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Fiscal Federalism in Canada



PARLIAMENTARY TASK FORCE ON FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

HOUSE OF COMMONS, CANADA

Kindly note following Errata in English version of the report as follows:

On Page 34

Delete first line in second paragraph of the right hand column and substitute the following therefore:

"Dr. Slater's view as Chairman of the Eco-

On Page 63

Delete line six in first paragraph of the right hand column and substitute the following therefore:

"might move sequentially from manpower training"

On Page 78

Delete last line in first paragraph and substitute the following therefore:

"would be unacceptable"

On Page 80

Delete line four in left hand column and substitute the following therefore:

"minimum guarantee (that is transitional cash plus)

On Page 80

Delete last paragraph in right hand column commencing with words:

"Of course ..."

On Page 110

Delete last line in right hand column and substitute the following therefore:

"... ance and the almost complete absence of a control"

On Page 132

Delete first line in the first paragraph of the right hand column and substitute the following therefore:

"Given the scale of recent increases in the"

On Page 150

Delete the fourth line of the first quote in the right hand column and substitute the following therefore:

"perhaps more cost-sharing provided by the federal"

On Page 163

In the second last line of the right hand column, delete the word:

"average"

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Report of the Parliamentary Task Force on
Federal-Provincial Fiscal Arrangements
August 1981

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The Special Committee to act as a Parliamentary Task Force on Federal-Provincial Fiscal Arrangements has the honour to present its

SECOND REPORT

to the House of Commons

The Order of Reference of February 5, 1981, establishing the Task Force reads as follows:

That the committee examine the programs authorized by the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, focussing, in particular, on fiscal equalization, the tax collection agreements, the Canada Assistance Plan, and Established Programs Financing; and that this examination take place within the context of the government's expenditure plan as set out in the October 28, 1980 budget.

The Task Force held public hearings in Ottawa and in each of the provincial and territorial capitals. An attempt was made to hear representatives of as many associations and institutions as possible within the short time available. Those who were not able to meet members of the Task Force personally were encouraged to submit written briefs; their testimony has been carefully considered along with that received at public and private meetings. Witnesses who appeared, as well as those from whom written briefs were received, are listed in appendices to this report.

In Ottawa, the Minister of Finance, the Minister of National Health and Welfare and the Secretary of State appeared before the Task Force.

The governments of the ten provinces and of Yukon and the Northwest Territories accepted the Task Force's invitation to meet either publicly or privately. Wherever their statements to the Task Force were subsequently made public, they were printed as appendices to the Minutes of Proceedings and Evidence of the hearings held in their region.

Members of the Task Force wish to express their appreciation to all the witnesses who appeared to present their views, either as government representatives, academic experts, individuals representing agencies working in fields related to the programs it examined, or simply as con-

cerned citizens of this country. The important influence these public consultations have had on Task Force views is noted in Chapter I and, indeed, will be evident throughout the report.

The Task Force's reporting deadline of June 26, 1981 was extended in June when it became evident, after the extensive public hearings, that the report could not be concluded by the original date.

The Task Force requested that the staff of the Economic Council of Canada undertake certain analytical studies to aid the Task Force in its work. The chairman of the Council, Dr. David Slater, a director, Dr. Peter Cornell, and one senior staff member, Dr. David Sewell, appeared in public session to report the results of some of this work and to offer their personal views based on other studies undertaken for the Economic Council. The Task Force wishes to express its appreciation to the chairman and staff of the Economic Council of Canada for this effective contribution to the work of a parliamentary committee.

The Task Force was empowered by its Order of Reference to retain the services of professional staff and contracted with the Parliamentary Centre for Foreign Affairs and Foreign Trade to engage advisers with experience in this complex field. The director of the Centre, Peter Dobell, was able to recruit a group of able, knowledgeable and hardworking advisers, and the Task Force wishes to acknowledge their invaluable assistance, and extraordinary dedication. Dr. Rodney Dobell of the University of Victoria headed the group, assisted by Michael Mendelson, formerly of the Ontario Economic Council, and Ronald LeBlanc of the Université de Moncton, along with Bill Haney and Richard Bastien, who were seconded from the federal public service, and Ghislain Blanchard, a student at the University of Ottawa. They were ably assisted by the technical and secretarial staff of the Parliamentary Centre, who cheerfully worked

atrocious hours under intense pressure in order to enable the Task Force to meet a very tight deadline. Press relations were handled effectively by David Humphreys, assisted by Pierre Latraverse. Kathryn Randle edited the text of the report.

The Research Branch of the Library of Parliament also provided helpful support to the Task Force. Christopher Lawless co-ordinated research assistance from the Research Branch and participated directly as a capable member of the committee advisory staff.

An innovative feature of the Task Force's working practice involved the participation of advisers assigned by each of the party research staffs. The Task Force benefited greatly from the contributions of David Husband of the Liberal Caucus Research Bureau, Michael Hatfield and Ian Shurgart of the Progressive Conservative research staff and Karen Stotsky of the New Democratic Party Caucus Research Bureau.

In addition to the benefit of advice from representatives of provincial and territorial governments, the Task Force received prompt and cap-

able assistance from officials of federal government departments. For this co-operation and support, members of the Task Force wish to express their sincere gratitude and the hope that this report does justice to the dedication with which both orders of government serve this country.

Finally, a special word has to be said about the support of the Committees and Private Legislation Branch of the House of Commons. As Clerk of the Task Force, Nora Lever co-ordinated the efforts of the professional, technical, clerical and other support staff. With admirable grace and efficiency, she served the Task Force until taking up new responsibilities in early July. She surrendered her duties to Nino Travella, who had earlier, along with Richard Prigent, organized the Task Force's extensive travel schedule, and with whose capable support, the report was completed. Jo-Anne Pion, on contract with the Committees branch, gave tireless clerical support when the Task Force was meeting in Ottawa and travelling throughout Canada. In this latter function she was ably assisted by Gerry Soulière.

MEMBERS
PARLIAMENTARY TASK FORCE ON
FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS



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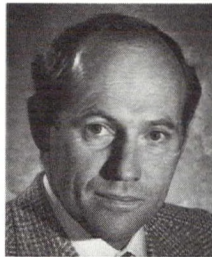
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The Report in Brief

For the first time in Canadian history, a special parliamentary committee, known as the Task Force on Federal-Provincial Fiscal Arrangements, has held public hearings prior to the re-negotiation of the federal-provincial fiscal arrangements that are central to our federal system. Seven MPs representing five regions of Canada and three political parties examined fiscal equalization programs, tax collection agreements, the Canada Assistance Plan, health and medical care programs and support to post-secondary education. They began work in mid-April 1981 and were required to complete their work by the end of July.

The premises, conclusions and recommendations that form the core of the Task Force report are set out below. Overall, they leave an impression of a system of fiscal relations that is fundamentally sound, but in need of some adaptation to new circumstances. The Task Force did not interpret current challenges to the system as calling for fundamental change in existing arrangements, nor did it consider dramatic innovations necessary or appropriate at present. Instead, it has developed a number of recommendations for amendments or adjustments to existing arrangements that, in total, promise a more visible and more solid framework to support a working, co-operative federalism throughout the 1980s.

The main points contained in the Task Force report can be summarized, by chapter, as follows:

Chapter I: Introduction

The Task Force is conscious that its work marks the first occasion on which public consultation and active parliamentary involvement have formed part of the process of negotiation leading to renewed fiscal arrangements. This participation by both MPs and the public is important.

The Task Force

- *recommends* that prior to future intergovernmental negotiations on fiscal arrangements, members of Parliament again have a similar opportunity for consultation with the public. (p. 8)

Chapter II: Fiscal Federalism, Past and Present

The Task Force

- *concludes* that there does not exist a long-term, structural mismatch between the revenue capacities and expenditure responsibilities of the federal government. It cannot be claimed that the capacity of the federal government to raise revenues has reached a structural (as opposed to a political or discretionary) ceiling. (p. 33)

Nevertheless, a majority of the Task Force

- *concludes* that further transfers of revenue sources, or tax room, to provincial governments would not be appropriate. (p. 40)

Chapter III: Established Programs Financing

The Task Force

- *believes* that any federal attempt to legislate national standards for post-secondary education would be unacceptable. (p. 78)
- *recommends* that the post-secondary and health portions of the Established Programs Financing (EPF) arrangements be separated into individual programs to become effective April 1, 1982. (p.78)
- *recommends* that the division of the EPF program transfer (that is, the total EPF transfer excluding that portion associated with termination of the revenue guarantee) be allocated to the health and post-secondary components in the proportions established in 1977. (p. 78)
- *concludes* that, by virtue of the internal allocation established by the federal government, fiscal transfers associated with the revenue guarantee must now be considered part of the health care package and/or post-secondary education transfers and should therefore be allocated, in the renewed EPF arrangements, to health and/or post-secondary education, in proportions to be negotiated. (p. 78)
- *recommends* that once allocated, federal EPF financing be considered earmarked for each program area and not meant for other purposes. (p. 78)

The majority of the Task Force

- *believes* that the EPF tax transfers should be seen as part of the agreed contributions devoted to health and post-secondary programs in the 1977-82 arrangements and therefore *recommends* that the 1982-87 arrangements continue to calculate the equalized value of the taxes transferred, and that these amounts be earmarked for the program areas. The tax transfers would be notionally allocated in the same proportion as the cash transfer allocation between health and post-secondary education. (p. 79)

The Task Force

- *recommends* that per capita entitlements for the proposed health package for 1982-83 be established as 67.9 per cent of the 1981-82 EPF program transfers plus the escalated (1981-82) value of the original \$20 transfer for Extended Health Care, plus the agreed portion of the fiscal transfer associated with termination of the revenue guarantee, the total to be escalated as in the existing arrangements by the EPF escalator from 1981-82 to 1982-83. (p. 79)
- *recommends* that per capita entitlements for federal general support to post-secondary education for 1982-83 be established as 32.1 per cent of the 1981-82 EPF program transfer, plus the agreed portion of the fiscal transfer associated with termination of the revenue guarantee, the total to be escalated as in the existing arrangements by the EPF escalator from 1981-82 to 1982-83. (p. 79)
- *recommends* that the total entitlement for each province or territory for each of the two separate established programs be computed simply as the product of the per capita entitlement and provincial population estimates adjusted, if so recommended by the Chief Statistician, for census under-enumeration, the total to be escalated from year to year as in the current arrangements. (p. 79)

- *recommends* that if the Chief Statistician of Canada so advises, the federal government use population data adjusted for census under-enumeration for purposes of computing EPF transfer payments. (In such a case, corresponding adjustments will be necessary to correct base year per capita entitlements.) (p. 80).
- *recommends* that the cash transfer paid to each province under the renewed arrangements be equal simply to the total entitlement less the value of the tax transfer, including equalization paid on the tax transfer. (p. 79)
- *recommends* that federal expenditures associated with post-secondary education be transferred from the Social Affairs envelope to the Economic Development envelope. (p. 80)

Chapter IV: The Health System

The Task Force

- *believes* that achievement of comprehensive, publicly-funded hospital, medical and extended health care is a major accomplishment of Canadian society, one that represents the end of a long struggle for the realization of an ideal espoused and defended by many Canadian citizens and political leaders. (p. 114)
- *believes* that this achievement could be jeopardized by reductions in current aggregate levels of federal support, because such reductions would be likely to lead to increased reliance on private funding and ultimately to higher health care costs and erosion of the program principles. (p. 114-115)
- *concludes* that there is an overriding national interest in the operations of health insurance plans and in the effectiveness of health care delivery, and that the proper role for the federal government is the formulation, monitoring and enforcement of conditions on its financial support of provincial programs. (p. 97-98)
- *concludes* that in aggregate, and in present circumstances, federal government funding for health care services in Canada appears to be generally adequate. (p. 114)
- *recommends* that the present provisions of the Federal-Provincial Fiscal Arrangements and Established Programs Financing (EPF) Act, 1977, respecting the health system, be renewed essentially in their present form, with a requirement for three years' notice before termination or unilateral amendment, and with no notice possible before April 1, 1984. (p. 115)
- *recommends* that after consultation with provincial governments, the Minister of National Health and Welfare undertake a consolidation of the existing legislation—the Hospital Insurance and Diagnostic Services Act, the Medical Care Act and the relevant sections of the Fiscal Arrangements and Established Programs Financing Act covering extended health care—in order to establish clear program conditions supported by explicit criteria against which satisfaction of those program conditions can be monitored. Thus, in case federal-provincial negotiations fail to achieve agreement on program conditions, the Task Force would expect provisions for some withholding of federal financial support to provincial plans that do not meet fully those conditions as interpreted in this report. (p. 115)
- *concludes* that retention of the present block-funding arrangement, with stricter conditions, monitoring and enforcement mechanisms, would provide an effective mechanism to ensure compliance with national program conditions. For this purpose, it will be necessary to establish operational program criteria, perhaps monitored by a parliamentary committee or a national health

council, with federal payments conditional on compliance with program criteria, but conditional in a flexible manner—that is, with a graduated holdback of the federal transfer related to the extent of achievement of program conditions. (p. 111)

- *recommends* that the Minister of National Health and Welfare report to Parliament annually on the extent to which program conditions have been met and the amount, if any, to be withheld from the federal transfer to provincial governments if it is found that program conditions have not been fully met, and that this report be referred to a parliamentary committee. (p. 115)
- *concludes* that hospital and medical care premiums constitute a regressive form of taxation and that their use for financing a service as basic as health care is regrettable. (p. 106)
- *recommends* that a clearer definition and measurement of universality of coverage be developed to ensure that the principle is respected. (p. 106)
- *recognizes* the right of those provincial governments that levy premiums to recover the costs of health services rendered to uninsured residents who are not eligible for premium assistance, but who have elected not to pay applicable premiums. Nevertheless, *the Task Force agrees* that prior payment of premiums should not be a precondition of entitlement to treatment. (p. 106)
- *recommends* that the Minister of National Health and Welfare, as part of the general review of health programs recommended in this report, initiate discussion with provincial governments to review and bring up to date the lists of basic insured health services identified in the existing legislation for purposes of defining comprehensiveness. (p. 106)
- *recommends* that a central health insurance clearing mechanism be set up to ensure that the residents of any province have ready access to services in other provinces without administrative barriers or embarrassment to the insured person. (p. 107)
- *agrees* that, for reasons of both principle and practicality, user charges (for hospital services) should be discouraged. (p. 108)

