinces. The volatility of some provincial revenue sources, particularly natural resources, could be addressed. Options for addressing this problem are being developed by provinces and territories under direction given by Ministers at their December meeting. However, excluding these revenues from the Equalization calculation is not an appropriate solution.

The design of the Equalization Program, including the issue of revenue coverage, must be examined as part of the ongoing review of the Program. I agree with your recent statements that this review must generate solutions that are fair to all parts of Canada. There should be broad and open debate if significant changes are to be contemplated and we should carefully consider the review process leading up to renewal in 2004.

I would be pleased to discuss these matters with you further. In December 2000, provincial Ministers of Finance met in Winnipeg and were united in their position that the Equalization ceiling should be removed, and called for an early meeting of federal, provincial and territorial Ministers of Finance to discuss issues of fiscal imbalances. You will recall that I wrote to you in January on behalf of all provincial and territorial Ministers of Finance. This discussion is becoming more urgent as time passes: Finance Ministers have not met at the same table in over a year. As the economic and fiscal outlook has become less certain, the tools of federal-provincial fiscal co-ordination lie neglected and rusting.

Since Finance Ministers last met with you in December 1999, First Ministers met and took what we regarded to be a good first step in addressing concerns with respect to fiscal imbalances. Since then, you have tabled your October mini-budget and, according to press reports, are considering an economic statement in May. I think Canada as a whole and all provinces and regions would benefit from our having the opportunity to share our perspectives on these developments and to deal with the Equalization Program prior to your economic statement. In this regard, I once again request that you convene a full meeting with your provincial and territorial colleagues at the earliest opportunity.

Sincerely yours,

Greg Selinger
Minister of Finance

Att'd.

cc: Honorable Gary Doer
Provincial and Territorial Ministers of Finance
The Hon. Sharon Carstairs
All Manitoba Members of Parliament

MINISTER OF FINANCE

Legislature Building
Winnipeg, Manitoba, CANADA
R3C 0V8

January 12, 2001

The Honourable Paul Martin
Minister of Finance
Government of Canada
L'Esplanade Laurier, East Tower
140 O'Connor Street
Ottawa ON K1A 0G5

Dear Minister:

As Chair of the meeting of Provincial and Territorial Ministers of Finance, which was held in Winnipeg on December 11 and 12, 2000, I am writing to convey to you the results of our discussions. For your information, I have attached the communiqué that was released at the meeting.

The agenda for our meeting included discussions on:

- Expenditure and tax pressures in the immediate and longer term, including the fiscal imbalance between the federal and provincial/territorial orders of government;
- Tax Collection Agreements and other taxation issues;
- Ways to strengthen the Equalization Program;
- The adequacy of the CHST and the need for an appropriate escalator for that program; and
- The basis for the review of other transfer programs.

Ministers believe that an early meeting of Federal, Provincial and Territorial Finance Ministers is required to begin to address these issues in a co-operative and comprehensive manner. The time is opportune and the need to address these issues is urgent. The discussions in Winnipeg provide a basis for the agenda. Together, we can build on the results of the First Ministers' Meeting in September and construct a more satisfactory and sustainable framework for financing essential public programs to meet the needs of all Canadians.

I have noted that you have issued a statement to the effect that there will not be a federal budget brought down in February. This does not detract from the urgency with respect to addressing these issues. I would be prepared to discuss meeting with you and I am prepared to help facilitate arrangements for a meeting to take place soon.

Sincerely yours,

Greg Selinger
Minister of Finance

cc: All Finance Ministers

NEWS RELEASES

NEWS RELEASE

Ref: 860–421/004

Provincial-Territorial Meeting of Ministers of Finance
Winnipeg, Manitoba – December 11–12, 2000

FINANCE MINISTER'S COMMUNIQUÉ

Finance Ministers met in Winnipeg to follow up on issues that arose at the Annual Premiers' Conference held in Winnipeg on August 9–11. Premiers requested that Finance Ministers advance their previous work on fiscal arrangements. The Premiers' communiqué stated, in part:

> *"Premiers reiterated that that the federal government strengthen the Equalization Program including the immediate removal of the ceiling on Equalization payments, in concert with the restoration of the CHST and the adoption of an appropriate escalator."*

Provincial-Territorial Finance Ministers noted that the federal plan announced in September was a good first step in improving the CHST program, and that the Prime Minister had agreed to the removal of the ceiling on Equalization for 1999/2000 fiscal year entitlements.

However, a number of issues remain unresolved after the First Ministers' Meeting.

Therefore, Provincial and Territorial Ministers of Finance call upon their federal counterpart to meet with them at the earliest opportunity. The purpose of such a meeting would be to address each of the issues noted below, in a comprehensive manner.

Expenditure and Tax Pressures: Provinces and territories are experiencing heavy expenditure pressures in health and other service areas. At the same time, all provinces and territories wish to maintain a competitive tax structure that contributes to ongoing investment and job creation. There is a growing imbalance between the cost and tax pressures felt by provinces and territories and those felt by the federal government

Strengthening Equalization and CHST: All provinces support a strong Equalization Program, designed to ensure that they have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

In August, Premiers called on the Federal government to strengthen its commitment to the Equalization Program so that the program meets its constitutionally mandated objectives. Ministers believe that it is appropriate that Equalization entitlements rise when disparities amongst provinces are increasing.

At the September First Ministers' Meeting the federal government agreed that the ceiling on the Equalization Program be removed for the 1999/2000 fiscal year. Ministers also believe that the September announcement was a good first step toward addressing cost pressures in health and other social programs. They now wish to engage the Federal Minister on ways to achieve adequate and sustainable fiscal arrangements over the medium to long term, including:

- Immediate removal of the Equalization ceiling;
- Immediate work on the ten-province standard, including comprehensive revenue coverage and recognizing volatility around resource revenues;

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- Immediate restoration of the CHST and introduction of an appropriate escalator for the CHST; and
- Work on other CHST measures, including tax-point transfers as one possible alternative to the current CHST cash transfer.

