

# Financing Canadians' Priorities

Report of the Western Finance Ministers

Presented to Premiers and Territorial Leaders at the  
1998 Western Premiers' Conference



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## **SUMMARY**

### **PART I FINANCING SOCIAL PROGRAMS IN A NEW PARTNERSHIP**

Canadians across the country have repeatedly indicated that quality social programs and services, in particular health care, are their most important concerns. Western Canadians share these priorities and want their governments to ensure that quality health and social programs will be provided in the future.

Western Finance Ministers believe the most appropriate way for the federal government to ensure quality social programs is to provide support through existing fiscal arrangements. Provincial and territorial governments have primary responsibility for core social programs and are better situated to deliver programs and services that reflect the needs of individuals and communities in each province and territory. In recent years, provincial and territorial governments' share of the resources allocated to these priority social programs has grown so that provinces and territories now contribute eighty-six per cent of the financing directed to these essential services.

Sound fiscal management and economic growth have resulted in an improved fiscal situation in Western Canada. This improved fiscal situation has helped provinces and territories cope with the \$6.2 billion reduction in health and social transfers from the federal government. Nevertheless, maintaining provincial and territorial spending on health and social programs has forced difficult decisions in other areas of program spending.

Western Canadians want the federal government to enter into a meaningful federal/provincial/territorial partnership based on a strong fiscal foundation and the recognition of provincial and territorial Constitutional and legislative authority. This will help to ensure that western governments are able to provide the quality health and social programs and services that Canadians value so highly.

Western Finance Ministers urge the federal government to act on the priorities of Canadians and remove the funding imbalance for health and social programs created by the federal cuts to health and social transfers by directing proceeds from the fiscal dividend to existing fiscal arrangements.

### **PART II ECONOMIC AND FISCAL ISSUES**

The economy of Western Canada has improved in recent years. Responsible fiscal management has contributed to the strength of the Western Canadian economy and will be beneficial in addressing challenges such as reduced commodity prices, the Asian crisis, and cost pressures on social programs.

The federal government has chosen to restrict its Constitutional obligations so that they apply only to Aboriginal people residing on-reserves. Western Finance Ministers call on the federal government to fully assume its responsibility for Aboriginal peoples both on- and off-reserve. Western Finance Ministers also call on the federal government to discuss, with all provinces and territories, the impact of self-government agreements on the measurement of fiscal capacity in the provinces and territories.

Western Finance Ministers also urge the federal government to recognize the importance of strategic infrastructure in the development of the economy and to invest in a strategic infrastructure initiative.

Western Finance Ministers reiterate their call for the federal government to take action to reduce federal discriminatory tax policies and to work with provinces and territories to address tax issues related to inter-provincial and international sales.

## PART I FINANCING SOCIAL PROGRAMS IN A NEW PARTNERSHIP

### 1. A New Federal/Provincial/Territorial Partnership

Provincial and territorial Finance Ministers have worked to ensure that an agenda for the redesign of financial arrangements is coordinated with the work on social policy renewal.

Provinces and territories agree that the first priority of the federal government should be to restore funding for health care and other vital social programs through existing fiscal arrangements.

#### Framework Agreement

At the 1997 Western Premiers' Conference, Western Premiers expressed their interest in developing a broad framework agreement with the federal government. The purpose of the framework agreement is to define how governments will work together to design, finance, and deliver Canada's social programs. Western Premiers believe that such a framework agreement would demonstrate that the federal government is willing to live up to its commitment to work cooperatively with the provinces and territories in developing new approaches for the intergovernmental management of social policy issues and programs.

Since the First Ministers' meeting in December 1997, the Provincial/ Territorial Council on Social Policy Renewal has been meeting with federal government to develop a framework agreement for managing Canada's social union. All western provinces and territories agree that a key outcome of the framework agreement must be the end of federal unilateral action in areas of provincial and territorial jurisdiction.