The majority of the Task Force

- *recommends* that doctors who either bill a provincial medical plan directly, or whose patients are reimbursed by the plan, not be allowed to charge fees in excess of those permitted under the plan's approved fee schedule. (p. 110)
- and therefore *concurs* with the recommendations of Justice Emmett Hall that
 - “The Medical Care Act should be revised to provide:
 - 1) That extra-billing by physicians inhibits reasonable access to services and is contrary to the intent and purposes of the act.
 - 2) that the Provinces should develop mechanisms to ensure reasonable compensation to physicians.”
- and *concurs* with his proposal for a mechanism to ensure fair compensation as follows:
 - “when negotiations fail and an impasse occurs, the issues in dispute must be sent to binding arbitration, to an arbitration board consisting of three persons, with an independent chairperson to be named by the Chief Justice of the relevant province and one nominee from the profession and one from the government”. (p. 110)
- *recommends* that, following federal-provincial negotiations, any plan that does not meet fully all the above criteria be ineligible for full federal financial support under EPF. (p. 110)

The Task Force

- *recommends* that federal and provincial governments work together to develop appropriate criteria and conditions to ensure that transfers for the purpose of extended health care are effective in achieving the objective of adequate extended health care services. (p. 102)
- *endorses* the emphasis on the broad 'health field concept' and the community-based health care philosophy, and recommends that further work by federal and provincial governments in this field be pursued to identify more precisely program conditions or criteria that would lead to better implementation of this philosophy. (p. 102)
- *recommends* that to the extent consistent with provisions respecting confidentiality and privacy, provincial hospital and medical information systems provide for periodic statements to recipients of service to indicate both the value of services rendered and the amounts billed to provincial insurance plans by the suppliers of service. (p. 112)

Chapter V: The Post-Secondary Education Transfer

The Task Force

- *recognizes* the need for general base funding for the post-secondary sector, to permit adults of all ages—not just the traditional 18-24 age group—to pursue spiritual and intellectual goals, to polish their critical faculties and to expand their general base of knowledge on which more specific skills may be built. (p. 123)
- *appreciates* fully that because education is under provincial jurisdiction, the responsibility for coping with change and effectively serving broad Canadian interests must rest with the provinces and their institutions. Therefore, the Task Force *believes* that there should be an effective consultation mechanism to ensure concerted efforts by all concerned to establish and attain the goals that are of mutual interest to both orders of government. (p. 129)
- *recommends* that in line with the 1976 First Ministers' commitment, the responsible federal minister or ministers proceed on an urgent basis to consult with the Council of Ministers of Education, Canada on matters of concern to both orders of government in the field of higher education. (p. 129-30)
- *suggests* that early attention be given to the definition of purposes in post-secondary education that are of concern of all governments. In this connection, priority consideration should be given to the need for more highly-qualified manpower in the 1980s, and the confirmation of existing commitments to student mobility and equality of access to post-secondary education for Canadians. Similarly, it is desirable to ensure reasonable access to Canadian higher education for foreign students. (p. 130)
- *recommends* that early consideration be given to the establishment of a focal point or mechanism to ensure internal co-ordination of federal programs related to post-secondary education. (p. 131-32)
- *recommends* that federal general support for higher education to be continued on the current block-funded basis, at least until the two orders of government have consulted about the goals and future needs of the higher education sector, but as a program separate from future support for health programs. The Task Force believes that this method of providing general support to the provinces best accords with the primary responsibility of the provinces for education. (p. 132-34)

- *recommends* that the responsible provincial and federal ministers jointly review and take appropriate action on the alternatives for improved assistance to needy students described in the Report of the Task Force on Student Assistance and that priority attention be given to early adjustments in existing programs that will ensure that needy students have realistic levels of assistance in the light of rising living and other costs and reduced opportunities for summer earnings. (p. 137)
- *agrees* that there should be greater accountability to Parliament and more public information made available on the general (EPF) support provided to provinces for post-secondary education by the federal government. (p. 137)
- *recommends* that the minister designated responsible for consulting with the Council of Ministers of Education, Canada (CMEC) report annually to Parliament, beginning in 1982-83 on:
 - transfers to each province for higher education;
 - to the extent appropriate, other programs of federal support to, or involvement in, post-secondary education;
 - the effectiveness of these federal programs in moving toward the country's economic and other goals; and
 - the results of consultations with the CMEC about the definition of national purposes to be served by higher education, and the means by which the CMEC and the provinces will achieve these objectives. (p. 137)
- *recommends* that the minister's annual report be referred to a parliamentary committee for review, and that arrangements be negotiated with the provinces covering information exchange and such other action as may be required to enable the responsible minister to discharge his or her responsibility for reporting to Parliament. (p. 137)
- *recommends* that the new post-secondary program be subject to alteration or termination on three years' notice, but with no notice possible before April 1, 1983. (p. 137)
- *recommends* that the responsible provincial and federal ministers jointly review and take appropriate action on the alternatives for improved assistance to needy students described in the Report of the Task Force on Student Assistance. (p. 137)
- *recommends* priority attention be given to early adjustments in existing programs that will ensure that needy students have realistic levels of assistance in the light of rising living and other costs and reduced opportunities for summer earnings. (p. 137)

Chapter VI: Social Assistance and Social Services: The Canada Assistance Plan

The Task Force

- *believes* that the Parliament of Canada has a constitutional responsibility for programs of income redistribution, including social assistance programs paying money to Canadians anywhere in Canada. (p. 143)
- *recommends* that any statute establishing Parliament's role in provincial social assistance programs continue to use a cost-sharing approach. (p. 144)
- *recommends* that the Minister of National Health and Welfare pursue attempts to resolve the issue of work incentives and income supplementation for the working poor, either through new fiscal

arrangements for programs of social assistance and supplementation, through direct federal initiatives (such as, for example, tax credits), or through amendments to the existing Canada Assistance Plan. (p. 145)

- *recommends* that positive action by both orders of government on improving training and employment opportunities as an alternative to social assistance be undertaken in the near future. (p. 145)

The majority of the Task Force

- *endorses* reducing the restrictiveness of the Canada Assistance Plan on cost-sharing of social services in areas of highest priority (as identified by the federal and provincial ministers), at least as an interim measure. (p. 149)

The Task Force

- *recommends* that fiscal arrangements recognize interprovincial differences in cost arising from differing levels of need for social assistance payments to individuals. (p. 149)
- *recommends* that fiscal arrangements allow the federal government to assist new provincial initiatives in social assistance and social services, or permit the federal government itself to provide leadership in new initiatives, as these may be desired from time to time. Of course the federal spending power for social services should be used only in consultation with the provinces. (p. 152)
- *recommends* that the Minister of National Health and Welfare consider establishing, after consultation with provincial colleagues, a special short-term de-institutionalization thrust fund, together with national technical expertise, to assist provinces as they continue programs of de-institutionalization. (p. 152)
- *recommends* that the Minister of National Health and Welfare have a Canada Assistance Plan manual compiled to include all guidelines, notes and administrative directives, and that this manual be made public, with appropriate provision to respond to questions by the public on its application. (p. 153)
- *recommends* that the Minister of National Health and Welfare undertake to review the extent to which provinces are meeting the Canada Assistance Plan conditions, and to consult with provincial colleagues on a more precise definition of the conditions. (p. 154)
- *recommends* that the Canada Assistance Plan requirements for statistical and financial information be strengthened to improve understanding of the programs cost-shared under the Plan. (p. 154)
- *recommends* that there be no reductions in the overall fiscal commitment for programs now cost-shared under the Canada Assistance Plan. (p. 154)

Chapter VII: Equalization Payments

The Task Force

- *concludes* that the principle of equalization should continue to be pursued through direct federal payments to provincial governments, and that these payments should be unconditional. (p. 157)

- *recommends* that if the Chief Statistician of Canada so advises, the federal government use population data adjusted for census under-enumeration for purposes of computing equalization payments. (p. 161)
- *recommends* that the representative tax system approach to equalization be maintained under the 1982-87 fiscal arrangements. (p. 162)
- *recommends* that property taxes for municipal purposes be included in full in the equalization formula. (p. 163)
- The Task Force does not make specific recommendations regarding the treatment of natural resource revenues because it is not known how some factors, particularly the split of petroleum revenues between federal and provincial government, are likely to evolve in the next few years. The Task Force *believes*, however, that the following rules should guide decisions taken with respect to the treatment of resource revenues:
 1. The maximum portion of natural resource revenues that should be included in the equalization formula should be that portion of these revenues that are used for budgetary purposes, that is, as a minimum, the portion sequestered to non-budgetary heritage funds should be excluded.
 2. To the extent that provinces provide special services to their citizens that they would not likely have offered had they not enjoyed large surpluses from resource revenues, it would be reasonable to exclude from the formula a portion of resource revenues that find their way into provincial budgets. For example, if a resource-rich province decides to retire all municipal debts, as was done in Alberta, the federal government need not assume that the retiring of municipal debts is a normal provincial expenditure. In short, resource revenues should be included in the formula only to the extent that they are used to finance what might be considered normal provincial services.
 3. All resource revenues should be treated in the same manner. That is, no particular type of resource revenue should be excluded from the equalization formula, and all resource revenues, should be included to the same extent. (Under the current formula, revenues from land sales are excluded, non-renewable resource revenues are included to the extent of 50 per cent, and renewable resource revenues are included in full.)
 4. There should continue to be some kind of ceiling or safety net relating to the share of total equalization that may be paid out on account of resource revenues in order to protect the federal treasury against runaway increases in the cost of equalization. (p. 164-65)
- *recommends* that negotiations be directed toward an equalization formula that can apply uniformly to all provinces, without arbitrary or discriminatory special provisions. (p. 169)
- *recommends* that if any province whose equalization entitlement in 1981-82 is more than \$5 per capita sees its equalization entitlement reduced by more than 5 per cent as a result of the implementation of a revised formula, it should continue to receive 95 per cent of its 1981-82 entitlement until 1984-85 or until the formula yields more than 95 per cent of its 1981-82 entitlement, whichever comes sooner. (p. 171)

Chapter VIII: Fiscal Harmonization and Economic Co-ordination

The Task Force

- *recommends* that the federal government encourage continuation of the present tax collection agreements (as provided in Part III of the current fiscal arrangements legislation), subject to the

three general guidelines set out by the Minister of Finance to determine whether proposed tax measures will be administered by the federal government under the tax collection agreements. (p. 185)

- *recommends* that the federal government continue, in the new arrangements, the provision for "Provincial Personal Income Tax Revenue Guarantee Payments" contained in Part IV of the current fiscal arrangements legislation. (p. 185)
- *recommends* that the federal government actively pursue agreement with provincial governments on a 'code of tax conduct'. (p. 185)
- *recommends* that the Minister of Finance propose to his provincial counterparts the establishment of an intergovernmental committee to examine and report on a regular basis to federal and provincial Ministers of Finance on the 'state of the economic union'. This committee would be concerned with the overall issue of fiscal harmonization and might consider the establishment of a broad 'code of economic conduct' encompassing taxation, expenditure and economic regulation. (p. 185)

Chapter IX: Emerging Issues in the Canadian Federal System

The Task Force

- *recommends* that the appropriate federal minister(s) establish clearly that fiscal arrangements shall not in any way prejudice the existing constitutional responsibilities of the federal government for Native peoples. (p. 189)
- *notes* that proposals are in the offing that would place federal-territorial government fiscal arrangements on a formula basis, facilitating long-term financial planning, and
- *believes* that, although federal-territorial government fiscal arrangements based on a longer-term formula approach might appear to lessen accountability to Parliament in the short run, it could in fact be increased in the longer term by coupling the periodic renegotiation of the new arrangements with a requirement for a specific report to Parliament on their effectiveness. Accountability would be further enhanced if there were to be a requirement that this report be referred to a parliamentary committee for review and assessment. (p. 190-91)

Thus, the Task Force may be viewed as advocating a workable co-operative federalism, not a classical division of powers or responsibilities among governments. If the decade or two up to 1976 are viewed as periods of active federal leadership to launch the network of basic programs falling within the Task Force order of reference, and the established programs financing arrangements negotiated in 1976 as an attempt to ensure provincial flexibility and responsibility in these same programs, then the proposals advanced here must be viewed as reaffirming and re-adjusting the federal role in these arrangements to meet national needs while respecting provincial jurisdiction. Indeed, while the Task Force recommends sustained support of these programs, it also recommends a clearer definition of the purposes of that support and of the results sought through it, and tighter mechanisms of accountability.

At the same time, this report stresses the question of visibility, not as a public relations exercise, but as a key element of the answerability of government to the public. If the public does not see how and where federal money is spent, the Task Force argues, the citizen is denied the opportunity to assess government performance. Answerability of federal MPs to the public is the other side of the coin from accountability of ministers to Parliament, and a government whose efforts are not visible cannot be answerable.

The Task Force report seeks to promote both.

Chapter I

INTRODUCTION

Task Force Origins and Terms of Reference

This special committee of the House of Commons, composed of seven members representing the three parties, was established as a parliamentary Task Force on February 5, 1981 and charged to "examine the programs authorized by the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, focussing, in particular, on fiscal equalization, the tax collection agreements, the Canada Assistance Plan, and Established Programs Financing; and that this examination take place within the context of the government's expenditure plan as set out in the October 18, 1980 budget".

Task Force membership was named March 13 and our first public hearing was held April 23. Following our decision to travel across the country to permit public participation in each province and territory, it became impossible to meet the original deadline of June 26 set in the Order of Reference, and a working deadline was established in order that the report be available as background to federal-provincial discussions beginning in September 1981. Thus the Task Force was required to complete its report within three months of beginning work on this formidable topic.

The fact that our terms of reference directed the Task Force to conduct its examination within the context of the October 28, 1980 federal budget represented a particular problem for us, in that the opposition parties had voted against that budget, each for its own reasons. Bearing this political reality in mind, the Task Force faced a choice in its work. Attempting to address directly the question of expenditure levels in specific transfer programs in the context of the October 28 budget would have meant implicit acceptance of the

Finance Minister's expressed intention to achieve "significant savings ... in transfer payments to provincial governments which are part of the social affairs envelope".

This approach was unacceptable for a number of reasons, ranging from opposition by some members to cutbacks in the social affairs envelope on principle, to perceptions by others that it would be a mistake to try to reduce the present federal budget deficit at the expense of these programs. Furthermore, it was felt by some that assessment of expenditure levels in the various programs, in the context of the October 28 budget, could not be undertaken without implicit acceptance of the government's own report of its revenue capacity, an acceptance again impossible because of differing views as to the alternatives available to the government if it wishes to reduce its budget deficit. Some would look to the tax expenditure account long before looking at social programs. Others would look to alternative forms of restraint.