Other Transfers: Ministers share many concerns with respect to the size and distribution of other federal transfer programs. These concerns extend to a broad range of issues including recognition by the federal government of its role in:

- Restoring the 5% cut made in the expenditure base in 1996/97 to the Territorial Formula Financing Program;
- Supporting the economic and social development of Aboriginal people and First Nations communities;
- Protecting the family farm and providing adequate agricultural assistance; and
- Ensuring there is an adequate, long-term infrastructure and transportation strategy in place to support sustained economic growth.

Taxation Issues: Ministers noted the great concern some provinces have with respect to certain restrictions which are being proposed for the federal-provincial Tax Collection Agreements. They believe that these proposed federal policies have a danger of splintering rather than cementing essential elements of an effective and harmonized tax collection system. All Ministers note that revisions to Tax Collection Agreements are matters of negotiation between the two orders of government.

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NEWS RELEASE

Ref: 800–038/007

First Ministers' Meeting
Ottawa, Ontario – September 11, 2000

New Federal Investments to Accompany the Agreements on Health Renewal and Early Childhood Development

OTTAWA – September 11, 2000. The Prime Minister today announced $23.4 billion of new federal investments over five years to support agreements by First Ministers on Health Renewal and Early Childhood Development (ECD).

To ensure stable, predictable and growing funding in the Canada Health and Social Transfer (CHST), the federal government will legislate over $21 billion of additional cash over the next five years. This includes a new $2.2 billion investment for ECD.

This will bring the total cash transfer to the provinces and territories through the CHST to $18.3 billion in 2001–02, $19.1 billion in 2002–03, rising to $21.0 billion in 2005–06. In that year, CHST cash will be 35 per cent above the current level of $15.5 billion.

Combined with the growth in the value of the CHST tax points to $18.8 billion, the federal transfer to provinces and territories, which is for health, post-secondary education and social services, will grow to about $40 billion by 2005–06.

To ensure further predictability, by the end of 2003–04, the federal government will establish the CHST cash transfers for years 2006–07 and 2007–08.

To accelerate and broaden health renewal, the Government of Canada will also be investing in three targetted areas reflecting agreed priorities:

- It will invest a total of $1 billion in 2000–01 and 2001–02, through transfers to the provinces and territories for new medical equipment, $500 million of which will be available immediately to enable the acquisition of necessary diagnostic and treatment equipment;
- It will invest a further $800 million over four years, beginning in 2001–02, in a renewed Health Transition Fund to support innovation and reform in primary care;
- It will invest $500 million immediately in an independent corporation mandated to accelerate the development and adoption of modern systems of information technology, such as electronic patient records, so as to provide better health care.
- First Ministers raised the issue of the Equalization. The Minister of Finance will examine this issue further after consultation with provincial Ministers of Finance. While final revisions for Equalization purposes for fiscal year 1999–2000 likely will not be known until October 2002, the Prime Minister agreed to take the necessary steps to ensure that no ceiling will apply to the 1999–2000 fiscal year. Thereafter, the established Equalization formula will apply, which allows the program to grow up to the rate of growth of GDP.

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Funding Commitments of the Government of Canada to Accompany the Agreements on Health Renewal and Early Childhood Development

(billions of dollars)

	Current Legislation				Beyond Current Legislation		Total New Cash
	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	
CANADA HEALTH & SOCIAL TRANSFER*[*]							
Current cash[1] 15.5 15.5 15.5	15.5	15.5[2]	15.5[2]	–			
General cash increase		2.5	3.2	3.8	4.4	5.0	18.9
Early Childhood Development		0.3	0.4	0.5	0.5	0.5	2.2
TOTAL CHST CASH	15.5	18.3	19.1	19.8	20.4	21.0	–
Medical Equipment Fund	0.5	0.5					1.0
Health Information Technology	0.5						0.5
Health Transition Fund for Primary Care		0.2	0.2	0.2	0.2		0.8
TOTAL CASH[3]	16.5	19.0	19.3	20.0	20.6	21.0	–
CHST tax point transfers	15.3	15.8	16.5	17.2	18.0	18.8	
Total CHST Entitlements	30.8	34.1	35.6	37.0	38.4	39.8	
TOTAL FUNDING	31.8	34.8	35.8	37.2	38.6	39.8	–
							23.4

[*] The CHST supports provincial/territorial programs in the areas of health, post-secondary education and social services.
[1] Current cash includes both CHST supplements of Budget 1999 ($3.5 billion) and Budget 2000 ($2.5 billlion).
[2] Existing legislation extends to 2003–04. $15.5 billion is base cash for subsequent years.
[3] Sum of total CHST cash transfers and funding for non-CHST measures.

Manitoba Budget 2001

Budget Paper C

FEDERAL-PROVINCIAL RELATIONS

FEDERAL-PROVINCIAL RELATIONS

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MANITOBA POSITION ON FEDERAL-PROVINCIAL FISCAL RELATIONS

■ Working together

Manitobans expect federal and provincial governments to work together to address their key priorities through a co-ordinated and comprehensive plan. In the past year, there have been some encouraging steps our governments have taken.

First Ministers met in September 2000 with an agenda focussed on health care, early childhood development, and transfer payments issues in Canada. At that time, the Prime Minister committed the federal government to partially restore funding under the Canada Health and Social Transfer (CHST), to lift the ceiling on Equalization payments for the 1999/2000 fiscal year, and to let Equalization payments increase by the rate of growth in the economy after that. The federal Minister of Finance also was asked to review the Equalization Program in consultation with his provincial colleagues.