*"A key priority for reinvestment of the [federal fiscal] dividend is funding for a modern and sustainable health system."*

(38<sup>th</sup> Annual Premiers' Conference "Jobs and Growth" Communiqué, August 7, 1997)

*"Ministers stressed that provincial [and territorial] health, education and social programs are priorities, and that improvements should be made to strengthen fiscal arrangements, including the Canada Health and Social Transfer and Equalization."*

(Provincial/Territorial Ministers of Finance Joint Communiqué, December 9, 1997)

Based on direction from Premiers, provincial and territorial Finance Ministers have worked together to develop an integrated package of reforms – one which has been designed to balance the needs and priorities of different jurisdictions and increase the funding priority of health care and other essential social programs.

The package of reforms calls on the federal government to:

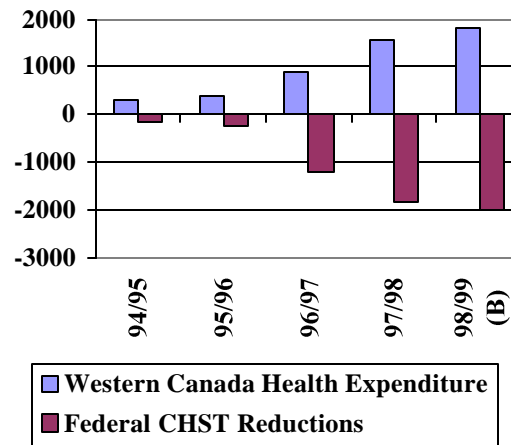
- restore funding for health care, education and other social programming priorities of Canadians;

- increase funding through existing fiscal arrangements, including CHST, equalization and territorial formula financing, rather than introduce new federal programs in areas of exclusive provincial jurisdiction; and
- introduce an escalator for CHST cash to ensure that provinces and territories have sufficient future resources to deal with cost pressures in the areas of health care, education and social services.

Western Finance Ministers unanimously support this package of reforms. On June 15 1998, provincial and territorial Finance Ministers met with the federal Minister of Finance to discuss this package of reforms. Following this meeting, the federal government has stated its reluctance to enhance funding through the existing financial arrangements, indicating there is no guarantee that the funding would be used to finance health care expenditures.

Western Finance Ministers take exception to these remarks and point out that western governments have demonstrated their commitment to health care. Western governments have increased funding for health care even while federal support has decreased. Western Finance Ministers have told the federal Minister of Finance that provinces and territories would use any restoration of federal funding through existing fiscal arrangements in a way that reflects the priority placed on health care by Canadians.

**Western Canada Health Support  
Increases and Federal CHST  
Reductions  
(\$million)**



Source: CHST, EPF and CAP Data – Federal Finance Provincial Accounts

Western Finance Ministers believe that the federal government should build upon the provincial/territorial work and begin immediate discussions with the provinces and territories to ensure that the results of a new federal/provincial/territorial partnership are reflected in the 1999 federal budget. One key result of the new financial partnership should be to ensure that the order of government with the growing responsibilities for delivering health care and other social programs, that Canadians value, should have the capacity to meet its obligations.

## Social Programs

### *Health Care is a Canadian Priority*

Canadians have consistently indicated that health care is their most valued social program. However, Canadians are concerned about both the quality of health care and the future of the health care system. People want governments to ensure that health care and other social programs can be provided by all provinces and territories at a reasonably comparable standard of quality.

### *Cost Pressures*

At the same time that federal transfers for social programs have been reduced, considerable pressures have been exerted on the cost of providing services. As a result, provinces and territories have faced a significant challenge in maintaining the level and quality of social programs.

The aging population has created new pressures and growing demands within the health care system. The increase in the number of elderly, particularly those of an advanced age, has increased the demand for long-term care. Advancements in technology, drugs and treatments are other significant cost pressures facing the health care system.

Small and dispersed communities in the more remote areas of the western provinces and territories are also a source of cost pressures on health care and other social programs, such as education. A lack of infrastructure in some locations, the difficulty in attracting health care practitioners, and providing access to higher education to a growing, young population are challenges that must be overcome to ensure that individuals in these communities are healthy, and have the opportunity to fully participate in society.

#### **What Canadians Are Saying**

Recent polls have consistently indicated that health care is the top priority of Canadians. For example, the results of an Ottawa Sun/Roper Canada poll conducted in June 1998 give an indication of the attitudes of Canadians on this issue:

- Eight in ten Canadians say federal cuts to health care have gone too far, and want the 1999 federal budget to include increased funding for medicare.
- When asked to identify issues, about which they are personally concerned, more Canadians identify “the quality of health care” than any other issue (45%).