Questions of economic outlook and expenditure plans are political—and budgetary policy priorities must be the subject of ongoing policy debate. Moreover, economic realities are particularly difficult to read just now. The Prime Minister, the Rt. Hon. Pierre Elliot Trudeau, observed, in his June 30, 1981 letter to all Premiers, that since the federal budget was presented by the Hon. Alan MacEachen, Minister of Finance, "there have been developments at the international, national and provincial levels which inevitably will have an impact on our future course... Mr. MacEachen will be consulting again in the early fall to discuss in detail what adjustments in policy might be required..." In any case, the government's expenditure plan applies only through the 1983-84, while the fiscal arrangements to be examined by us run at least to 1986-87, and probably beyond.

The alternative approach to our work was to concentrate our attention primarily on the major questions of appropriate structure and institutional design in intergovernmental fiscal arrangements. This is what we have done. We have tried to clarify the purposes of federal involvement in services delivered to the public through provincial governments, to assure full and equitable access of all citizens to these services, and to establish clear lines of accountability to Parliament, and of Parliament to the public. For this reason, the general orientation of our report is toward a clearer identification of the purposes for which federal funding is voted and of the conditions under which such support will be maintained, and toward greater openness in federal-provincial relations.

Thus we have produced a set of guidelines and principles—a framework—within which we believe representatives of federal and provincial governments can best negotiate whatever changes appear appropriate in light of the social goals of these programs, the economic circumstances that prevail as negotiations proceed and the fiscal positions of both orders of government. We have not attempted to draft a menu of specific program changes. Our comments later in this report on funding levels for particular programs must be interpreted as political judgements on the merits of these programs individually, not conclusions flowing from a considered budgetary analysis or comprehensive program evaluation.

The thread that runs through this report therefore is not budgetary calculation, but accountability in Parliament for federal spending. We concentrate not on the government's expenditure plan, but on institutional changes designed to ensure that Parliament itself can deal more effectively with, and be held more fully accountable for, federal revenues flowing directly to provincial governments. Our proposals go beyond the context set by the October 1980 budget to address the structural problems of fiscal federalism. Our concern has been the form of intergovernmental fiscal relations likely to provide the right stepping-stone to the structure that will carry us into the closing decade of the century.

Under these circumstances it hardly needs to be said that not all technical questions have been fully explored. Moreover, we have not reached full

agreement on all issues before us. But we have a number of important recommendations to offer. On some issues, we report differences of opinion that remain among members. But while each of us would have written portions of this document differently, we are pleased that we can offer a report that, in its overall thrust, each of us can support as a useful response to the assignment we took on.

We are willing to endorse this report collectively, not because we have all compromised to the point of a consensus document, nor because we have erased all of the profound philosophical differences that separate our positions, but because this document makes clear what some of those differences are. We sincerely believe that what is important for us as a Task Force, and what is important for this country, is to work together to arrive at action that is mutually acceptable in light of our different values, not to separate and go our own ways because we cannot agree. If we have, by these efforts, helped Canadians to understand better the profound questions that challenge the fiscal arrangements underlying our federation, we will consider our intensive work on this report a worthwhile investment.

It is not generally appreciated that this Task Force was established as a result of a proposal by the opposition parties, not as a federal government negotiating ploy or stalling tactic. However, concerned as they are by the need to develop their next budgets, it is understandable that provincial governments were initially skeptical and suspicious of our role, and guarded in their preliminary reaction. We wish to record, nevertheless, that we were received graciously and hospitably by provincial governments, and enjoyed their co-operation in our work. Members of the Alberta government met with us informally at a private dinner meeting and members of the Ontario government met with us and our research advisers in an informal discussion. Neither released an official statement, but the Hon. Frank Miller, Provincial Treasurer of Ontario did deal with federal-provincial fiscal relations in an extensive budget paper released with the 1981 Ontario Budget a week after our meeting. In Quebec we enjoyed a frank personal discussion with the Hon. Jacques Parizeau, Minister of Finance. All other provincial governments met with us privately with written submissions, which they later made public. Only the government of New

Brunswick appeared in an open public session. (It is interesting, and perhaps revealing, to note that this experience closely parallels that of the Rowell-Sirois Commission 40 years ago (see Annex A to this chapter). For those who think constitutional strains are new, this precedent may be encouraging.) We also had the pleasure of a very useful meeting with a number of former provincial premiers who gave us the benefit of their deep experience and knowledge of this country.

As we proceed through our review of individual programs, it will become clear that we are impressed with the accomplishments of our system to date. In every area explored, the story has been similar: increased opportunities to participate in an independent, dynamic post-secondary education system; increased standards of care in a comprehensive health system; rising standards of income maintenance and social services; achievement of tax harmony and efficient tax collection; an extensive equalization program—all represent major accomplishments in a system progressing and adapting effectively to changing circumstances. The concerns we heard have been primarily the worries that come with success—they have been criticisms not of progress to date, but fears that future progress, or even past gains, may be comprised or eroded by problems of slowing real income growth and policies of economic restraint.

There is still a long way to go, of course, and critical review is warranted at this time. But the task of marking out new directions should not make any of us lose sight of the remarkable strength and adaptability of the structures now in place. Indeed, we see this as the theme of our report: to develop, sustain and fortify the network of fiscal relationships that has evolved to date in the Canadian federation. Several generations of development have gone into shaping these fiscal arrangements, which are fundamentally sound and, in many respects, the envy of other federal countries. But for many reasons—constitutional tensions, political responses to unanticipated resource revenues, a changing balance of economic power among provinces—this federal structure is again experiencing new problems.

We believe that the array of proposals set out in this report does provide a more effective framework embracing a clearer expression of the national interest in social programs and greater account-

ability through Parliament for the allocation of federal expenditures, balanced against a need for appropriate provincial autonomy, flexibility and access to the resources necessary to assure minimum standards of basic public services across the nation.

In this situation we see the federal Parliament as an institution whose influence can provide the support—the sustaining webbing or fabric—that can carry Canada's fiscal arrangements into a new stage of co-operative federalism. Context for Inquiry

Context for Inquiry

In pursuing its mandate, the Task Force was conscious of following in the tracks left by the remarkable study produced by the Royal Commission on Dominion-Provincial Relations (the Rowell-Sirois Commission) over forty years ago. As Professor Donald Smiley pointed out in the introduction to his edition of Book I of that report, the Commission's terms of reference made it "almost inevitable that the Commission's account of the development of the Canadian federal system should be centered around economic factors".¹ Smiley observes that "the other major theme of the development of our federal system is its adjustment to the demands of cultural dualism"², a theme that, as he observed, was addressed by the Royal Commission of Inquiry on Constitutional Problems (the Tremblay Commission), appointed by the Government of Quebec in 1953.

As federal parliamentarians, writing at the beginning of the 1980s, in the 115th year of the Canadian federal system, we are conscious of both themes. We are also conscious of a third theme, more closely associated with the workings of a federal system than with its consequences. That is the theme of accountability in public affairs. We return frequently to that topic later in this report.

In his commentary on the Rowell-Sirois report, Smiley calls attention to a significant passage:

It must be emphasized again that collective action through the agency of democratic government implies a common purpose and an agreed method of achieving it. If the common endeavour is one with respect to which deep impulses in the community arouse differing conceptions, it is likely to

break down and the consequent disharmony will embarrass all the common enterprises which have been entrusted to the government. A population of common origin and traditions, deeply habituated to think alike on fundamental issues, may be readily able to maintain the agreement necessary for collective action affecting the whole range of community life. Canada lacks that homogeneity and this, in turn, limits the extent of collective endeavour which can be effectively organized under Dominion control.

This is why Canada is a federal state and must remain so. Deep underlying differences cannot be permanently overcome by coercion. There are, of course, many matters in which there is sufficient community of interest and purpose for them to be entrusted to the Federal Government and they are increasing. Modern transportation and communication and the integration of the economy lift many matters to the level of general interests which might, if agreed upon, be cared for by the Federal Government.³

Smiley claims that this analysis has two implications. First,

continuous economic growth whose impact is felt throughout Canada is necessary to the viability of the federal system... general economic dislocations give rise to... severe stresses on the federal fabric itself. The necessary solvent, the circumstances under which enough consensus results to make federalism workable, is thus widely distributed well-being.⁴

Second,

because of the dualistic nature of Canadian society, there is room for questioning the long run wisdom of federal initiatives in those fields of activity which impinge most directly on the cultural differences between English-speaking and French-speaking Canadians. In terms of the Commission's analysis, "collective action through the agency of democratic government implies a common purpose and an agreed upon method of achieving it". And yet since World War II federal involvement in a great number of matters bearing directly on the quality of cultural life has proceeded apace—imvolvement in hospitalization and public health services, in welfare, in amateur athletics, in university education, in the promotion of the arts and letters and so on. Such federal initiatives have understandably created certain stresses in our federal system and it is reasonable to predict that these stresses will become more severe....⁵

Today, the processes of adjusting to changing patterns of industrial activity in a slowing and more competitive world economy do indeed give

rise to severe stresses on the federal fabric. Once again, it might be said that

it was by no means clear... that the equilibrium necessary to a working federalism could be reached. It was not clear whether room could be found for the free play of provincial aspirations without denying to the Dominion the confidence and loyalty it needed for the advancement of common national purposes.⁶

What we find comforting about that appraisal contained in the Rowell-Sirois Report is that it appeared in their description of conditions prevailing toward the end of the first thirty years of Confederation. Now, almost a century after the period they were describing, we confront the same doubts. With luck, so also will our successors confront doubts, another century down the road to a balanced federation, as they attempt to achieve a new balance in the roles of two orders of government serving the same people.

To achieve greater co-operation within the context of this constantly-changing federal system, it seems to us that clearer accountability of both federal and provincial governments is essential in many areas where joint responsibility has been either prescribed constitutionally or made inevitable by the needs of a modern integrated national economy. In the integrated and interdependent community of the closing years of the 20th century, the 'classical' model of federalism, based on the principle of fiscal responsibility (which would assign to each province the revenue sources necessary to permit it independently to provide the services allocated to it, or to discharge the responsibilities assigned to it under the BNA Act), is not appropriate—nor can a system of unconditional "National Adjustment Grants" be exclusively relied upon for this purpose. But neither can we recommend a degree of centralization that forces provinces to adhere unswervingly to federal priorities or imposes a heavy uniformity on diverse cultural or regional traditions.

If classical federalism cannot be achieved, then some forms of workable co-operation are essential. Many of the recommendations in this report bearing on institutional design or structure are intended to achieve that end by promoting greater accountability for the portion of the nation's resources allocated through the public sector, including those raised by the federal government

and transferred to provincial governments through federal-provincial fiscal arrangements.

Such accountability cannot come easily. Some problems of decentralization in large organizations are universal and enduring. The twin precepts of clear central responsibility for plans and policy and full operational authority in the field are in conflict—indeed are contradictory. So, too, are the twin aims of a constitution that assigns responsibility for general individual well-being and the development of a united society and an integrated national economy to a central government, but responsibility for delivering health, education and social services to provincial governments.

In Canada, the realities of politics work against the establishment of clear divisions of responsibilities, and certainly preclude neglect by federal politicians of areas falling in provincial jurisdiction. (The temptations, of course, work both ways.) As a political representative, a federal MP cannot ignore any of the immediate concerns of constituents. Indeed the federal MP, as much as any provincial representative, takes an active interest in matters of health or post-secondary education or day-care service. A constituent appealing to a federal MP does not wish to be told that certain problems fall within provincial jurisdiction; what is more important, many federal MPs have no desire to say so.

Thus, any tendency toward organizational efficiency through formal decentralization is offset by the readiness of federal MPs to be actively concerned anywhere their constituents' interests appear to be at stake. Many times these interventions will be in areas of provincial jurisdiction. (Similarly, of course, a provincial politician will be concerned in areas of federal jurisdiction when constituents claim to be suffering from federal policies or lack of action.) Thus the organizational theory may be fine, but reality keeps breaking in. This homely observation helps to explain why federalism is in many ways a matter of pragmatic adjustment to changing circumstances.

Federalism is also, however, a matter of fundamental principle and political philosophy. It reflects the leadership of political idealists as well as the accommodations of political realists.

The evolution of fiscal arrangements toward their present structure reflects individual commit-

ments to the development of government programs that better embody ideas of equity or sharing or the security that comes with a sense of community. But one can understand our federal system only as the outcome of earlier struggles to reconcile these desires for a community that is national in scope with concerns for regional autonomy in the delivery of programs serving different cultural groups and meeting diverse needs.

The traditional posture on the question of accountability, one set out forcefully by the Rowell-Sirois Commission and repeated in the principles set out in 1966 by the Minister of Finance of the day (see Chapter II), is that each order of government should be directly responsible for raising the resources necessary to finance its own expenditures. On this basis, a federal withdrawal from present intergovernmental transfer programs would appear to be warranted. But we have already observed that this principle obviously conflicts with other principles. Principles of equalization and equity or universal access to national programs all call for federal support of expenditures falling within provincial jurisdiction in order to realize national goals of the sort just mentioned.

Moreover, co-ordination may often be required to achieve a common objective or to ensure that what it means to be a Canadian is the same throughout the country. A national presence may be required to ensure adequate expenditures on programs whose benefits, in an increasingly integrated economy with an increasingly mobile population, spill over provincial boundaries.

For this reason, the principle of direct fiscal responsibility for program expenditures must be supplemented by some form of indirect accountability for intergovernmental transfers. This is a generic problem where federal parliamentarians are asked to authorize the transfer of federal revenues to provincial governments for use in financing expenditures in programs deemed to be of national interest or concern. As federal parliamentarians, we see no escape from an obligation to ensure that national objectives are achieved through these programs funded in part by federal taxpayers. That is, we see no escape from a responsibility to monitor conditions with respect to programs in which a significant national interest is at stake, and to report to the public, through Parliament, on the satisfaction of those conditions.

In different forms this basic problem arises in each of the programs we were instructed to examine. We have not sought a simple, uniform solution to this dilemma, but in each case we have attempted to identify an appropriate mechanism to discharge this responsibility to account properly for the use of public funds allocated by the Parliament of Canada. Before pursuing that issue, however, it may be useful to comment briefly on what the Task Force found during its hearings across the country.

The Task Force Experience

As we crossed the country, one message was clear: Canadian citizens are more sensitive to what unites them than to what separates them. They are more concerned with a workable federal system than with fine points of jurisdiction. Despite the strains and controversy associated with energy policy, the constitution, RCMP costs and other intergovernmental frictions, we found that individual Canadians still seem to have little difficulty wearing two hats, as federal taxpayers and voters and as provincial taxpayers and voters. We are heartened to be able to confirm that Canadians remain willing to share their good fortune through interpersonal redistribution and through inter-regional transfers. They look to the federal government to assure appropriate national standards of access and equity in the programs through which equality of opportunity can be achieved for all Canadians. We encountered few who quarrelled with the need for strong federal leadership in setting out these national standards. Particularly encouraging was the view of many provincial officials and ministers that in co-operative negotiations with their federal counterparts, there would emerge few serious differences on basic national objectives. In short, Canadians are more united than their governments sometimes seem to be—the links that bind them are in reality much stronger than the relations between their governments might suggest.