The federal government has not yet acted to remove the Equalization ceiling for the 2000/01 and subsequent fiscal years.

The September commitment represented a substantial and welcome reversal of the federal government's longstanding policy of reducing its financial support for social programs.

The offer made to provinces with respect to the CHST, combined with the measures adopted in the federal Economic Statement and Budget Update of October 2000, was seen as an affirmation of the ability and renewed commitment of our national government to support valuable social programs. However, it fell short of the Premiers' call to fully restore and escalate the CHST. Removal of the ceiling on Equalization for 1999/2000, the offer to allow Equalization to grow at the rate of GDP after that, and the offer to consult on the Equalization Program appeared to signal the federal government's recognition of the Program's importance in Canada's efforts to sustain increased equality of opportunity for all Canadians. Unfortunately, it is now unclear whether the federal government will keep its Equalization commitments. The federal government has not yet acted to remove the Equalization ceiling for 2000/01. Unless the federal government takes further action to permit payments to increase by the rate of growth of GDP, provincial entitlements will actually drop from their 1999/2000 level.

There are other priorities outside of improvements to transfer arrangements on which the federal and Manitoba governments must work together to meet the needs of Manitobans. A promising start was made recently on improving the capacity of the Red River Floodway. Governments have made a commitment to work together to protect the personal safety and property of Manitobans in the face of potential flooding on a scale higher than in 1997. The Floodway, along with other water drainage and control projects, will require a large dose of preventive investment to save the larger costs of disaster relief.

The federal and provincial governments also recently announced the latest in a series of agricultural assistance programs. Manitoba has made a fair contribution to the program of assistance to agricultural producers, in partnership with the federal government. While Canadian governments cannot match all the subsidies provided by international competitors, substantial ongoing support is needed.

The federal government's Speech from the Throne proposed a number of important initiatives with respect to Aboriginal people. The Manitoba Government anticipates early action on this commitment to help ensure that First Nations and Metis people in Manitoba have access to improved social and economic opportunities.

It is time for the federal and provincial governments to plan together, to work together, to keep commitments, and to live up to the expectations of Manitobans and all Canadians…

There are many areas in which the two orders of government can and must act together. Now is the time to take the next steps. It is time for the federal and provincial governments to plan together, to work together, to keep commitments, to live up to the expectations of Manitobans and all Canadians, and to build opportunity and prosperity in Manitoba and across our nation.

Equalization is a key to the entire system of federal-provincial fiscal relations. Unless an adequate Equalization Program is in place, participation in other federal-provincial initiatives, especially those which require matching contributions from the provinces, puts greater strain on the resources of provinces with lower per capita fiscal capacity.

■ Building the plan

Fundamental to effective co-operation and co-ordination is meaningful consultation among Ministers of Finance. The Government of Manitoba proposes the following plan of action:

- immediate removal of the ceiling on Equalization entitlements, and a full review of the Program before it is renewed in 2004, plus full restoration of the CHST cash transfer in 2001/02, with an appropriate and adequate escalator;
- a massive joint effort to expand the capacity of the Red River Floodway and other flood control measures to secure the safety of Manitoba persons and property;
- greater federal help for farmers struggling in the face of international subsidies; and
- urgent action to implement the Federal Throne Speech committments to improve economic opportunity and the quality of life for our Aboriginal population.

■ The purpose of federal transfer payments

The Government of Manitoba strives to ensure that citizens of the province can realize the highest possible quality of life. In pursuit of this objective, the federal and provincial governments must work together.

Canada is one of the most decentralized federations in the world. In this type of system, federal-provincial fiscal arrangements play an important role in supporting the public services which Canadians value and which are provided by provinces – health and education programs, resources for local government services, and other social and economic programs. In unitary states, these are provided directly by the national government.

Federal-provincial fiscal arrangements play an important role in supporting the public services which Canadians value and which are provided by provinces – health and education programs, resources for local government services, and other social and economic programs.

Tax-sharing and transfer payments make the decentralization of responsibilities possible. Transfer payments may be used when responsibilities are shared between the two orders of government. Also, transfer payments provide the mechanism to balance responsibilities and resources for each order of government. More importantly, they also address the imbalances in the relative fiscal capacities of the different provinces to raise their own revenues. Without a system of transfer payments, it is unlikely that the public services, which contribute to our high quality of life, would have developed as rapidly. Undoubtedly, without federal transfer payments, Canadians in less affluent provinces would not have comparable health care, educational opportunities and the infrastructure to improve their economic prospects. Furthermore, tax competitiveness of all regions would be impaired, with negative consequences for the national economy as a whole.

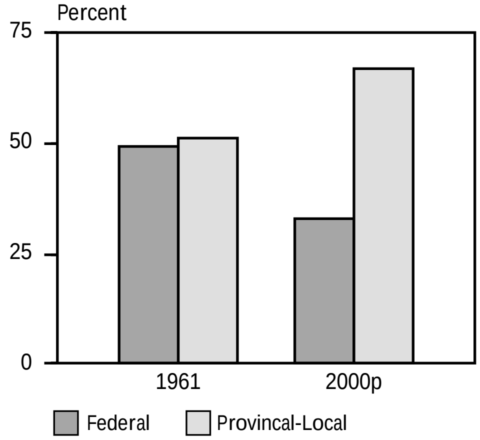
■ The declining federal role in delivery and support of public programs

Transfer payments from the federal government have been a part of financing provincial programs since Confederation. Indeed the Articles of Confederation, which created Canada in 1867, included provisions for transfer payments in recognition of the responsibilities carried by each of the provinces and their individual fiscal circumstances. However, the modern transfer payments programs have their roots in the expansion of social programs after the Second World War.