Canadians are sending a clear message to the federal government, and one which is consistent with the position of provincial/territorial Finance Ministers: that the first call on expenditure of the federal fiscal dividend must be to restore funding to health care through existing fiscal arrangements.

The nature of the needs and pressures vary from one province or territory to another. Western provinces and territories have acted to control cost pressures by focusing on providing appropriate care for their diverse populations through an integrated health care system, which encompasses the provision of acute care, long-term care, home care, pharmacare and preventive health programs.

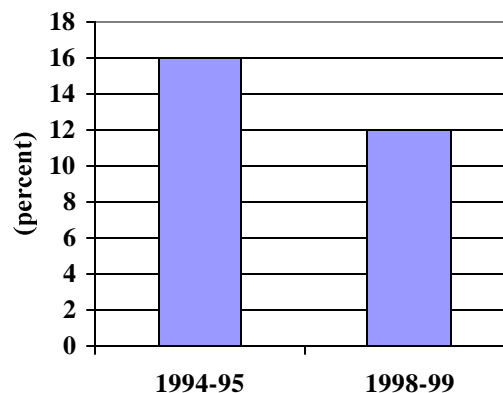
Provinces and territories are best positioned to know which areas in the health care system require additional resources at any given time. Restoring federal funding through existing financial arrangements will offer provinces and territories the flexibility to target additional resources where they will have the greatest benefits.

### ***Reductions in Federal Funding for Health and Social Programs***

The federal government's contribution to provincial health care programs was originally set-up on a risk-sharing basis, with each order of government contributing one half of the costs. However, a decade and a half of unilateral federal cuts and curtailment has transferred the risks and cost pressures away from the federal government to provincial and territorial governments.

From 1994-95 to 1997-98, federal transfers to provinces and territories in support of health care, education and social assistance were reduced by \$6.2 billion, or 33 per cent. In the same period, other federal program spending was cut by only 6 per cent. As a result, federal support for health and social programs fell from 16 per cent of total federal spending in 1994-95 to an estimated 12 per cent in 1998-99.

**Federal transfers for health and social programs as a declining share of federal program spending**



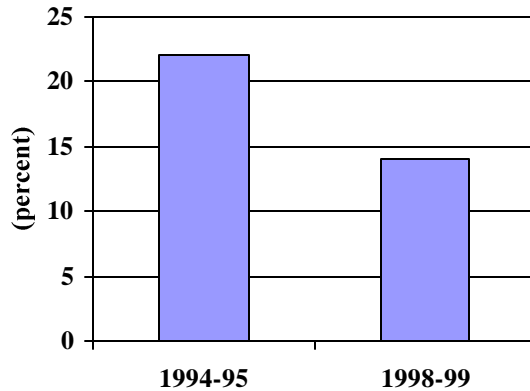
Source: Federal and Provincial/Territorial Budgets

Federal support for health and social programs has failed to keep pace with Canadians' needs in these areas. In 1984-85, federal cash contributions made up about a third of provincial and territorial social program spending. By 1994-95, federal cash transfers had decreased to only 22 per cent of spending. In the past 4 years, transfers have continued to decrease. In 1998-99,

federal transfers for health and social programs are estimated to comprise only 14 per cent of provincial and territorial expenditures in health, education and social services.

The federal government has chosen to freeze cash transfers for the foreseeable future. With inflation and population growth, the value of the federal transfers is falling. In short, the federal government is failing to act as a committed partner with the provinces and territories in funding health and social programs and services. As a result, the provinces and territories are providing 86 per cent of the funding for these priority programs.

**Federal transfers for health and social programs as a declining share of provincial spending on health and social programs**



Source: Federal and Provincial/Territorial Budgets

Declining federal transfers for health and social programs are inconsistent with the high priority that Canadians place on health care and other social programs. In its 1998 budget, no action was taken to restore funding cuts from health and social transfers to the provinces and territories.

Western Finance Ministers urge the federal Finance Minister to act on the priorities of Canadians and remove the funding imbalance created by \$6.2 billion in cuts to health and social transfers by directing proceeds from any fiscal dividend to fund health care through existing fiscal arrangements.