Canadians demand an effective co-operative federalism. Witnesses representing legions of citizens engaged in the delivery of services in health, education, social services and community affairs made it very clear they would not long tolerate intergovernmental rivalry as a reason for denying

the provision of essential services or the resources necessary to assure all Canadians access to them.

At the same time, representatives of several provincial governments expressed concern at the present, unprecedented strains in federal-provincial relations. In order that our federal system serve better the witnesses who came to us, and all those they represent, we hope that our work will make some contribution to solving this problem.

That this vast land of ours is much blessed by Providence and by nature needs no argument by the Task Force. What we do wish to offer, however, is a reminder of the depth of our national endowment in terms of human energy and human spirit. As we travelled, we were encouraged by the spirit of participation and sharing we encountered, by the commitment to service and community evident in the many representatives from service activities and voluntary agencies. Many came long distances or from remote communities; many came despite disabilities or handicaps. With little time and, in most cases, less help or staff support, they prepared thoughtful, personal presentations. They argued not their own cases, but for the resources to serve others. One cannot travel the country and hear the representatives of its many interest groups and cultures without carrying away a greater commitment to our identity as Canadians and our future as a federation.

We believe that this form of public participation is desirable in the process of periodic review of federal-provincial fiscal relations. Our report takes into account the advice and representations we received in public hearings and it would be inconsistent not to argue for a similar role for parliamentarians in the future. A recommendation on this matter is set out later in this chapter.

It must be recognized, of course, that the representations we heard were from particular interest groups. They came from people who had dedicated much of their personal or professional lives to a particular activity. They had a clear vision of the important purposes to which additional resources could be put; they tried to describe, in human terms, the contribution a larger budget could make. They had experienced frustration, and even anger, at failing to find the expanded resources they saw as necessary. Each could, in all

sincerity, make a persuasive case that a particular activity was underfunded and that federal action to ensure a larger budget, increased resources, higher priority, was essential, despite provincial government decisions, constitutional provisions or any general resource constraints.

Many such representations, from many sources, enter into the difficult choices to allocate limited budgets among competing claims. We cannot balance the claims we heard against those for resources to ensure higher environmental standards, improved safety for industrial workers, greater opportunities for cultural growth for those living in urban centres or remote regions, or better housing for Native peoples. Nor can we ignore the need to respect cultural and regional differences as reflected in different provincial expenditure priorities or tax policies, or the simple need to respect the constitutional division of powers and responsibilities.

We had to recognize, in other words, that our hearings could not, by their nature, give a fully-balanced picture of all the considerations to be weighed in renegotiating federal-provincial fiscal arrangements. We have therefore done what it is the job of politicians to do—we have added our personal judgements to the evidence we received in arriving at our response to the public representations to which we listened very carefully in our hearings across the country.

Purpose of Report

A final word on purpose. First, we are not attempting to design a structure to last for decades. Nothing is permanent in a federal system, save its fundamental principles. It is foolish to aim for one timeless, optimal allocation of functions and levels of transfers, and we do not try.

What we are seeking is a system that, so far as possible, has its own built-in adjustment mechanisms and safety nets, a system that is flexible, resilient and robust enough to withstand shocks. We know that the next five years may hold changes and surprises that no formula can fully anticipate. What we have tried to do is point to the direction that at the moment seems appropriate for the next five years, and to avoid establishing

irrevocable commitments to arrangements that might be challenged by the unexpected.

Second, our goal was not to undertake an extensive analysis of past and future trends in fiscal relations in Canada. As working politicians, our aim was to identify the key questions on which members of Parliament would have to make judgements—political judgements—in debating revised fiscal arrangements. We hope that in so doing we may also help all concerned Canadians to understand these arrangements and express their own views. And we hope that our report will be useful to the provincial governments and to the federal government which must collectively debate and negotiate these arrangements. We do not set out here a federal government negotiating position, but a commentary from the perspective of concerned federal parliamentarians.

The purpose of this report is therefore to contribute to a general understanding of fiscal arrangements in Canada in their historical context, and to provide background and recommendations useful to the current renegotiation of these arrangements. Recognizing that many of the questions discussed here will be settled finally through federal-provincial discussions, we have aimed at commentary and assessment as well as policy recommendations. Where differences exist, we have not hesitated to describe the range of views held by Task Force members. Given the diversity of the country and the complexity of the shifting sets of federal-provincial and inter-regional arrangements that reflect the interaction of many different, strongly-held values and philosophies, it is not surprising—or discouraging—that agreement among seven individuals representing five regions and three political parties has not been achieved on all issues. We make no apology for the fact that we could not resolve all our differences of opinion in making specific recommendations.

What was encouraging to us—and what might be surprising to the reader—is that we were able to discuss these issues with a commitment to finding, wherever possible, mutually acceptable solutions to the real and shifting pressures of the present environment. We did not treat these issues dispassionately, but we approached them without confrontation; not without disagreements, but with respect for the genuine differences in the views and

concerns of the various regions and for the different philosophies we hold. We attacked the problem itself, not each other, and we see our report as just that—a report on present problems of federal-provincial relations as perceived by a diverse group of politicians who were exposed briefly to a sample of informed opinion and the concerns of involved Canadians across the country.

Just as Canada represents a compromise and a paradox in the face of the factors that work against its existence as a united country, so Canadian federalism blends and balances many diverse forces. Its strength lies in the marriage of pragmatism and principle, the compromise between the conflicting philosophies and many realities that make up a society.

We are conscious that the work of our Task Force marks the first occasion on which public consultation and active parliamentary involvement have been possible during the process of reviewing and renegotiating the central features of fiscal federalism in Canada. We believe that this participation is important, and *the Task Force therefore recommends that*

prior to future intergovernmental negotiations on fiscal arrangements, members of Parliament again have a similar opportunity for consultation with the public.

We believe our report demonstrates that this kind of consultation can contribute a unique perspective as background to future negotiations.

Notes (Chapter I)

¹ Donald V. Smiley, ed., *The Rowell-Sirois Report, Book I* (Toronto: McClelland and Stewart, 1963), p.2.

² *Ibid.*, p.3.

³ Royal Commission on Dominion-Provincial Relations, *Report* (Ottawa: King's Printer, 1940), p. 97.

⁴ Smiley, *The Rowell-Sirois Report*, p.4.

⁵ *Ibid.*, p.5.

⁶ Royal Commission on Dominion-Provincial Relations, *Report*, p. 65.

Annex I-A

Excerpts from the Rowell-Sirois Report, 1940

The following excerpts include the summary paragraphs from each chapter of Book I of the Rowell-Sirois Report, in which the Commission sets out its interpretation of economic history from Confederation up to the time of its Report. Also included are the Commission's terms of reference and concluding discussion of constitutional provisions respecting economic powers and federal provincial transfers, particularly their recital of the disadvantages of conditional grants.

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

TERMS OF REFERENCE

PRIVY COUNCIL

CANADA

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by the Deputy of His Excellency the Governor General on the 14th August, 1937.

P.C. 1908

The Committee of the Privy Council have had before them a report, dated August 5th, 1937, from the Right Honourable W.L. Mackenzie King, the Prime Minister, submitting—with the concurrence of the Minister of Finance and the Minister of Justice:—

1. That, as a result of economic and social developments since 1867, the Dominion and the provincial governments have found it necessary in the public interest to accept responsibilities of a character, and to extend governmental services to a degree, not foreseen at the time of Confederation;
2. That the discharge of these responsibilities involves expenditures of such a magnitude as to demand not only the most efficient administrative organization on the part of all governments but also the wisest possible division of powers and functions between governments. That particularly is this the case if the burden of public expenditures is to be kept to a minimum, and if the revenue-raising powers of the various governing bodies are to possess the adequacy and the elasticity required to meet the respective demands upon them;

3. That governmental expenditures are increased by overlapping and duplication of services as between the Dominion and provincial governments in certain fields of activity. That in other respects the public interest may be adversely affected by the lack of a clear delimitation of governmental powers and responsibilities;
4. That representations have been made on behalf of several provincial governments and by various public organizations that the revenue sources available to provincial governments are not in general adequate to enable them to discharge their constitutional responsibilities, including the cost of unemployment relief and other social services and the payment of fixed charges on their outstanding debt; that, consequently, if they are to discharge their responsibilities, either new revenue sources must be allotted to them or their constitutional responsibilities and governmental burdens must be reduced or adjustment must be made by both methods;
5. That representations have been made by provincial governments that municipal governments which have been created by, and derive their powers and responsibilities from the provinces, are confronted with similar problems; that, in particular, necessary municipal expenditures have placed an undue burden on real estate and are thereby retarding economic recovery; also that the relations between provinces and municipalities are an essential part of the problem of provincial finances;
6. That, finally, it has been represented that unless appropriate action is taken the set-up of governmental powers and responsibilities devised at the time of Confederation will not be adequate to meet the economic and social changes and the shifts in economic power which are in progress without subjecting Canada's governmental structure to undue strains and stresses.

The Prime Minister, therefore, with the concurrence of the Minister of Finance and the Minister of Justice, recommends:—

1. That it is expedient to provide for a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years;

History of the Commission

The Commission was appointed by Order in Council (P.C. 1908) dated 14th August, 1937, printed immediately preceding this section.

On August 31, 1937 Mr. Alex Skelton, chief of the research department of the Bank of Canada, was appointed by Order in Council (P.C. 2113) as Secretary of the Commission and Director of Research. Subsequently Miss M.K. Rowland was appointed as Assistant to the Secretary to aid in administration. Mr. Adjutor Savard was appointed French Secretary with particular responsibility for correspondence and relations with French-speaking Canadians. Mr. Savard acted as Secretary during the hearings at several provincial capitals and, in the later stages of the Commission's work, became responsible for the important task of supervising translation of the Report, appendices and other published studies. Mr. Wilfrid Eggleston was appointed Assistant to the Secretary with particular responsibility for supervision of reporting and travelling arrangements. After the public hearings Mr. Eggleston was transferred to the research staff of the Commission. Mr. R.M. Fowler of Toronto was appointed Registrar and Head Secretary to the Chairman, Chief Justice Rowell, and after the retirement of the Chief Justice, Mr. Fowler continued on the Commission's secretariat. Mr. Louis S. St. Laurent, K.C., of Quebec City and Mr. James McGregor Stewart, K.C., of Halifax, were appointed Counsel to assist the Commission in its public hearings, but except during certain sittings in Ottawa only one counsel was present at each hearing of the Commission.

Terms of Reference.—The Order in Council appointing the Commission imposed upon it a task of great complexity and magnitude. But wide and comprehensive as the terms of reference were, they were primarily concerned with one great problem, viz., the relations between the Dominion and the provinces. The Commission accordingly directed its inquiry strictly to this main problem. Many representations made to the Commission were concerned with other matters and, therefore, fell outside the scope of the inquiry.

The recital in the terms of reference set out certain conditions on which presumably the Commission was expected to report: the enlarged responsibilities of government due to economic and social developments; the need for "the widest possible division of powers and functions between governments"; the allegation that ex-

penditures were increased by overlapping and duplication of services as between the Dominion and the provinces; the complaint of the provinces that their revenue sources were inadequate to enable them to fulfil their constitutional responsibilities; the representations of the provinces that their municipalities were confronted with similar financial difficulties and, particularly, that conditions were such as to place an undue burden on real estate; and finally, the representation that unless appropriate action were taken, the governmental structure would be subject to undue stresses and strains in meeting the economic and social changes and the shifts in economic power which are in progress.

The operative clauses of the Order in Council more precisely instructed the Commission to make "a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years." Without limiting the broad scope of such an inquiry the Commission was instructed in particular:—

- (a) "to examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments, the past results of such allocation and its suitability to present conditions and the conditions that are likely to prevail in the future;
- (b) to investigate the character and amount of taxes collected from the people of Canada, to consider these in the light of legal and constitutional limitations, and of financial and economic conditions, and to determine whether taxation as at present allocated and imposed is as equitable and as efficient as can be devised;
- (c) to examine public expenditures and public debts in general, in order to determine whether the present division of the burden of government is equitable, and conducive to efficient administration, and to determine the ability of the Dominion and provincial governments to discharge their governmental responsibilities within the framework of the present allocation of Public functions and powers, or on the basis of some form of reallocation thereof;
- (d) to investigate Dominion subsidies and grants to provincial governments."

The Order in Council appointing the Commission clearly indicated that its task was two-fold: the Commissioners were instructed to consider and report upon the facts disclosed by their investigations; and "to express what in their opinion, subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities."

ties in Canada." In short, the Commission was intended to be both a fact-finding body, and a body to make recommendations.

Although in the preliminary visit made by the Chairman and the Secretary in September and October, 1937, the Premiers of all provinces expressed their willingness to co-operate in the work of the Commission, it was found that full participation by all provincial governments was not forthcoming. The Government of Alberta subsequently declined to appear before the Commission or to participate in its activities. The position of the Government was set forth in a letter from Premier Aberhart to the Chairman in reply to a request for the Government's views on various questions:—

Office of the Premier
ALBERTA
EDMONTON, MARCH 30, 1938

HON. NEWTON H. ROWELL, CHAIRMAN,
Royal Commission on Dominion-Provincial Relations,

DEAR SIR,

Owing to the fact that the legislature has decided against presenting a brief to the Commission on the grounds already outlined to the Federal Government, we would respectfully suggest to you that it would be inconsistent and contrary to the decree of the legislature to answer the questions you have directed to us.

It is our intention to present a comprehensive brief directly to the Federal Government, a copy of which will be sent to each of the provinces.

Yours truly,

(SGD.)
WILLIAM ABERHART,
Premier.

The Commission also inquired if the Government had any objection to its summoning various officials to appear before it to give evidence on the matter of overlapping, but the Premier objected in view of the resolutions of the Legislature. At the hearings in Edmonton the Edmonton Chamber of Commerce, however, presented a comprehensive survey of the position of the Province within federation, and thereby a serious gap in information was avoided.

The Province of Quebec was represented at the opening session of the hearings in Quebec City by counsel who welcomed the Commission and presented a memorandum setting forth its reasons for not participating. The memorandum declared in part:—

"...nous devons déclarer que le gouvernement de la province de Québec ne comparait devant cette

Commission, ni en qualité de demandeur, ni en qualité de défendeur; et qu'il n'entend être lié en aucune façon par les conclusions de votre rapport.