Prior to 1950, the federal government directly delivered a large share of total public programs. This changed in the modern period as Canadians chose to strengthen social programs, which fell under the jurisdictional responsibility of provinces.

Beginning in the 1950s, the federal government began a partnership with provinces to forge a modern public health care system. A rapid expansion of university and college capacity and enrolment also began in the 1950s and continued in the 1960s. Once again, provinces and the federal government were able to arrive at agreements with respect to the financial support necessary to build and support this new education infrastructure.

Federal and Provincial-Local Shares of Total Government Program Expenditure



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Source: Statistics Canada

Today, provincial and local governments deliver about double the level of services, but the federal government still levies 60% of income taxes.

The Canada Assistance Plan was passed in 1966, and most social assistance programs became eligible for 50/50 cost-sharing. This pattern of roughly equal cost-sharing was the general funding pattern for health and post-secondary education programs as well. However, some recognition of provincial fiscal capacity was introduced into the formulae for those programs.

Canada's Equalization Program was introduced in 1957, with payments based on the relative capacity of provinces to raise personal and corporate income taxes and succession duties. Over the next 25 years, the Equalization Program matured and became more inclusive of provincial revenues. All provinces, except Ontario, have received payments under the Program. Its importance to the fabric of the nation was recognized, and the commitment to the principle of Equalization was incorporated in the 1982 Constitutional Amendments. By 1982, the Equalization Program had much the same structure, based on a representative tax system and a five-province standard, as it has today.

With the expansion of health, education and other provincial programs, provincial governments have increasingly provided a greater share of total public services. In 1961, the federal government spent roughly the same amount on program expenditures (excluding intergovernmental transfers) as did provincial and local governments combined. By contrast, today, provincial and local governments deliver about double the level of services of the federal government. However, the federal government still levies 60% of personal and corporate income taxes. The importance of transfer payments grows with the greater responsibilities shouldered by provinces.

At first, the expansion of social services was matched by increases in federal transfer payments. However, by 1976, the federal government had begun to uncouple their contributions to social programs from actual expenditure. In 1976, the Established Programs Financing Act (EPF) provided block funding for health and post-secondary education programs. The funding was to be escalated by growth in the economy. In 1980, 24% of provincial revenue was received in the form of federal cash transfer payments. However, in 1981, the federal government began a series of cuts, which drastically reduced the federal share of financing social programs over the next two decades. This culminated in 1995 with the passage of the Canada Health and Social Transfers (CHST) Act. The CHST combined the funding for EPF and the Canada Assistance Plan and cut cash support by 25% over a three-year period. This reduced federal support to provinces to just 15% of total provincial revenues, from the level of 24% received 20 years earlier.

As noted earlier, the federal offer to Premiers in September 2000 appeared to signal a reversal of this policy of federal withdrawal. However, the offer can only be construed as a good first step, which, if not followed up with further action over the longer term, would only serve to temporarily slow the decline in the federal role.

■ Federal transfers in the future

Provincial governments continue to be concerned with the growing imbalance between the program responsibilities of the provinces and the federal government, and the financial resources to which they each have access. Independent analysts have also expressed concern. For example, in his recent article *Will the Baby Boomers Bust the Health Budget?* William Robson of the C.D. Howe Institute warned that "Demographic changes will put massive pressure on many provinces' health care budgets in the decades ahead," and recommended linking health transfers to growth in the older population, and pre-funding part of the incremental cost. Others have suggested that large new investments in post-secondary education and training are necessary, if Canada is to be primed to take advantage of the new information and technology driven economies. Other researchers have examined the tax fields currently occupied by the federal and provincial governments.

Last August, provinces commissioned independent research on the issue as it might unfold in the future. The study found that the federal government would have large and growing surplus revenue (much larger than projected in federal statements), while provinces would be hard-pressed in aggregate to maintain a positive fiscal balance. Some provinces would have surpluses, which would allow them to improve public programs and to cut tax rates. Other provinces would face deficits unless they chose to increase taxes or cut services from the existing level.

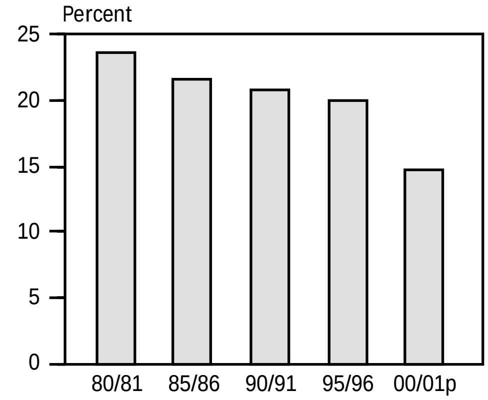
Since that time, the federal Economic Statement and Budget Update in October 2000 provided substantial tax reductions, which will narrow the fiscal surplus. As well, the federal offer in September provided some modest support over the medium term through the CHST. Despite these developments, a recent study by TD Economics projected that the underlying federal budget balance would be in surplus by $6.5 billion to $11.4 billion over the next five years, with surpluses growing to over $50 billion annually by 2010/11.

These projections show that federal spending on programs (excluding public debt costs) may be expected to fall to about 10% of GDP, the lowest level since the federal and provincial governments first acted in partnership to form Canada's social safety net. It is time to examine whether this level of federal support is appropriate.

The Government of Manitoba believes that the federal government should apply part of its forthcoming surplus to improved program funding, especially to health care and education, which all Canadians rank as their highest priorities. As these programs are delivered by provincial governments, it is essential that the federal reinvestment be done in close consultation with the provinces.