## PART II ECONOMIC AND FISCAL ISSUES

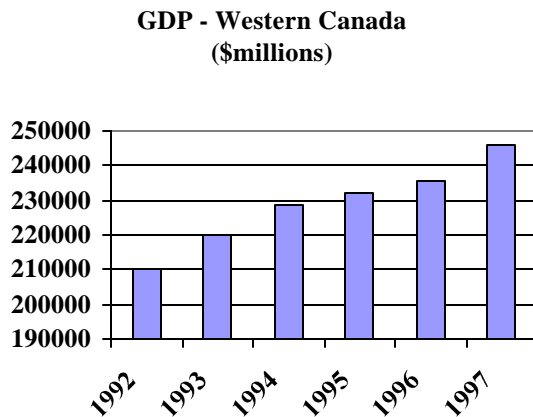
### 1. Economic and Fiscal Stability

Western Governments recognize that their ability to provide quality, sustainable public services that Western Canadians value is built not only on the existing fiscal arrangements, but also on a strong economic and fiscal foundation.

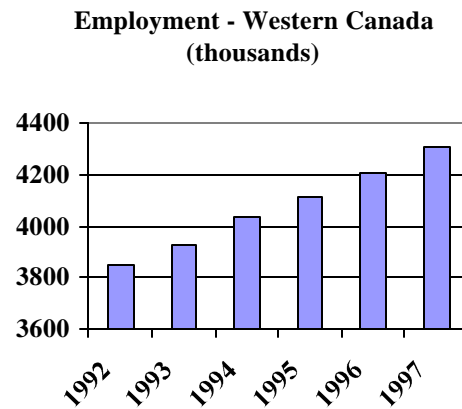
#### *Economic Growth*

Responsible fiscal management is contributing to sustained economic growth in Western Canada. In recent years, overall economic growth has been higher in Western Canada than Canadian growth.

Preliminary estimates indicate that, in 1997, real GDP increased by 4.2 per cent compared to 3.8 per cent for Canada as a whole.



Source: Statistics Canada Economic Accounts



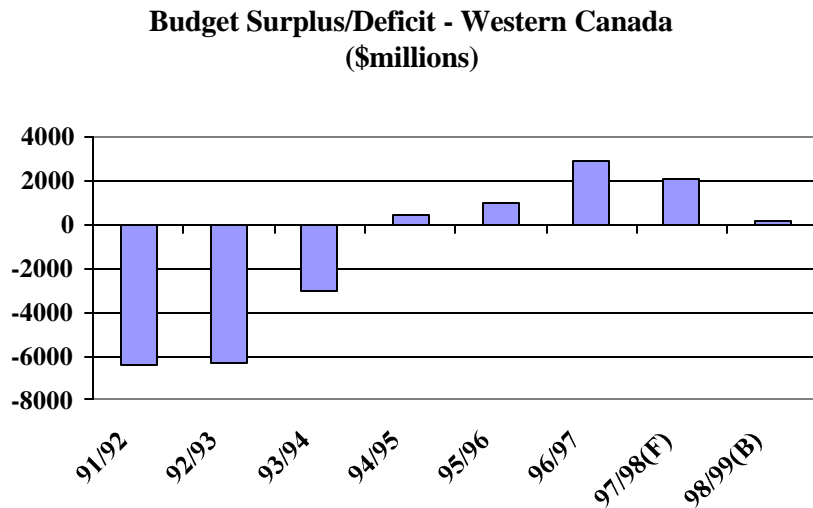
Source: Statistics Canada: Survey of Labour

Growth has been buoyed by private sector investment that has increased 24 per cent over the past two years. Despite weakening commodity prices and the Asian economic situation, private sector confidence remains high and investment is expected to increase again in 1998.

Sustained economic growth in Western Canada has resulted in increasing employment and declining unemployment rates. Between 1992 and 1997, 450,000 new jobs were created in Western Canada, reducing the unemployment rate by 2.6 percentage points.

## ***Fiscal Stability***

Sound fiscal management and a growing economy have allowed western governments to move from a combined deficit of \$6.4 billion in fiscal year 1991-92 to an expected surplus position in 1998-99, while maintaining spending in health and social programs and services. The size of the expected surplus in 1998-99 is not large.