Si le gouvernement de Québec a cru devoir se faire représenter à cette séance initiale, c'est qu'il n'a pas voulu manquer de courtoisie envers la Commission, c'est aussi parce que son silence aurait pu être considéré comme un acquiescement au principe qu'a posé le gouvernement fédéral, en confiant à une commission nommée par lui seul la mission de faire enquête en vue d'amender l'acte fédératif de 1867."³

The Government of Ontario co-operated fully in supplying the Commission with statistical information, and in public hearings at Toronto, with the exception of answering a number of questions addressed to the Government by the Commission, but later declined to co-operate further, alleging that there had been a breach of faith on the part of the Dominion Government which had changed the gift tax section of the Income War Tax Act prior to the Report of this Commission.

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[CHAPTER SUMMARIES]

SUMMARY—*the great responsibilities and the dominant financial position of the Federal Government*

The financial settlement underlines the various statements of the Fathers as to the great functions of the new Dominion and relatively minor financial role to be played by the provinces. The important responsibility for national defence was transferred to the Dominion and the provincial treasuries were relieved of the incalculable burdens which it might entail. The largest single item of public expenditure in the colonies had been the promotion of economic development. One of the major purposes of Confederation was to apply still greater

³ Ev. pp. 8130-31. Provincial translation.—"we beg to state that we are not appearing before your Commission either as an applicant, nor as a defendant, and that we shall not feel bound in any way whatsoever, by the opinions contained in your report.

The Government of this Province is appearing before you because, in the first place, it did not wish to be lacking in courtesy towards this Commission, and also because its silence might have been construed as an acquiescence in the principle laid down by the Federal Government, in appointing, of its own accord and without consulting the Provinces, a Commission whose report will form the basis of possible amendments to the Constitution."

energies to this task and to provide still larger financial resources for the purpose. In effect, the Dominion was a great holding company designed to unify the efforts of the colonies in realizing the opportunities of a transcontinental domain. All the provincial assets which could be adapted to that purpose were transferred to the Dominion as were the debts which the provinces had incurred in acquiring them. The burden of the functions left with the provinces was expected, in per capita terms, to grow lighter rather than heavier. In the economic and social conditions of the time, the cost of education and public welfare was not expected to increase disproportionately to the growth of population. It was anticipated that rapid extension of municipal institutions would carry any additional burdens which these services might involve in the future and would reduce the outlay of provincial governments upon them.

The transfer of the dynamic, expanding functions of government to the Dominion while the provinces retained those which were thought to be static or likely to decline explains the lop-sided division of the revenue sources of the time. The Dominion was given an unlimited power of taxation to enable it to meet the growing as well as the unpredictable responsibilities of the State. The provinces were left with but fractions of their former revenues. The power of direct taxation had to be given to the provinces in order that they might confer that power on the municipalities which they were expected to create. But all the circumstances of the day seemed to indicate that direct taxation could not be fruitfully employed by other than municipal governments. It was expected that any additional revenues which a province might need would be found in the growing receipts from the public domain rather than in direct taxation. Subsidies were introduced to make it barely possible for the provinces to balance their budgets. These subsidies were conceived to be final and, subject to a minor exception, were not intended to grow with the growth of population.

SUMMARY—1867-96

In the first thirty years of Confederation, the physical framework of the Dominion had been completed and the basic national economic policies for the future had been adopted. Despite these achievements, the period was one of trial, discouragement and even failure. The national economic expansion failed to materialize. The long depression naturally weakened the newer and more tenuous loyalties and the Federal Government which, at first, undertook its appointed task of national leadership with vigour and assurance floundered and seemed to have lost its way. Its hesitations helped to undermine its claim to dominate the provinces. Provincial loyalties, on the other hand, showed the unsuspected strength and Privy Council decisions confirmed the provinces in possession of a large sphere of action beyond the the Dominion. But the provinces were caught in a financial strait jacket from which they laboured, as yet unsuccessfully, to free themselves. The provincial governments lacked financial resources, while the Dominion failed to

evoke a spirit of national loyalty. In these circumstances, it was by no means clear, at the end of the period, that the equilibrium necessary to a working federalism could be reached. It was not clear whether room could be found for the free play of provincial aspirations without denying to the Dominion the confidence and loyalty it needed for the advancement of common national purposes.

SUMMARY—1896-1913

The common efforts of all regions in building up the country between 1896 and 1913 cemented the political union of 1867 and Canadians became conscious of themselves as a nation. The growing sense of community was accompanied by increasing economic interdependence. The national policies of all-Canadian transportation and protective tariffs were effective in making the wheat boom the basis of a general economic expansion in which the manufacturing industry of eastern Canada became heavily dependent on the agricultural export region of the Prairies. With the exception of the Maritimes, which were affected by but did not share generally in the expansion, the wheat boom brought prosperity to the whole country but it was prosperity which remained conditional on the profitable production of wheat. A high degree of economic integration had been achieved but it required a sustained world demand for wheat to make it a lasting success.

As Canadians on the prairies specialized in growing wheat for the international market and Canadians in the older parts of Canada specialized in providing a wide variety of goods and services for the national market, the old self-sufficiency of pioneer days passed from the scene. By 1913, the open frontier had almost disappeared. With the coming of a highly specialized interdependence, the capacity of individuals to overcome economic reverses and mischances by their own efforts was greatly impaired and the material conditions which force governments into costly expenditures for social security were begun. With intensive industrial development came the shift from the country to the cities, bringing in its train a greater demand and a greater need for collective provision of various services.

The general expansion was accompanied by the multiplication of the expenditures at all levels of government. In part, this was due to the growth of population and the extension of the area requiring governmental services. In part, it was due to the undertaking of many collective services by urban municipalities. Despite these factors, the traditional pre-occupation of British North American governments with economic development continued to dominate public finance and reached its greatest intensity during this period. Federal and provincial governments spent lavishly to open the doors of opportunity for private enterprise. In so doing, they encouraged the growth of a new economy, more productive and diversified but also more vulnerable in times of adversity. Its tribulations at a later date were to alter the character as well as the emphasis of Canadian public finance.

The permanent effects of the War upon Canada have not yet been fully realized but some of them, at any rate, have become obvious. It stimulated the economy in various ways. Economic and financial inter-relationships with the United States were multiplied. The necessity of financing the War effort at home brought a quick development of financial machinery, giving the system a maturity it had hitherto lacked. The insatiable demand for supplies advanced the economy rapidly along the main lines projected by the wheat boom. With the rise of new exporting regions and industries and the expansion of wheat growing on the Prairies, the dependence on export markets was greatly deepened. Domestic industry committed itself still further to supplying the needs of the exporting groups. At the same time, the long-range effect of the War was to hamper international trade and to make the grip on foreign markets more precarious. The Canadian economy became still more vulnerable to external influences.

While the struggle lasted, the Federal Government monopolized public attention. The national effort led to a concentration on national issues and finally to bitter division on the national interest. The cleavages on this question followed cultural, class and occupational lines rather than the familiar party division or the alignment of some provinces against the Dominion. The immense authority, born of a common aim, which the Dominion Government exercised during the struggle disintegrated with the return of Peace. It became very difficult to combine the group interests, which more and more found expression in Federal politics, for the support of a vigorous policy by the Dominion. Thus, in the event, the partial eclipse of the provinces was short-lived. In the twenties, the provinces were to take a more important place than ever before while the Dominion followed a mainly negative policy.

At the beginning of the period, most of the varied and exciting opportunities which came with western expansion suddenly vanished with the collapse of the boom. Economic diversification continued and people were obliged to apply themselves to highly specialized occupations. As they became less adaptable and less able to make sudden shifts in occupation, the economy lost much of the flexibility and capacity for automatic adjustment to change conditions which had marked it in the days of the open frontier. Many of the material conditions which had already led the advanced industrial countries of Europe to make public provision for social security were emerging in Canada. The War accelerated this significant change in the economy and contributed to the decline of laissez-faire as a social philosophy. It exacted innumerable individual sacrifices for the community and thus suggested reciprocal obligations of the community toward individuals. The common folk who bore the brunt of the struggle were encouraged to expect that victory would usher in a new era. The new era did not come, but instead the inequality of individual rewards and sacrifices which marked the prosecution of

the War sharpened social distinctions. This combination of circumstances stimulated a growing concern for the social welfare of those who must fight the country's battles. Recalling the War-time activity of governments, many were led to hope that governments would organize for social welfare as they had organized for War. The War hastened considerably the acceptance of the philosophy of the social service state in Canada.

The whole burden of the War expenditures fell on the Dominion at a time when it also had to pay the full consequences of the rash railway policies launched during the wheat boom. In seven years, the public debt of the Dominion increased seven-fold. The Dominion was reluctant to undertake new responsibilities, and this paralyzing debt became the financial counterpart of the political weakness which fell upon the Dominion. On the other hand, the War had been a damper on expenditures by provincial governments. After its conclusion, the provinces began without hesitation to make large expenditures to meet accumulated demands. They at once increased their expenditures on social welfare and, although they secured some federal financial assistance through conditional grants, the events of the first two or three years after the War indicated that it would be the provinces, and not the Dominion, which would meet the growing demand for social services.

SUMMARY—1921-30

Throughout this period the provinces were politically aggressive in undertaking new activities, in advancing their own affairs, and in securing concessions from the Dominion. In their difficulties, in their ambitions and opportunities, as well as in the disparities between them, several sets of common interests of a regional character emerged. These regional forces served to weaken the common interest in a national integration based on wheat. In the general prosperity of the twenties, which provided an expanding national income, the regional interests were harmonized amicably without serious friction or serious sacrifice and the provinces were able, with more or less difficulty, to carry the new responsibilities they had assumed.

But the great depression which began at the end of the period, and which will be described in the next chapter, was to widen greatly the disparities and to reveal both the insecurity of the foundation on which prosperity had been based, and differences of interest which were extremely difficult to reconcile under conditions of sharply falling revenues. These differences of interest were to assume a new significance in an era of depression, when weaker provinces, overwhelmed in the struggle to carry new and old responsibilities, were to become financial wards of the Dominion, and the strongest provinces stood to gain by enlargement of provincial autonomy.

THE CONTRAST: CONFEDERATION AND TODAY

Within the brief compass of the preceding chapters we have attempted to portray the significant economic,

financial, political and social changes which constitute the background of the present problems of Dominion-provincial relations and public finance. To obtain a proper understanding of those problems we have found it necessary to survey the history of Confederation, and to analyse the factors which have determined the course of Canadian development and have made Canada what it is to-day. We have outlined the forces which brought about Confederation, the federal distribution of financial powers and responsibilities which was set up in 1867, and the political and economic objectives of the new self-governing British Dominion in North America. We have described, with particular reference to the working of the federal fiscal system, how, within that political framework, the isolated regions and pockets of settlement with a population of less than three and a half millions have grown into an integrated transcontinental economy with a population of eleven millions; how small towns and cities have grown into large urban concentrations and great metropolitan centres; how the self-sufficiency of the household and the family has been superseded by highly specialized activities which are closely dependent upon the smooth operation of an intricate exchange economy; how the meagre but relatively stable incomes have risen to support a much higher but more precarious standard of living; and finally how the philosophy of government has changed from one of laissez-faire to one of increasing interference with a view to improving economic and social conditions. These far-reaching changes have had a profound effect upon public finance, and particularly upon that of our federal system.

The revolutionary change since Confederation in the economic and social role of government is strikingly illustrated in Table 14. Between 1874 and 1937 total per capita government expenditures increased by eleven times. The portion of the national income spent by governments rose from less than one-tenth to more than one-fourth of the total. The collective efforts to promote economic development and the collective assumption of the responsibility for the alleviation of individual distress and for the provision of rising standards of public welfare and education have come to play an immensely important part in the economic affairs of the country—a part which could hardly have been envisaged at the time of Confederation and provided for in the framing of the constitution. The amounts expended to promote economic development, added to debt charges arising out of war and deficits, have risen from \$14 million to \$384 million. The cost of education and public welfare rose from the almost negligible figure of \$4 million to \$360 million. Such increases would in any case have created difficult problems for public finance, but under the federal system these difficulties were greatly enhanced. The division of powers and responsibilities devised at Confederation was made on the basis of conditions existing at the time. The Federal Government was charged with the responsibilities which were then national in scope—of which defence and economic development were the most important—and the provinces and their municipalities with responsibilities which were then predominantly local in nature, including education, public welfare and local works. The growth in government expenditures and functions has not fitted the simple pattern which was set

Table 14
The Growth of Government Expenditures Since Confederation
and the Increasing Share Borne by Provinces and Municipalities
(Millions of Dollars)

	Total ¹		Dominion		Provinces		Municipalities		Percentage of Dominion to the Total	
	1874	1937	1874	1937	1874	1937	1874	1937	1874	1937
Net Debt Charges	6.6	271.3	5.4	167.0	0.6	50.9	1.8	54.8	82	62
National Defence and War Pensions	1.3	88.0	1.3	88.0					100	100
Public Welfare —										
Relief		126.6		66.1		42.9		17.6		52
Other	1.4	124.4	0.2	43.8	0.7	45.0	0.5	35.6	14	35
Education	3.0	108.9			1.4	32.1	1.6	76.5		
Highways and Transportation	5.4	73.8	2.8	18.0	1.2	25.2	1.4	30.6	52	24
Highways and Transportation (including debt charges)	(9.8)	(240.4)	(7.2)	(143.0)	(1.2)	(51.6)	(1.4)	(45.8)	(73)	(59)
Public Domain and Agriculture	1.6	38.5	0.9	17.9	0.7	20.6			56	46
General Government and Miscellaneous	12.6	164.6	6.0	56.2	3.9	41.8	2.7	66.9	48	34
Subsidies to Provinces				3.8		21.2				
TOTAL	31.9	996.1	20.4	478.2	7.3	258.5	8.0	282.0	64	48
Total Expenditures per Capita \$	8.19	89.58	5.24	43.0	1.87	23.25	2.05	25.36		
Percentage of Total Expenditures to the National Income	9%	26%	6%	12%	2%	7%	2%	7%		

¹Less Duplications.

up in 1867. Government responsibilities which were formerly of purely local significance have become national in character. The provinces have assumed heavy commitments for economic development. The invention of the motor vehicle has added heavy burdens to provincial expenditures on transportation. A number of essential or important public welfare services which have remained as primary obligations of local governments can now be provided efficiently only on a national basis. The provinces, which at the time of Confederation were not expected to incur any sizeable debts, had by 1937 assumed debt charges which absorbed over one-fifth of their current revenues. Public welfare, the outlay upon which was negligible in 1874, took more than one-third of the provincial revenues in 1937. Thus, expenditures which were virtually non-existent at Confederation absorbed nearly 60 per cent of total provincial receipts on current account in 1937. The development of these expenditures by the provinces in addition to the share supported by their municipalities has greatly altered the relative importance of the different layers of government in our federal system. The share of the total costs of

government borne by the Dominion, which possessed the broadest base of taxation, fell from two-thirds to less than one-half. Furthermore, an important part of the Dominion's outlay at the present time, namely for relief and old age pensions, is actually expended by the provinces.