The federal government also has a responsibility to ensure that all regions of Canada have reasonable opportunity to maintain comparable tax rates and compete effectively for economic growth and jobs. There is

Federal Cash Transfers as a Share of Provincial-Territortial Government Revenue



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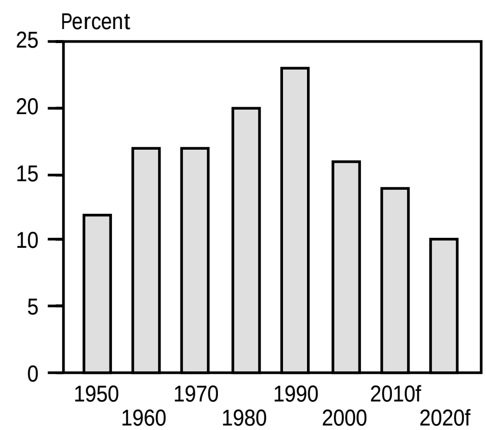
Source: Federal, Provincial and Territorial Public Accounts

Federal Government Expenditure as a Percentage of GDP



f - Forecast

Sources: Statistics Canada, *The National Finances* (Canadian Tax Foundation, 1990), *A Federation Out of Balance* (G.C. Ruggeri, 2000) an urgent need to restore federal transfers to address growing fiscal imbalances in Canada.

■ Consultations on federal transfer payments

The provincial and federal governments must act together in the best interest of the Canadian public.

The September 2000 First Ministers' meeting provides an example of the improved environment which can result from acting in concert, rather than unilaterally.

While First Ministers met in September, their Finance Ministers have not met in over a year. Provincial and Territorial Ministers of Finance, meeting in Winnipeg in December 2000, called upon the federal Minister of Finance to convene a meeting of federal, provincial and territorial Ministers to discuss the economic and fiscal situation, and also to focus on the issue of federal-provincial-territorial fiscal relations. In the absence of a positive federal response, provinces and territories will continue to meet, and will develop positions on future directions for federal-provincial fiscal arrangements. However, Canadians would be better served by having the federal Minister of Finance at the table during these discussions.

■ Review and strengthen the Equalization Program

It is important to note that all provinces, recipients and non-recipients alike, have consistently supported the call for an adequate federal Equalization Program, without artificial caps.

The first objective for federal transfer payments is to ensure that provinces with differing fiscal capacities have access to resources sufficient to provide reasonably comparable services at reasonably comparable levels of taxation. This is the principle of Equalization, which was enshrined in our Constitution in 1982. It is important to note that all provinces, recipients and non-recipients alike, have consistently supported the call for an adequate federal Equalization Program, without artificial caps.

Equalization payments serve to create a more level playing field for the provinces. After the introduction of the Equalization Program in 1957, differences in provincial per capita fiscal capacity began to narrow. Growth in per capita productivity in the recipient provinces has actually exceeded the rate occurring in the other provinces for the past four decades. This resulted in convergence of per capita GDP, though it was not enough to close the absolute gap remaining between them.[1] The narrowing of per capita fiscal capacity disparities, together with the effect of tax cuts in the provinces and recent federal decisions to reduce revenue coverage, has allowed the Equalization Program entitlements to shrink, in relative terms, since the current structure was put in place in 1982.

1 R.M. Bird and F. Vaillancourt; *The Role of Intergovernmental Fiscal Arrangements in Maintaining an Effective State in Canada*; March 2000

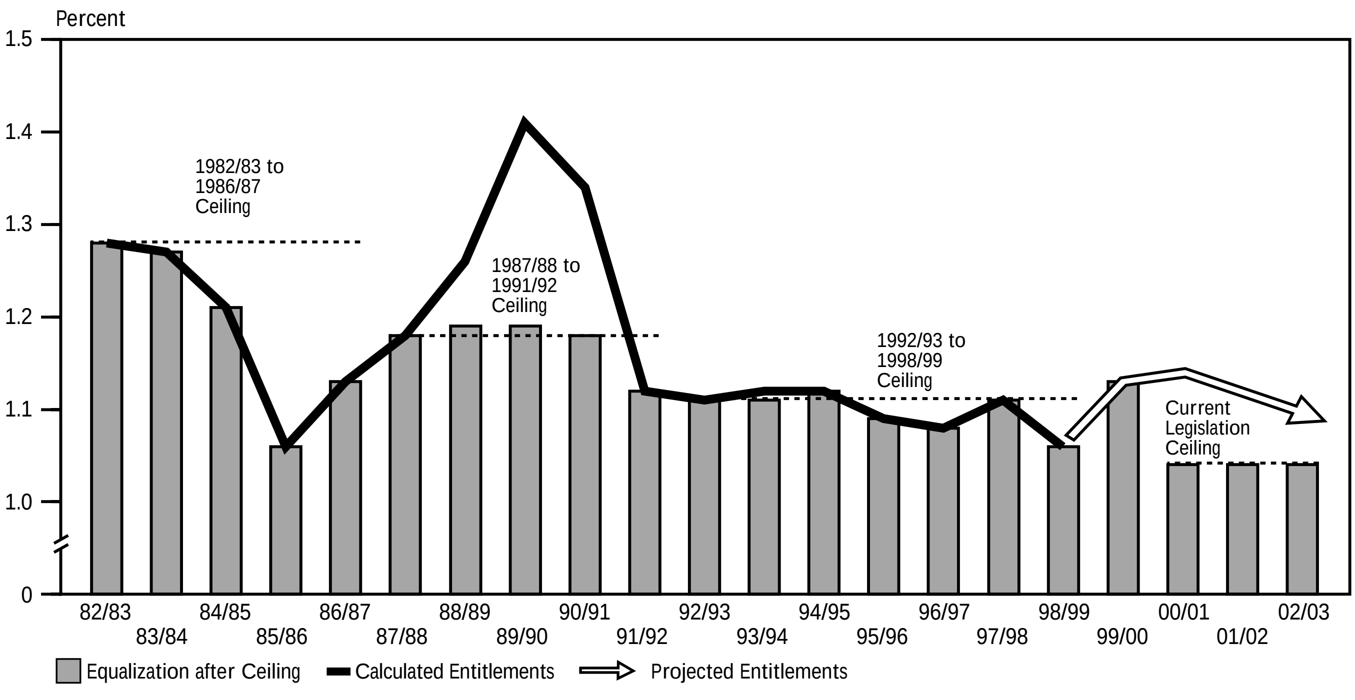
The current structure of the Equalization Program was imposed in 1982. At that time, the federal deficit was reaching unprecedented levels. In order to lower payments, the federal government replaced the ten-province average representative tax system standard with a five-province standard. Though all types of provincial revenues were included, the fact that Alberta was excluded from the standard effectively removed most of the oil and gas revenue in Canada from the calculations. In addition, a ceiling on payments was introduced in 1982. In the three-year period beginning in 1988/89, recipient provinces lost over $3 billion in payments due to the ceiling.