Source: Provincial Accounts      F: Forecast      B: Budget

Despite good overall performance in the mid-1990's, weak commodity prices and other effects of the Asian economic situation are expected to constrain economic and government revenue growth in Western Canada. This slower growth will put additional pressure on western provinces and territories when funding health care, education and other important social programs in the face of increasing cost pressures in these areas.

## **2. Federal/Provincial/Territorial Relationship with Aboriginal People**

The federal government has chosen to restrict its Constitutional obligations to Aboriginal people to only those Aboriginal people residing "on-reserve". In addition, it has broadened the definition of "off-reserve", consequently narrowing the scope of its obligations. The federal government has indicated that provinces and territories have primary responsibility for Aboriginal people living "off-reserve".

The effect of redefining federal obligations, combined with an increase in the number of Aboriginal peoples choosing to live off-reserve and recent Court decisions with respect to Aboriginal jurisdiction, has been to increase the cost pressures on provincial and territorial governments.

The federal strategy of off-loading services for Aboriginal peoples is unacceptable. The western Finance Ministers reaffirm their Premiers' appeal to the federal government, made in Winnipeg on November 18, 1997, for the federal government to assume its full responsibility to fund programs and services for Aboriginal peoples both on and off-reserve at service levels comparable to those programs provided to non-Aboriginal Canadians.

Western Finance Ministers also call on the federal Finance Minister to discuss with all provinces and territories the impact of self-government agreements on the measurement of fiscal capacity in the provinces and territories.

### **3. Infrastructure**

A reliable and modern infrastructure is essential for sustained economic growth and development in Western Canada. Infrastructure is a prerequisite to new investment that will result in increased exports, and long-term job creation.

The 1997 Western Finance Ministers' Report noted that the Federal-Provincial/Territorial Infrastructure Works Program was regarded as a successful partnership between governments. All provinces and territories have joined together in stating their willingness to participate in a new program with the federal government. Western Finance Ministers support the consensus of provinces and territories, outlined in *Guidelines for a New National Infrastructure Program*, tabled with the federal Minister of Finance in December 1997.

### **4. Taxation**

#### *Regionally Differentiated Tax Policy*

At the August 1996 Annual Premiers' Conference, Premiers called upon the federal government to participate in a review of federal tax policies in order to ensure that these policies are consistent, non-discriminatory, fair, and transparent. The 1997 Report of the Western Finance Ministers also endorsed the call for a joint review by federal, provincial and territorial Finance Ministers of federal regionally discriminatory tax policies.

At the June 15, 1998 meeting of federal and provincial/territorial Finance Ministers, provincial/territorial Ministers presented a paper to the federal Minister of Finance on federal tax measures that differ by province or region. Western Finance Ministers call upon the federal government to work with provinces and territories in addressing outstanding areas of regionally differentiated tax policy. A firm federal commitment is required in order to eliminate existing biases in the tax system and to minimize the potential for bias in the future.

## *Taxation of Inter-provincial and International Sales*

The recent rapid growth of inter-provincial and international trade in services and electronic commerce is diminishing the ability of the tax system to be fair and efficient. Western Finance Ministers call on the federal government to include meaningful provincial/territorial participation in its review of the issues of electronic commerce, trade in services and related tax compliance issues, both in national and international forums.

### **CONCLUSION**

Canadians have clearly and consistently stated that quality public services, especially health care, are their highest priority. Western Canadians share these priorities and want the federal government to work with provincial and territorial governments to ensure that these social programs are available today and into the future.

Western Canadians expect federal, provincial, and territorial governments to work in partnership to provide quality social programs and services. The role of western Finance Ministers is to ensure that funding for these services is adequate. Western Finance Ministers strongly endorse the package of intergovernmental fiscal arrangement reforms presented to the federal Minister of Finance on June 15, 1998.

The next step in this process is for the federal government to respond to the work of provincial/territorial governments. Recent statements by the federal government indicate its support for health care as Canada's number one priority. The federal government must accept the challenge to reform federal/provincial/territorial fiscal arrangements to ensure that funding for health care and other social programs is adequate.

In addition, western Finance Ministers call on the federal government to join the provinces and territories in a cooperative, partnership approach to address other priority issues, such as funding for Aboriginal peoples, infrastructure and taxation policies.