The increase in revenues required to support the immense rise in government expenditures has placed a heavy strain on the constitutional division of powers adopted at Confederation. The revenue sources used in 1874 (of which customs and excise collected by the Dominion made up two-thirds of the total), provided only one-half of all government receipts in 1937 including the taxes on real estate which have continued to support virtually the whole of the great increase in municipal services. The Dominion, which in 1874 depended almost entirely on the essentially national revenue sources of customs duties and excises on a few luxuries, has expanded its income mainly by a heavy impost on general consumption, by levies on corporations and by the taxation of personal net incomes. The

Table 15
Growth of Government Revenues Since Confederation
(Millions of Dollars)

	Total ¹		Dominion		Provinces		Muni- cipalities		All Government Percentage to Total Revenues	
	1874	1937	1874	1937	1874	1937	1874	1937	1874	1937
Revenue from Sources Used at Confederation—										
Customs	14.4	112.1	14.4	112.1					46	11
Excise	5.6	52.0	5.6	52.0					18	5
Public Domain	1.8	23.6	0.4	2.5	1.4	21.1			6	2
Licences, Permits and Fees	1.2	21.9		2.5	0.7	8.9	0.5	10.5	4	2
Taxes on Real Property	6.5	250.8				5.9	6.5	244.9	21	25
Miscellaneous	1.5	39.1	0.4	10.2	0.1	3.3	1.0	27.0	5	5
Sub-Total	31.0	499.5	20.8	179.3	2.2	39.2	8.0	282.4	100	50
Revenue from Sources Developed since Confederation—										
Sales Taxes		144.4		138.1		1.9		4.4		15
Gasoline Taxes and Automobile Licences		64.8				64.8				6
Liquor Control		29.8				29.8				3
Manufacturers Taxes		17.2		17.2						2
Amusement Taxes		2.8				2.8				
Miscellaneous Taxes		30.8		7.4		3.1		20.4		3
Corporation Taxes		105.7		71.7		34.0				11
Income Taxes on Persons		64.4		50.6		11.9		1.9		6
Succession Duties		35.8				35.8				4
Sub-Total		495.7		285.0		184.1		26.7		50
Total Revenues Raised by Each Class of Government	31.0	995.2	20.8	464.3	2.2	223.3	8.0	309.1	100	100
Federal Subsidies to the Provinces					3.8	21.2				
GRAND TOTAL	31.0	995.2	20.8	464.3	6.0	244.5	8.0	309.1	100	100
Percentage of Revenue Raised by each Class of Government to Total										
	100%	100%	67%	47%	7%	22%	26%	31%		

¹Less Duplications.

provinces, which at Confederation were given power to levy direct taxation, but were expected to rely on the fixed federal subsidies, and on receipts from public domain and from various licences and fees, obtained less than one-fourth of their income from these sources in 1937. The unconditional federal subsidies comprised nearly two-thirds of total provincial revenues in 1874 and less than one-tenth in 1937. The great bulk of the present provincial revenues is collected from sources which have been interpreted as falling under provincial jurisdiction but which could hardly, if at all, have been envisaged at Confederation. Some of these sources are directly competitive with those employed by the Dominion; many of the others constitute onerous or uneconomic levies on consumption and the costs of production. With the joint occupation of the fields of direct taxes, neither the Dominion nor the provinces nor both together have been able to employ the progressive taxes to the extent which is economically and socially desirable.

It is clear that the present situation in Canadian public finance represents a wide departure from the conception of the Fathers of Confederation and from the spirit of the financial settlement which they devised. Costly government responsibilities which have become national in scope are being supported by regional and local revenues. Revenue sources which have become national in character are being employed by regional and local governments to the complete or partial exclusion of the central authority. We have seen that the efficient administration of the functions of government under present day conditions requires some redistribution of the functions as between the Dominion and the provinces. In the same way, if the growing waste and inequities in taxation are to be avoided, a better allocation of taxing powers and responsibilities is imperative. A third essential step will be to adjust the revenue sources to the functions so as to ensure that every unit of government will be financially able to meet its recognized responsibilities.

CHAPTER VII

The Constitution Today

In an earlier chapter the significant decisions on the meaning of the British North America Act given by the Privy Council Before 1896 were briefly considered and their bearing on the future interpretation of the constitution was pointed out. Between 1896 and the present the Privy Council has decided well over one hundred cases which involved the interpretation of various provisions of the British North America Act. Some of these cases dealt with matters of very minor importance but the vast majority of them have been woven into the texture of the constitution. An accurate and complete statement of what the constitution is at the present day must analyse these cases, considering the scope of the decisions and the qualifications, express or implied, imposed by later decisions on earlier ones. Such a minute examination is

beyond the scope of this Report and would involve a lengthy excursion into constitutional niceties, of interest mainly to specialists.

But the interpretations of the Privy Council have marked out the limits of the legislative power of the Dominion and the provinces. Among other things, they have determined the scope of provincial taxing powers. In these ways the decisions of the Privy Council have fixed both the responsibility for carrying out new functions which it is considered desirable for governments to undertake and the limits of the revenue sources available to the province for financing its activities. In working within this framework to meet mounting demands for governmental action, many new aspects of Dominion-provincial relations have emerged. The interpretation of the constitution in relation to twentieth century demands has helped to shape the present financial relationships between the Dominion and the provinces and has led to the adoption of several expedients involving co-operative action by the Dominion and the provinces. These co-operative ventures have, in turn, complicated the relationships which the Commission is required, by its terms of reference, to examine.

Accordingly, a survey of the constitutional development is necessary for the understanding of present problems. It is also important to see how the provinces and the Dominion were forced into these co-operative ventures and to appreciate the inherent difficulties which they involve. A short survey of constitutional developments cannot hope to deal adequately with many constitutional complexities. An attempt to state briefly how the constitution allots responsibility for dealing with the problems which absorb the attention of legislatures today must speak in general terms without exhaustive reference to the legal decisions in which these matters have been explained. It cannot state all the qualifications to which any general proposition is subject nor grapple with the obscurities which still undoubtedly exist. What follows is a summary of those aspects of the constitution relevant to the inquiry conducted by the Commission and not a full exposition of constitutional law.

The Restrictive Interpretation of Section 91

In its interpretation of the British North America Act in the last forty years, the Privy Council has adhered to the general rule of construction laid down by Lord Watson in the *Local Prohibition Case* in 1896 which accorded Dominion legislation under the enumerated heads of section 91 primacy over the provincial powers set out in section 92 but denied this primacy to the general clause of section 91 which gave the Dominion power to make laws for the "peace, order and good government of Canada". This rule of construction, coupled with a broad interpretation of the general expression "property and civil rights in the province", contained in section 92, has given a narrow application to the so-called residuary clause in section 91. Accordingly, with rare exceptions, if a proposed piece of Dominion

legislation does not fall within the specific enumerations of section 91, it is beyond the enacting power of the Dominion and within the powers of the separate provinces. That is to say, most of the novel legislation of our day, which is not of a type actually contemplated and expressly provided for by the framers of the British North America Act, must be enacted, if at all, by the provinces. There is much truth, as well as some exaggeration, in the contention that the "property and civil rights" clause has become the real residuary clause of the constitution.

The Dominion power under section 91 (2) "regulation of trade and commerce" has received a restricted interpretation, improving on the limitations suggested in *Citizens' Insurance Company v. Parsons* in 1882 until, in 1925, the Privy Council questioned whether it was operative at all as an independent source of legislative power. More recent decisions show that it has some scope but the narrow meaning given to it limits severely the power which it confers on the Dominion to regulate economic life.

The trend of interpretation, therefore, has been favourable to provincial power. However, between 1930 and 1932, the Privy Council handed down several decisions upholding Dominion legislation in a manner which seemed to involve qualifications on some of their earlier pronouncements and, at the same time, to countenance freer and looser interpretation of the British North America Act than had hitherto been adopted. Some regarded these decisions as marking a reversal of the trend of decision and a new emphasis on the scope and magnitude of Dominion powers. But this reversal of trend by the Privy Council, if reversal it was, turned out to be merely temporary, as its adverse decision in 1937 on a number of Dominion measures, commonly known as the Bennett "New Deal", clearly showed.

These decisions of 1937 scarcely came as a surprise but they served to underline again the wide scope of provincial powers and responsibilities in modern economic and social legislation. When related to the limitations on the taxing powers of the provinces under the British North America Act and the wide disparities in the yield of revenue sources in the different provinces, they placed the crisis which had been gathering in Canadian public finance in clear relief. In a sense, it may be said that these decisions framed the Commission's terms of reference and it is both appropriate and revealing that this discussion of the constitutional position today should revolve around them. With some reference to earlier decisions on particular points, a discussion of these cases illustrates the division of legislative power between the provinces and the Dominion in relation to the urgent issues of the present day.

In 1936 the constitutional validity of eight Dominion enactments was referred to the Privy Council and their decisions on them were rendered early in 1937. The validity of two of these statutes was upheld in full, and of one of them, in part. These three statutes are not

highly important for our purposes and they need not be discussed in detail. But the nature and the fate of the remaining five require careful consideration.

Three of the remaining five enactments, the Weekly Day of Rest in Industrial Undertakings Act, the Minimum Wages Act and the Limitation of Hours of Work Act, established, as their titles indicate, nation-wide standards for minimum wages and maximum hours of weekly work. They were enacted by Parliament pursuant to obligations assumed by the Dominion under conventions of the International Labour Organization and were thus, in substance, in fulfilment of treaty obligations of Canada. All three were held by the Privy Council to affect "Property and Civil Rights in the Province" and, therefore, to be beyond the powers of the Dominion Parliament to enact.

Apart from the fact that the decision on these statutes denied the power of the Dominion to set up nation-wide standards of labour legislation, it established two general propositions of great significance. First, it interpreted section 132 of the British North America Act which empowers the Dominion Parliament to implement "the Obligations of Canada or of any Province thereof, as Part of the British Empire, toward Foreign Countries arising under treaties between the Empire and such Foreign Countries." It held that the power of the Dominion under section 132 applies only to "British Empire treaties" negotiated by the Imperial Executive where the treaty obligations involved are assumed by Canada as part of the British Empire. In international treaties which the Dominion negotiates in its own right as an independent political unit, the power of the Dominion to implement the treaty by legislation depends entirely on whether the subject matter of the treaty falls within section 91 or 92. That is to say, in view of the broad interpretation given to section 92, there are a number of matters on which the Dominion cannot give effect to treaties which it alone has power to negotiate. The second proposition established by this decision is also involved in the decision on another of these statutes, the Employment and Social Insurance Act, and can be most conveniently discussed along with it.

The Employment and Social Insurance Act provided for a nation-wide system of unemployment insurance in specified industries to be supported, in part, by compulsory contributions of employers and employees and, in part, by contributions from the Federal Government. Such a scheme, the Privy Council held, was beyond the powers of the Federal Parliament to enact because it affected "Property and Civil Rights in the Province". The argument that unemployment was a national evil, justifying national action under the "peace, order and good government" clause of section 91 was met by reference to a line of decisions holding that this clause of section 91 conferred on the Dominion an emergency power only.

In the interval between 1896 and 1937, Lord Watson's remark in the Local Prohibition Case that "some

matters in their origin local and provincial might attain such dimensions as to affect the body politic of the Dominion and to justify the Canadian Parliament in passing laws for their regulation..." under the general clause of section 91 had been explained in several cases. In substance, these cases had decided that, during the stress of a severe crisis like the War of 1914-18, the Dominion Parliament had power to fix the prices of commodities and to regulate comprehensively other aspects of Canadian economic life under the "peace, order and good government" clause but that as soon as the crisis was overcome, the power to impose such regulations evaporated. Other decisions had emphasized the emergency nature of the general clause of section 91. The two decisions of 1937 now being reviewed made it finally clear that this general power was operative only in temporary and overwhelming emergencies such as war, pestilence or famine.

The Canadian dilemma over social legislation was thus sharply outlined. The constitution forbids the Dominion to establish uniform labour legislation of general application and, despite the unrestricted taxing powers of the Dominion, the possibility of framing any contributory social insurance scheme of nation-wide extent which could be validly enacted by the Dominion, is open to the gravest doubt.

Temporary evils of great magnitude may be grappled with by Dominion legislation under the general clause of section 91 but an enduring and deep-rooted social malaise, which requires the mobilizing of efforts on a nation-wide scale to deal with it, is beyond the power of the Dominion unless it is comprised in the enumerated heads of section 91. Generally, therefore, the power to deal with these pressing social questions rests with the provinces. But this makes it very difficult to secure the uniformity of standards which are desirable in many kinds of social legislation. Moreover, the provinces are limited in their access to revenues by the financial settlement of 1867 (and in practice by Dominion taxation in the same fields) and many of them are unable to carry the financial burden involved.

Of course, these difficulties had been encountered in practice long before the Privy Council decisions of 1937. Over a period of twenty-five years, several attempts have been made to overcome them by the method of Dominion conditional grants of financial assistance to the provinces. In various matters where uniform governmental action was deemed desirable in the national interest, the Dominion has made grants available to the provinces for special purposes on condition that the province undertake the work and maintain certain standards, designed to secure a fair degree of uniformity across the country. The Dominion has tried to secure sufficient control over the administration of the particular activity by the provinces to enforce the maintenance of the desired standards. This has involved very substantial efforts in administrative co-operation between the provinces and the Dominion. The results obtained from this co-operation are far from reassuring. The experience gained from these efforts will be discussed later.

The fifth Dominion enactment to be held ultra vires by the Privy Council in 1937 was the Natural Products Marketing Act. It provided for regulation of the marketing and distribution of natural products by a Dominion Marketing Board. The Board was given power, under certain conditions, to determine the time and place of and the agency for marketing as well as the quantity, quality and grade of any natural product which was to be allowed to be marketed at any time. The Act was to be applicable to a particular natural product only when the principal market for it lay outside the province of production or when some portion of it went into export trade. When these conditions were satisfied, the regulations contemplated by the Act were applicable to all marketing transactions in the particular product, including those which were finally completed within the province of production. In other words, the Act was applicable to some portion of purely intra-provincial trade as well as to interprovincial and export trade.

The Privy Council found this measure to be beyond the power of the Dominion parliament because the federal power to regulate trade and commerce under section 91(2) did not extend to the regulation of trading transactions completed within a single province. This ruling confirmed earlier decisions on the meaning of the phrase, "regulation of trade and commerce". Whatever its exact scope, it was confined to interprovincial and international aspects of trade. According to rulings of the Privy Council, it does not justify the regulation of the financial practices of insurance companies, nor general regulation of the grain trade through a system of licences. It does not cover prohibition of trade combinations and regulation of the supply and price of the necessities of life. Nor do compulsory provisions for investigating industrial disputes come within its terms.