The disparities that result from the exclusion of much of the oil and natural gas revenue in Canada are more acute today than at any time since the five-province standard was introduced. In the fiscal year 1999/2000 alone, $3 billion in Equalization entitlements are lost due to the imposition of the five-province standard, rather than the all-province standard. And, once again, the ceiling has become a factor after being lowered for the third time in 1999.

For a variety of reasons, not the least of which is the current spike in oil and gas prices, fiscal capacity disparities have increased over the past two years. Unfortunately, the federal government chose to lower the ceiling on Equalization payments in 1999/2000 to an all-time low level, below that which had been calculated in any year since the five-province standard was introduced. And this occurred precisely when greater support from the Equalization Program was needed to offset increasing disparities due to energy price increases.

In 1999/2000 alone, $3 billion in Equalization entitlements are lost due to the imposition of the five-province standard, rather than the all-province standard. And, once again, the ceiling has become a factor after being lowered for the third time in 1999.

Equalization as a Percentage of GDP



Source: Statistics Canada, federal Department of Finance, Conference Board of Canada, and Manitoba Finance

The problem quickly became apparent and, last September, the Prime Minister offered to remove the ceiling for the 1999/2000 fiscal year, after which it would grow by up to the rate of GDP. The federal communiqué read as follows:

> *First Ministers raised the issue of Equalization. The Minister of Finance will examine this issue further after consultation with provincial Ministers of Finance. While final revisions for Equalization purposes for fiscal year 1999/2000 likely will not be known until October 2002, the Prime Minister agreed to take the necessary steps to ensure that no ceiling will apply to the 1999/2000 fiscal year. Thereafter, the established Equalization formula will apply, which allows the program to grow up to the rate of growth of GDP.*

The federal government has introduced legislation to take action on the ceiling for the 1999/2000 fiscal year only. While this does not preclude the federal government from taking later action with respect to other fiscal years, it adds a measure of uncertainty to provincial finances, as well as to the commitment to a renewed partnership which appeared to be offered by the Prime Minister in September.

No one should be under any illusion that a return to the 1999/2000 base of $10 billion (escalated by GDP growth in future years) will be adequate to pay full entitlements in 2000/01. All the economic and fiscal data indicate that the current calculation of entitlements for 2000/01 of $10.8 billion will grow as revised data is incorporated into the calculations. The potential cost to recipient provinces would be close to $1 billion, and to Manitoba would be $95 million. These are funds which would be transferred to provinces on the basis of the objective formula used to calculate Equalization entitlements.

This loss of transfer revenue resulting from the ceiling means that only the three provinces with the highest per capita fiscal capacity would benefit, on a net basis, from the Prime Minister's CHST proposal.

This loss of transfer revenue resulting from the ceiling can be compared against the additional funding provided for the CHST in September. In the case of Manitoba, over the three-year period from 2000/01 to 2002/03, the Province potentially loses more from imposition of the artificial Equalization ceiling than it gains from the increase in CHST. This is also true for recipient provinces as a whole. Only the three provinces with the highest per capita fiscal capacity would benefit, on a net basis, from the Prime Minister's CHST proposal. In the months ahead, Canadians could witness the effects of this unfortunate result in very concrete terms as it affects equal treatment for those delivering services as well as those accessing benefits.

The ability of recipient provinces to develop their economies and create jobs is jeopardized by growing fiscal capacity disparities. These disparities make it difficult for provincial governments to maintain competitive tax rates, in relation to both internal and foreign competitors. Growing disparities have allowed governments in Alberta and Ontario to reduce taxes more rapidly than elsewhere. Also, should large gaps in per capita revenue between provinces extend over time, service delivery and the provision of infrastructure might not keep pace with the patterns emerging in other jurisdictions. The same opportunities would not be available to all Canadians, wherever they reside. Furthermore, should firms make location decisions based on these factors rather than economic fundamentals, productivity in Canada will be lower than it could be. The conditions for a further widening of disparities between provinces will have been put into place. Competition from a more level playing field, which has led to strong and more equal growth across all regions of Canada, could be undermined.

The Equalization Program has served the nation well. Since its introduction, it has provided a better balance which has allowed for more equal opportunity across the nation.

The Government of Manitoba believes that the federal government can and should act to level the playing field. The Equalization Program has served the nation well. Since its introduction, it has provided a better balance which has allowed for more equal opportunity across the nation. The burden of provincial responsibilities for health and education and other program delivery has increased and is projected to increase further in the future. In such circumstances, the relative importance of the Equalization Program also increases.

