

Questions & Answers

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What is fiscal imbalance?

Vertical fiscal imbalance refers to the imbalance of spending and revenues between the federal government and provincial/territorial governments.

- The federal government collects more revenues than required to meet its spending commitments. That leads to annual surpluses.
- At the same time, provinces and territories – collectively - will be challenged to balance budgets, in part due to the growing cost of delivering health care and education that are provincial responsibilities.

Horizontal fiscal imbalance refers to the imbalance among provincial and territorial governments.

- Even after current transfer arrangements, some provinces are better able to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Why is fiscal balance important to New Brunswick?

- Governments should have the necessary revenues to deliver public services.
- The federal government collects more revenues than it needs to meet its spending commitments, whereas provinces and territories will be challenged to balance budgets.
- At the same time, there are also considerable differences in the ability of provinces to raise revenues to provide public services.
- Greater fiscal balance is needed in the federation.

What role should the federal government play?

- The federal government has a key role to play to level the playing field across provinces and territories, ensure that programs of national interest are preserved and priorities are addressed.
- That is why the transfer of revenues from the federal government to provinces and territories is important. The federal transfer system can be used to bring about greater fiscal balance in the federation.
- Section 36(1) of *The Constitution Act*, 1982 states that the federal government, with provincial governments, be committed to promoting equal opportunities for the well-being of Canadians, furthering economic development to reduce differences in opportunity, and providing essential public services of reasonable quality to all Canadians.
- Section 36(2) of *The Constitution Act*, 1982 commits to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services and taxation.

- Current fiscal arrangements fall short of these objectives. That is why addressing the fiscal imbalance among provinces and territories is a key to restoring fiscal balance in the federation.

What is New Brunswick's perspective on addressing the fiscal imbalance?

- The government of New Brunswick is calling upon the federal government to address the fiscal imbalance through increased federal transfer payments to provinces and territories.
- Addressing the horizontal fiscal imbalance through the Equalization Program is New Brunswick's first priority.
- NB's position on the Equalization Program is clear and consistent:
 - Formula-determined entitlements with no cap or ceiling on total entitlements
 - National Average Standard (10-province)
 - 100% revenue coverage, including resource revenues
- This is a long-standing position supported by all political parties in New Brunswick.
- By leveling the playing field across provinces, this would provide a solid foundation for other federal-provincial programs to build upon.
- New investments in post-secondary education, skills training and infrastructure would further address the fiscal imbalance between the federal government and provincial-territorial governments. This would enhance competitiveness and productivity in New Brunswick and the country as a whole.

How would this position contribute to New Brunswick's goal of self-sufficiency by 2025?

- New Brunswick's position would enable the province to build on its *Charter for Change* by making strategic investments that would grow our economy and move us towards greater self-sufficiency.

Enhanced social programs and public services
 + strategic investments
 + a competitive tax system
 + fiscal responsibility
 = a stronger, more competitive New Brunswick

What is the Equalization Program?

- The principle of making equalization payments is written in section 36(2) of The Constitution Act, 1982:

"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."

- The purpose of the Equalization Program is to make sure provincial governments have sufficient revenues to provide similar levels of public services and taxation to their citizens.
- All federal taxpayers contribute to Equalization, no matter where they live in Canada.
- Today, 8 out of 10 provinces receive equalization payments.

Why is Equalization important to New Brunswickers?

- Equalization is NB's largest revenue source at \$1.4 billion or 22.9% of total revenue.
- To put this into perspective:

- The New Brunswick government will spend approximately \$1.3 billion on education in 2006-2007
- Revenues from provincial personal and corporate income taxes total approximately \$1.3 billion
- Without Equalization, New Brunswickers would face higher taxes and fewer public services. This would have a negative impact on the province's competitiveness.