In each of these Dominion attempts at economic regulation just referred to, the common defect was that each involved an interference with trades and businesses carried on within a single province and was not applicable merely to interprovincial or international aspects of trade and commerce. Although the exact scope of the phrase "regulation of trade and commerce" is not yet clear, it is settled that it does not cover the regulation of purely provincial trades, businesses and business transactions. Power to establish such regulations belongs exclusively to the provinces. On the other hand, it is equally clear that the provinces have no power to regulate interprovincial and export trade. The Privy Council ruling of 1937 holding the Dominion Natural Products Marketing Act invalid emphasized again the fact that the power to regulate economic life is divided between the provinces and the Dominion, and that neither one can encroach upon the sphere of the other.

It should be pointed out by the way of caution, however, that the Dominion, relying on other heads of section 91, has a considerable power of economic regulation. It has some power of control over the operations of companies with Dominion charters which are, in substance, its own creatures and, therefore, in some degree,

subject to its supervision. By use of its power to declare local works to be for the general advantage of Canada, it has been able to exercise effective control over the grain trade. As was confirmed by the Privy Council in one of the references concerning the social legislation of 1935 which is not specifically discussed here, the Dominion Parliament, under its power to enact the criminal law, has power to prohibit economic practices (e.g. certain kinds of trade combinations), provided the courts are satisfied that Parliament has acted in good faith in stigmatizing them as criminal offences and is not "using the criminal law as a pretence or pretext" to encroach upon provincial powers. Under other specific powers, the Dominion has extensive control over banks and monetary matters, bankruptcy, railway and air transportation, shipping and interprovincial communications. In other fields and other circumstances, however, it cannot go beyond regulation of the interprovincial and international manifestations of business activity.

While the desirability of the sweeping kind of regulation contemplated by the Natural Products Marketing Act is the subject of considerable controversy, the pronouncement of its invalidity by the Privy Council confirmed earlier doubts about the validity of several much less drastic Dominion measures relating to marketing, which were generally agreed to be desirable. Several Dominion statutes had set up compulsory grading legislation on a nation-wide scale for a variety of natural products. From time to time, most of the provinces had sought to cure any possible constitutional defects of these Dominion enactments by enabling legislation designed to authorize the Dominion to impose its grading regulations on purely provincial transactions. In 1935 and 1936, several provincial Courts of Appeal held that this enabling provincial legislation, in the form in which it came before them, was invalid, being an unconstitutional delegation of power to the Dominion.

The delegation of power by a province to the Dominion and vice versa would be a useful device for overcoming, in practice, the difficulties which arise from the division between the provinces and the Dominion of legislative power over many complex economic activities. Unified control and administration in the hands of a single government is sometimes desirable but it is very doubtful whether, as the constitution stands at present, the delegation of legislative power is constitutionally possible.

Such a power of delegation would give the constitution a flexibility which might be very desirable. With the present degree of economic integration on a national scale, it is extremely difficult for either the Dominion or a province to frame legislation which will deal separately and effectively with the local or with the interprovincial aspects of business activity, as the case may be. When natural products are assembled for national or international markets and the manufacturing and distributive trades operate on a nation-wide or international scale, most of the large important trades and businesses are engaged at the same moment in both

intra-provincial and extra-provincial activities. These activities are so intertwined that it is difficult to isolate purely intra-provincial activities so as to apply provincial regulations to them and equally difficult to select the interprovincial activities and foreign activities which are subject solely to federal regulation.

For example, the grading of natural products, in order to serve its purpose, should be done when the product passes from the producer into the hands of the dealer, but it is frequently impossible at that stage to tell whether the particular lot of produce is destined for intra-provincial or for interprovincial or export trade and, therefore, impossible to say whether provincial or federal regulations should be applied. In the absence of a power to delegate legislative authority and control to a single government in such situations, the only alternative where comprehensive regulation seems desirable is a scheme of joint Dominion and provincial legislation and administration. For reasons which are noted later, such schemes have inherent weaknesses which can be avoided by delegation of legislative power to a single authority.

Several situations have arisen where regulation is admittedly necessary but the constitution divides the power of regulation between the provinces and the Dominion. The case of the marketing of natural products has already been noted. The fact that the ownership of inland fisheries goes with the public domain to the provinces while the Dominion has the ownership of the seacoast fisheries and the full power of regulation over all fisheries has caused some confusion. The Dominion has power to enact compulsory legislation concerning industrial disputes in industries over which it has a comprehensive general power of regulation, such as interprovincial railways. The provinces have power generally to legislate respecting industrial disputes and, therefore, situations may arise where two or more governments are concerned in the settlement of a dispute. In each of these cases, efforts have been made in the past to surmount the difficulties by delegation of power but they are now either embarrassed or being abandoned owing to the dubious constitutionality of the device.

Power to regulate the financial practices of insurance companies does not belong exclusively either to the Dominion or to the provinces. The Dominion has power to regulate companies with a Dominion charter. The Dominion also exercises supervision over British and foreign insurance companies doing business in Canada. The constitutionality of this practice is not beyond doubt. On the other hand, the provinces have the power to regulate the activities of all insurance companies carrying on business with the province. As a result, separate and overlapping systems of Dominion and provincial supervision have grown up causing duplication of government machinery and unnecessary expense and inconvenience to insurance companies.

By way of summary then, the constitution as it stands today divides the power of regulating economic activity between the provinces and the Dominion. A great deal

of the business activity of today is national in its scope and cannot be easily divided into intra-provincial and extra-provincial aspects for the purpose of regulation which may seem desirable. The delegation of legislative power by a province to the Dominion and vice versa, which would make possible a unified authority without any drastic amendments of the constitution increasing the power of the Dominion, is of doubtful constitutionality. Furthermore, the present division of legislative power under the constitution throws the main burden of modern social legislation on the provinces. The support of such legislation has become one of the heaviest financial charges which governments are obliged to meet. The division of taxing powers which gives the Dominion unlimited access to sources of revenue and restricts the provinces to a limited number of sources is discussed elsewhere. The scope of the provincial power of taxation as explained by Privy Council must be considered briefly here.

Interpretation of Provincial Taxing Powers

Section 92 (2) gives the provinces power to levy "direct taxation within the province". Also, under section 92 (9) "shop, saloon, tavern, auctioneer and other licences" may be imposed for the purpose of raising revenue. The scope of section 92 (9) is not yet entirely clear. It is not entirely certain whether indirect as well as direct taxation is authorized under this head nor whether licences may be imposed on any kind of business activity or only on a limited genus of which those specifically mentioned are examples. It is not highly important for purposes of this chapter because the great source of provincial revenues is direct taxation under section 92 (2). But if our recommendations (made in Book II) for the transfer of taxes are implemented, it would be very important that the scope of the power to raise revenue by licence fees should be clearly defined.

In an earlier chapter the criterion of direct taxation adopted by the Privy Council was discussed. The rule laid down in the case of *Bank of Toronto v. Lambe* in 1887 that "a direct tax is one which is demanded from the very persons who it is intended or desired should pay it" has been explained and amplified in later decisions. In substance, it has been held that a provincial legislature, in levying a tax, must intend the natural consequences of its action and, therefore, "it is the nature and general tendency of the tax and not its incidence in particular or special cases", which determine whether it is a direct tax within the power of the provinces to levy. Accordingly, if in the normal course of events, the burden of the tax is likely to be shifted to others by the person who is required to pay it, the tax is indirect.

The result of the application of this rule has been almost entirely to prevent provincial taxation on industrial production and wholesale turnover and to limit the productivity of provincial taxation by restricting it, in the main, to levies on the ultimate consumer. A percentage tax on the gross revenues of mining enterprises is an

indirect tax. So is a tax payable by the first purchasers of fuel-oil after its manufacture or importation. So also is a tax levied on sales of grain for future delivery. On the other hand, a tax payable by the consumer of fuel-oil according to the quantity consumed is a direct tax. Thus the familiar gasoline tax and the retail sales taxes found in some provinces are direct taxes within the power of the provinces because, by making the retailer the agent of the government for purposes of collection, they are deemed to be levied directly on the consumer who cannot naturally and easily shift the burden of them to others.

Fortunately for the yield of provincial taxation the provinces have been able to go beyond taxes on consumption in the corporation taxes and succession duties. The validity of a corporation tax as a direct tax was upheld in 1887. A province has power to levy a tax on any corporation which is exercising its powers within the province. The so-called succession duties which, in most provinces, are, in part, probable duties levied on property as such and in part, legacy duties levied on the transmission of property from the deceased to beneficiaries are validly imposed by the provinces under certain conditions.

A probate duty is a direct tax but the provinces, being restricted to taxation "within the province", can levy only on that portion of the property of the deceased which is found within the province. A legacy tax, or succession duty proper, satisfies the test of "direct taxation within the province" when levied on beneficiaries domiciled or resident in the province in respect of the transmission of property to them by virtue of the law of the province. Under certain conditions, the province, by taxing the transmission of the property to a beneficiary domiciled or resident within the province rather than the property itself, is able to impose, in substance, a tax upon "movable" property situated outside the province.

Under certain circumstances, provincial succession duty can reach property in another province. With two exceptions, all the provinces do extend their succession duties to property in other provinces. At the same time, they all levy a probate duty on property situated in the province. Thus estates of deceased persons are subjected to the inequity of double tax whenever "movable" property belonging to the estate is found in more than one province. Long efforts by the provinces to eliminate double taxation of estates by agreement have broken down completely under the stress of the depression.

Disallowance of Provincial Legislation

Before concluding this review of the constitution as it works today, it is necessary to refer to the present status of the federal power of disallowing provincial statutes. Although the scope of this power given by the British North America Act is legally unlimited, except as to time, it has been recognized from the beginning that it should be used with circumspection and in accordance

with some guiding principles. The principles relied on by the Dominion Government in the exercise of disallowance have varied from time to time and it is, therefore, impossible to state them with precision. There has been no such consistent and unbroken practice as would be necessary to establish a constitutional, or conventional, limitation on the exercise of the power. There is reason for thinking that it will not again be used as freely as it was during the first thirty years of Confederation but this cannot be stated with finality.

As we have remarked earlier, the Dominion made very extensive use of the power of disallowance between 1867 and 1896. Not only was provincial legislation disallowed on the grounds that it was ultra vires or in conflict with Imperial or Dominion interests or policies. Provincial legislation might also be struck down on a ground which had great potential scope, namely, that it was inequitable and unjust. From 1896 to 1911, the Dominion Government consistently disavowed this last ground as a sufficient reason for exercise of the power. After 1911, there was a tendency to reaffirm the propriety of disallowing provincial legislation which the Dominion Government thought to be inequitable and unjust but this ground was actually relied upon in two cases only, arising in 1918 and 1922.

The power of disallowance was in complete abeyance from 1924 until 1937 when it was used against a number of Alberta statutes. Again in 1938 and in 1939, Alberta legislation was disallowed. Apart from showing that the power of disallowance has not become generally obsolete, the recent use of it does not throw any new light on its scope. Most of the eight Alberta statutes disallowed since 1937 were invasions of the federal field of legislation, conflicting with the interests and policies of the Dominion. However, among the reasons given for disallowance of two of these statutes, specific reference was made to the injustice of the confiscations which they proposed and to their discriminatory character.

Thus it is quite impossible to regard disallowance on grounds of inequity and injustice as obsolete. It is true that in declining to disallow the so-called Padlock Law of Quebec in 1938 the Government disclaimed any intention to review the policy of provincial legislatures acting within their own field of competence. It is also true that in the Alberta cases, the distinct ground of interference with Dominion policy and interests was available in each case and relied on. But the only inference to be drawn from the recital of the unjust, confiscatory and discriminatory character of legislation is that these qualities are relevant to the use of the power. Nevertheless, the whole trend indicates a lessening use of the power. Up to 1900, 72 provincial acts were disallowed while only 35 have been disallowed since that time. It seems unlikely that disallowance on grounds of inequity and injustice will ever resume the importance it had prior to 1896.

It must be remembered also that in 1867, the world had had little experience of widespread democratic suf-

frage and much thought was expended on finding ways to prevent legislatures from abusing their powers. In that temper of affairs, whatever may have been the special reasons for inserting the power in the Canadian constitution, there is little wonder that it was extensively exercised. As time went on, confidence in the self-restraint of democratic legislatures increased and willingness to accept their measures with resignation also grew. In other words, the principle of legislative sovereignty is more fully accepted now than it was in 1867. The decisions of the Privy Council that the provincial legislatures are sovereign in their own sphere have operated to secure for them also the benefit of this acceptance. Consequently, the trend towards a narrower use of the power is likely to be sustained, although it is impossible to say that a different policy would not be adopted in special circumstances.

Difficulties of Divided Jurisdiction

At two points in particular, the division of legislative powers has led to attempts at close co-operation between the Dominion and the provinces. First, where the financial resources of the provincial governments are not commensurate with their legislative powers and consequent responsibilities for maintaining desired social services, the Dominion has made money grants to the provinces to assist in the maintenance of such services. Hoping to ensure the nation-wide maintenance of certain minimum standards in the assisted services, the Dominion imposes certain conditions on the grant and conducts a periodic inspection of the service given by the province. Hoping to hold the provinces to careful stewardship of funds which they do not themselves raise, the Dominion supplements its inspection activities with a detailed audit of provincial expenditures. Agreements as to the conditions on which the provinces are to undertake and the Dominion is to assist such services must be made at the political level. Federal officials are constantly investigating specific activities of provincial officials at the administrative level. Disagreements at either level may prejudice Dominion-provincial relations.

Second, in the field of economic regulation, where legislative power is divided, the Dominion and the provinces have made some attempts at co-operation, particularly in establishing nation-wide regulations for the grading of agricultural products. As first a device was used which, in substance, amounted to a delegation of power by the provinces to the Dominion enabling the Dominion to impose grading regulations on all transactions. However, after doubts arose as to the constitutionality of this practice, the provinces began to meet the problem by enacting the Dominion grades and regulations as provincial legislation and appointing Dominion inspectors and officials to act as provincial officials. Whereas the device of delegation was a very simple arrangement for unifying the administration of grading regulations in the hands of a single government, the new method involves the continuous co-operation of ten legis-

latures and ten governments in joint administration, making necessary a higher degree of sustained harmony and agreement.