Further examination of the Equalization Program, as agreed to at the First Ministers' meeting in September, should proceed. The review should examine the adequacy of the five-province standard, revenue coverage under the Representative Tax System, and methods to improve stability and predictability. In the meantime, the Equalization Program should not be subject to arbitrary, unnecessary and potentially damaging constraints.

This is no longer a question of affordability, as it might have been in the past. For the fiscal year 2000/01, the federal government has already indicated that its budgetary surplus would be at least $10 billion. Most independent projections place it considerably higher. The federal

CHST Gains Less the Potential Impact of the Equalization Ceiling

	2000/01			2001/02			2002/03			
	Additional CHST	EQ Ceiling Loss	Net Gain (Loss)	Additional CHST	EQ Ceiling Loss	Net Gain (Loss)	Additional CHST	EQ Ceiling Loss	Net Gain (Loss)	Cumulative Net Gain (Loss)
	(Millions of Dollars)									
Manitoba	**19**	**(95)**	**(77)**	**122**	**(100)**	**22**	**132**	**(104)**	**28**	**(27)**
Equalization-Recipient Provinces	194	(989)	(795)	1,269	(1,035)	234	1,375	(1,085)	289	(272)
Non-Recipient Provinces	306	0	306	2,031	0	2,031	2,225	0	2,225	4,563

government should not be padding its surplus by withholding Equalization entitlements from the seven recipient provinces. It is a fundamental question of fairness and of respecting the provision of the Canadian Constitution. The Equalization ceiling should be removed.

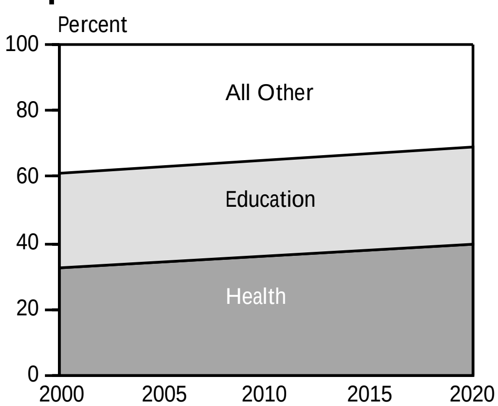
The Canadian public continues to rank the maintenance of health care as its top priority for governments. In the "knowledge economy", another priority must be to expand access to education and training.

■ Restore the CHST and provide an appropriate escalator

Canadians continue to rank the maintenance of health care as their top priority for governments. Most analysts believe that maintaining the public health care system in the face of an ageing population will require growth in resources above that of GDP growth. In the "knowledge economy", another priority must be to expand access to education and training. Health and education will continue to grow in proportion to total provincial program expenditure (see Chart).

While provincial governments can and do look to re-allocate resources from lesser priorities, it is clear that most provinces do not have the same flexibility to provide support for priority public programs as is available to the federal government. However, as noted earlier, the federal government has projected that its program spending will fall to its lowest level in five decades. This difference in program pressures and resource capacity between the two orders of government is called a vertical fiscal imbalance.

Health and Education Share of Provincial-Territorial Government Program Expenditure



Forecast

Source: *A Federation Out of Balance* (G.C. Ruggeri, 2000)

The federal government has followed a path of reducing its share of financing the priority public services it helped to create in the 1950s and 1960s. As the federal government began to achieve budget surpluses in the late 1990s, provinces and territories called upon the federal government to restore the cuts made with the introduction of the CHST, and to provide an appropriate escalator to increase the sustainability of these financing arrangements. The offer made at the September First Ministers' meeting fell short of that target, because it did not restore nominal payments to 1994/95 levels for the 1999/2000 fiscal year, and it did not provide an appropriate escalator to build on that total.

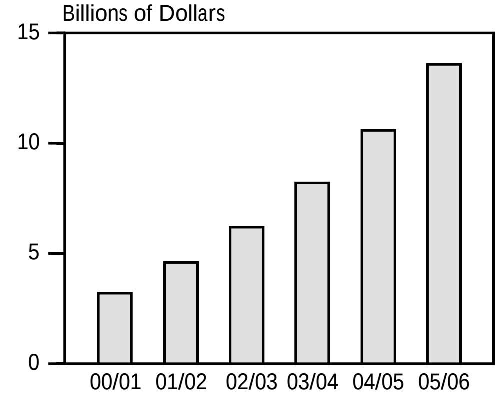
The offer included a few measures tied to specific sub-programs. A Medical Equipment Trust Fund was established, designated to provide equipment upgrades for the period extending to 2002/03. Manitoba has taken its share of the Trust, and these funds will be used as intended to purchase additional medical equipment. The budget plan includes withdrawal of $18 million in 2001/02, and $19 million in 2002/03 from the Medical Equipment Trust Fund. The 2001 Manitoba Budget provides an additional $22 million for diagnostic equipment alone.

Additional CHST funds are dedicated to early childhood development initiatives, including increases to "Healthy Child Manitoba" and child care.

Manitoba does not support the continued federal micro-managing of health and other social services through short-term, tied and boutique programming directed toward gaining greater visibility for Ottawa with respect to current issues, but coming at the expense of long-term integrated approaches. Priorities differ across the country. The funds should be provided through the CHST block funding arrangement, so Manitobans can determine how best to meet their priority needs.

Manitoba continues to join other provinces and territories in the call to restore the federal cash support in the manner proposed by all Premiers in 1999. The Manitoba Government is also prepared to enter into discussions to secure the long-term sustainability of health, post-secondary education and training, early childhood development, and other priority social programs through appropriate federal-provincial fiscal arrangements, including the application of an appropriate escalator for federal payments under the CHST.

Cumulative Shortfall of Federal CHST Package from Full Restoration



Forecast

Note: In this illustration, full restoration means restoring CHST cash to its 1994/95 level of $18.7 billion in 2000/01 along with an escalator equal to growth in GDP.

Sources: Federal Department of Finance, Manitoba Finance

■ Other issues in federal-provincial relations

Expanding the Red River Floodway: The Red River Floodway has proven to be a valuable legacy of co-operation between past federal and provincial governments. Premier Duff Roblin and Prime Minister John Diefenbaker had the vision and commitment to make flood protection a priority. The Province also made a significant sacrifice in choosing that priority.

Both governments must once again have the vision, and be prepared to pay the price, for our future security. The International Joint Commission (IJC) has confirmed what we learned from the Great Flood of 1997. We need to make major improvements to the Floodway, if it is to offer the full protection against possible peak flood years. We also need other flood protection and drainage works in several other parts of the province.

Last month, some improvements were made at the Floodway gates. The Manitoba Government is now putting in place plans to expand the capacity of our waterways and flood protection defenses. These plans will come at a cost of less rapid tax cuts and debt reduction, and foregoing other spending. But this investment must be made, and the 2001 Budget commits $40 million, the first of many instalments needed to complete the plan.

The Red River Floodway has proven to be a valuable legacy of co-operation between past federal and provincial governments.

This is a project which needs a solid commitment from our federal partner. In discussions to date, the Government of Manitoba has been encouraged by the federal response. Now governments need to conclude a full and fair funding arrangement, which will see this project through to completion. Today's Floodway expansion requires the same 60% federal contribution as the original project. The federal government stands to be a major beneficiary of this project as well. In the past, it provided up to 90% of eligible disaster relief funding. Ottawa's potential exposure will be sharply reduced by investment in this project.

The federal and provincial governments must work in partnership with First Nations' governments and other Aboriginal organizations to make improved health, housing, education, and employment opportunities a reality for all Aboriginal people in Manitoba.

Improving the lives and opportunities of Manitoba Aboriginal communities: Many Aboriginal people in Manitoba, whether they reside in First Nations', Metis, Northern or rural communities or our cities, have not enjoyed the quality of life most Manitoba citizens enjoy. And, held back by poor educational experiences and health problems arising from poor living conditions, they do not have the same opportunities to improve their circumstances.

A comprehensive set of initiatives, directed toward the economic and social well-being of Aboriginal people, must be put in place. The federal and provincial governments must work in partnership with First Nations' governments and other Aboriginal organizations to make improved health, housing, education, and employment opportunities a reality for all Aboriginal people in Manitoba.

The federal government has a special responsibility for First Nations and Metis people, and a special role to play in support of Aboriginal self-government. The 2001 federal Throne Speech proposed a number of initiatives. However, federal off-loading of its responsibilities for Aboriginal people has been a long-standing policy. A decade ago, the former federal administration abandoned its responsibilities for off-reserve populations, virtually overnight. In contrast, the Manitoba Government is called upon to fund and deliver more services, from Northern airports, to dialysis units to treat the ravaging effects of diabetes reaching epidemic levels in Aboriginal communities, to personal care homes for the elderly and infirm. However, Provincial resources are inadequate to meet all the exceptional needs of Aboriginal people.

Nevertheless, the Government of Manitoba stands prepared to enter into co-operative arrangements to address our greatest social challenges. To not do so would ignore our future. In years ahead, one-quarter of the new entrants to the labour force in Manitoba will be of Aboriginal decent. We want them to be productive partners in our economy.

Support for Manitoba's agricultural producers: Manitoba's grain and oilseed producers face one of the biggest challenges of any community in our province. We must have increased assistance from Ottawa to farmers to allow them to continue competitive operations at a time of deep subsidies in the United States and the European Economic Community.

The agricultural community is asking questions about its future. Many sectors are doing better with diversified operations. The Government believes in the resilience of Manitoba producers and that our agricultural community will continue to make a strong contribution. The Manitoba Government is doing its share in providing support, and will continue to do so. They need federal help now. This year, we have announced an additional $52 million in support to farmers.

■ Conclusion

Canada needs appropriate transfer payment arrangements in order to maintain health, education and other social services for all Canadians. Transfers must also address growing fiscal imbalances between provinces, which threaten to disrupt balanced economic growth.

Provinces and territories have met and established an agenda for renewing fiscal arrangements to better serve all Canadians. Manitoba calls on the federal Minister of Finance to join them and to establish processes to get this needed action under way now.

The September 2000 federal offer was seen as a good first step in addressing these issues, now that federal finances are strong. However, the federal government must be a reliable partner for the provinces. The country needs it.

Canada works best when we work together.

It is simply unacceptable for the federal government to build a multi-billion dollar surplus for the 2000/01 fiscal year while withholding $1 billion in Equalization entitlements from the seven less affluent provinces in Canada. This increases fiscal disparities, distorts the playing field for people and business, and reduces the competitive capacity of the nation as a whole. The Equalization ceiling must be removed for the year 2000/01, as it was for the 1999/2000 fiscal year.

The CHST must be fully restored with an appropriate escalator. The additional funding must not be accompanied by conditional and short-term programming which further escalates the rapidly rising obligations of provinces.

There are a number of other issues requiring the joint stewardship of the federal and provincial governments.

Manitobans want their governments to work together. In a highly decentralized country such as Canada, federal transfer payments are a particularly important policy instrument. They are the mechanism by which fiscal imbalances can be addressed. An appropriate transfer system is important to Manitoba in order to:

- maintain health, education and other priority services;
- keep our taxes and costs competitive, to allow our economy to achieve its potential; and
- undertake important projects, in partnership with the federal government, such as flood control, improving opportunity for Aboriginal people, and support for agricultural producers.

Canada works best when we work together.