These co-operative ventures are opening a new chapter in Dominion-provincial relations. A certain minimum of co-operation is always necessary if separate governments are to share in governing the same area and the same people. The original purpose of the constitution was to set up a sharp division of powers enabling each government to manage separately without interference the affairs allotted to it and to reduce all intergovernmental difficulties to a question of power and legal competence. Because different governments were likely to disagree from time to time about the extent of their respective powers, such questions are always referred to the courts for their final determination as independent and impartial bodies. The co-operation required between governments in these circumstances was mainly of a negative character; each should abstain from interfering with the others.

But Dominion and provincial governments are now embarked on the joint administration of projects which require positive and constructive co-operation if they are to be carried out efficiently. Two separate governments, neither one of which has any authority over the other, must agree on objectives, on the means of reaching them, and on the daily application of these means to new situations. However, there are always a number of issues on which the interests of the Dominion and those of the separate provinces do not run side by side. These differences in interest lead to disagreements which cannot be solved by appeals to the courts because they do not involve questions of formal constitutional power at all. They are disagreements about matters which the constitution intended that the appropriate government should handle separately in its own way.

Accordingly, if the co-operative projects are to be continued, the governments involved must be their own arbitrators. Arbitration conducted solely by the interested parties leads to delay and sometimes to deadlock which is ruinous to administrative efficiency. It always leads in the end to a compromise. While compromise is inherent in the political process, it is rarely conducive to good administration. The evolution of political policies within the framework of the constitution is leading to joint activity between the Dominion and the provinces. This contrasts sharply with the original conception of federalism as a clear-cut division of powers to be exercised separately, and experience indicates that it is injurious both to sound public finance and to efficient administration. The problems raised by joint administration of activities where jurisdiction is divided between the provinces and Dominion may now be pointed out. The first step in any scheme of co-operation must generally be taken by the legislatures concerned. As indicated above, the divided legislative powers over the subject matter in question could be pooled by one legislature delegating its share of power to the other if the constitutionality of such an expedient had not been rendered

doubtful by the courts. If it were constitutionally possible and the province or Dominion, as the case may be, were willing to delegate its powers in the specific instance, the act of delegation would complete the co-operation required. The legislature receiving the powers could then establish its regulations and provide for their enforcement just as if the entire matter had originally been within its jurisdiction. In such a case, no joint administration by province and Dominion would be involved and as long as the legislature delegating its powers was satisfied with the results obtained, through vicarious use of its powers, no further action by it would be required.

In the past, the Dominion and provincial legislatures have had no serious difficulty in agreeing on this kind of co-operation. Nation-wide schemes for the compulsory grading of natural products under the administration of the Dominion Government were set up and the provinces purported to extend the Dominion Industrial Disputes Investigation Act to disputes entirely within the jurisdiction of the provinces by essentially similar devices. The administration of the legislation was placed in the hands of a single government and the difficulty arising out of the division of legislative power over the subject matter was surmounted. The constitutionality of this procedure was, however, challenged by the courts in 1935. As a result, the provinces have begun to abandon this method in favour of a more complicated one which escapes the constitutional difficulty but which involves joint administration. The new device requires that the province should enact legislation in substantially identical terms with that of the Dominion but covering intra-provincial as distinct from interprovincial and export transactions. To be specific, in legislation providing for the compulsory grading of natural products, the province enacts the Dominion grades and regulations for enforcement and then appoints the Dominion graders and inspectors as provincial officials to enforce the provincial as well as the federal legislation.

Close and continuous co-operation is necessary for success under this device. Any needed revision in the detailed regulations or definition of grades must be made by both the provincial and Dominion authorities concerned. They must be able to agree on the need for change and the exact nature of the change required. Moreover, the graders and inspectors are now subject to the control of two masters, the Dominion and provincial departments concerned. The intention, of course, is to leave the initiative and the general control of administration of grading legislation to the Dominion and thus far in the limited experience of the new device, this has been the practice. However, it can only be a matter of time until it is discovered that the principles of responsible government are being flouted when provincial legislation is administered by officials who get all their instructions from Ottawa. Administration will then become joint in substance as well as in form.

Thus far, activities jointly administered by the Dominion and a province have not been of any signifi-

cant magnitude or duration in Canada. As already remarked, however, the present division of legislative power and the present trend towards greater governmental regulation are rapidly leading in that direction. Although direct Canadian experience of joint administration is not available for assessing its probable efficiency, an appeal can be made to twenty years of experience in the administration of conditional grants in Canada. It has already been pointed out that, in the conditional grants made by the Dominion to the provinces to assist specific services, the Dominion attempts, by supervision and inspection of the provincial administration, to ensure that the grant is being properly applied to the purposes for which it was given. This involves a form of co-operation approaching joint administration and raises most of the problems involved in it. Before considering the manner in which conditional grants have worked in Canada, it is important to state some general considerations bearing upon all co-operative efforts in administration by separate governments. One of the principal differences between government and business is that the objectives and policy of government, in democratic states, at any rate, are generally arrived at as a result of bargaining and compromise among a wide variety of interests concerned. But once a policy is agreed upon, it is a maxim of all good administration that concerted effort in pursuit of the policy should not be frustrated by a multitude of counsel on the best means of arriving at it.

In business, unity of effort is secured by having a single manager responsible for administration as a whole. The Constitution of the United States aimed to reach the same result by concentrating all executive authority in the hands of the President. In the cabinet system of government, the conventions requiring unanimity and imposing collective responsibility are designed to secure a similar co-ordination of all administrative action.

Where the Dominion and the provinces co-operate in the execution of a single policy, there is no single authority which can impose its will and decide what daily action shall be taken in pursuit of objectives. The Dominion and the provinces occupy exclusive spheres of power in which no one can over-ride the others. If unity and harmony of administration are to be maintained, it must be through voluntary agreement between Dominion and provincial personnel on the best means of advancing the policy. And this agreement must be reached without delay and without serious compromise watering down the vigour of the measures employed.

It is one thing to get a legislature willing, at a single moment of time, to delegate some portion of its powers. Once the act of delegation is complete, it is not likely to reconsider its action until administration by the authority to whom the power was delegated becomes highly unsatisfactory. It is a quite different matter, however, to get sustained unanimity on the minutiae of administration from day to day. There are two main reasons for thinking it likely to break down from time to time.

It is no criticism of higher government officials to say that they generally like to extend the sphere of their authority. Like everyone else, the energetic official must try to express his personality in his work. He must try to prove the correctness of his ideas by putting them into practice and, in this way, prove himself to his superiors. Quite naturally, he wants credit for successful administration and he, therefore, cannot acquiesce in methods and practices which he thinks are prejudicial to it. In the nature of things, there are forces making for rivalry between Dominion and provincial officials who are co-operating in joint administration. Honest differences of opinion quite unconnected with personal ambitions are often sufficient to bring them into disagreement. Sooner or later, the incompatibility of their ideas or their ambitions are likely to lead to different views on administration. Such rivalries and differences of opinion have prejudiced Dominion-provincial co-operation in many instances in the past. They are to be found between officials within a single government where it is only the unified control of administration in the hands of the cabinet which prevents them from seriously impeding administration. Officials testify to their existence by saying that success in Dominion-provincial co-operation in administration depends entirely upon "personalities".

Secondly, in joint administration the officials in the provincial department concerned are responsible through the minister to the provincial legislature, while the federal department is likewise responsible to Parliament. Politics and administration are closely linked by the cabinet system. The Government of the Dominion, and the government of a province, as is well known, may be at odds over some question of policy. On occasion there are genuine conflicts of interest between the Dominion as a whole and one or more provinces. Moreover, where active administration affects the interests of particular persons or groups, representations are made by them to the government of the day, which is some times constrained, as a result, to intervene in administration on political grounds. Thus there will be a tendency for joint administration to get entangled in political issues. Where both Dominion and provincial politicians have access to administration, there will be constant danger of Dominion-provincial political friction being transmitted to areas of joint administration.

There is no occasion to be critical of political differences between the Dominion and a particular province. It is the duty of a provincial legislature and government to pursue the interests of the province as they conceive them to be, just as it is the duty of Parliament and the Dominion Government to push forward what they believe to be the national interest. These apparent conflicts of interest can scarcely be avoided. But they should be fought out in the political arena and not permitted to engage one another in the sphere of administration where they will destroy vigour and efficiency.

In the United States the cabinet system of government is not used and members of the legislature cannot

intervene in daily administration. Thus administration is, in a considerable measure, insulated from politics. Accordingly, joint administration of projects by federal and state governments escapes one of the serious difficulties to which it is exposed in Canada. It is dangerous therefore to argue from experience in this field in the United States.

These general considerations do not apply with equal force to all kinds of joint activity. In activities which can be largely reduced to a number of routine operations and which do not have to wrestle constantly with new situations and new problems, the danger of differences between officials is considerably less. The same is true of activities which consist mainly in the application of scientific standards. To some extent, the discipline of science compensates for the lack of a discipline imposed by a single superior and the recondite nature of the problems which arise tends to withdraw the activity from the intrusion of political differences between the provinces and the Dominion.

Limitations of Conditional Grants

On the whole, however, these general considerations suggest that joint administration by Dominion and provinces is not likely to be very satisfactory. The history of the administration of conditional grants in Canada points in the same direction. From 1912 on, the Dominion has made grants of money to the provinces for specific purposes on specified conditions. Grants for assisting agricultural instruction, highway development, technical education and control of venereal disease have expired and have not been renewed. Grants for employment offices, old age pensions and unemployment relief are still being made. The activities being assisted are in each case within the constitutional power of the provinces and accordingly they are administered primarily by the provinces. As indicated earlier, the Dominion agrees to give financial aid to a provincial service provided the province spends equivalent or specified sums on it and maintains certain standards in the service rendered. Thus it is necessary for the Dominion and the province to agree upon the standard and the means of reaching it. The agreement is embodied in a set of regulations which are to govern administration and the claim of the province to Dominion financial assistance depends on the observance of these regulations. In an attempt to ensure careful application and substantial observance of the regulations, the Dominion government audits provincial expenditures on the assisted service and, where feasible, measures performance against the standard by supervision and inspection.

Such administration is, in a sense, joint. Dominion auditors and inspectors check provincial accounts and the actions of provincial officials, while provincial officials are obliged to get the approval of federal officials if there is to be no interruption in payments of the federal grant. Disagreements between the two sets of officials involved cause delay and confusion and lower the effi-

ciency of administration. We are convinced that, on the whole, the administration of the services assisted by these conditional grants has fallen far short of reasonably good administration. The basic reasons for this failure are the two set out above in general criticism of joint administration.

To decide whether particular payments have been properly made or whether provincial performance comes up to the agreed standard, it is necessary to interpret the regulations which define the conditions on which federal assistance is granted. Dominion and provincial officials frequently disagree about the meaning of the regulations. General rules are never entirely clear in their application to particular cases and most of the disagreements are genuine honest differences of opinion as to how the activity should be carried on in cases where the regulations are not entirely clear. It is true that the disagreements arise in a relatively few cases but since there is no single superior authority to resolve them, they are enough to cause delay, and may generate friction which spreads through the administration, and generally reduces efficiency.

The difficulty is that in many of the activities assisted by conditional grants it is impossible to find a clear-cut standard which can be applied automatically in measuring performance. Really objective criteria are hard to find in human affairs and where the measuring-rod cannot be applied automatically, it leaves room for difference of opinion. It is inevitable that federal inspecting and auditing officials should be primarily concerned with protecting the Dominion treasury while provincial officials engaged in active administration of the service are concerned with seeing that it meets what they conceive to be the needs for which it was established. Where there is room for difference of opinion, this difference in interest and purpose causes disagreements to emerge.

Federal officials cannot insist directly upon their interpretation of the regulations by giving orders to provincial officials in the field. Provincial officials must take their orders from the provincial government and not from federal auditors and inspectors. Thus disagreements in the field are referred back to higher officials and ministers in Ottawa and in the provincial capitals, and questions of administration become the subject of diplomatic interchange between governments, involving long delays in their settlement.

When administrative questions rise to the political level, they tend to become entangled in political issues and to be treated as such. Nowadays Dominion and provincial policy impinge upon one another at many points. When, as a result of this fact, sharp differences emerge between the Dominion and a province, there is grave danger that the difficulties of joint administration will be intensified. The intrusion of politics in administration is always unfortunate but it is doubly so when a single government activity or service is disturbed by both federal and provincial politics.

In pointing generally to the difficulties in the administration of conditional grants, there is danger of creating false impressions. It must be emphasized that the exasperations noted are not found in all provinces nor at all times. If they were, conditional grants would never have survived their launching. But they occur with sufficient frequency to cause waste, friction and delay. Nor are they due to the perversity of officials and politicians. The federal scheme of government was devised precisely because of the lack of complete identity of interest between the whole and the component parts. Where differences of interest exist they become manifest simply through officials and politicians doing their duty. If these differences cut across fields of co-operative activity, they inevitably have a prejudicial effect.

Those who favour conditional grants as a means of overcoming constitutional difficulties are aware of the objection frequently made that governments which spend public money ought to be fixed with full responsibility of raising it. They argue that this objection is overcome and adequate control over provincial administration secured in two ways. In the first place, the grant is made for a particular purpose and the Dominion can define exactly what that purpose is. Then by supervision and inspection, it can determine whether provincial administration complies with the terms of the grant. If not, disallowances and deductions from the grant can be made as a penalty and a warning for the future. Secondly, if this sanction is not effective, the entire grant may be withheld until defects are remedied.

This argument ignores certain stubborn difficulties. In the first place, we have already pointed out that in many of the services assisted by federal grants it is impossible to devise exact standards for measuring performance. Opinions differ as to what amounts to an earning of the grant and disputes arise. Federal auditors may disallow particular provincial expenditures as not being authorized by the regulations. Because there is generally room for difference of opinion, the province does not normally acquiesce in such action. In resisting a disallowance which it considers unfair, the province feels justified in bringing pressure on the Dominion. As the province is in full control of administration, there are generally a variety of expedients which it can adopt to inconvenience or prejudice the Dominion. Thus the Dominion is obliged to be very chary of disallowing expenditures except in very flagrant cases which, of course, are rare.

Moreover, in most cases, federal audit of provincial expenditures cannot go to the root of the activity. To determine independently the correctness of all provincial expenditures on an aided activity, it would be necessary to duplicate provincial field staffs. Such duplication of staff cannot, of course, be contemplated and federal audit is generally confined to a review of the documents and vouchers on file. Occasional test investigations by way of sampling are made and complaints of serious abuses investigated. We do not suggest that there is any need to inquire into the honesty of provincial administration but there may be occasions when its vigilance in

these assisted activities is not as rigorous as if the province itself raised all the funds expended on them. In any case, federal audit and supervision cannot go to the root of these activities.

Secondly, the power of the Dominion to withdraw the grant from a province which fails to conduct its administration in accordance with the conditions imposed on the grant can rarely be exercised in practice. The Dominion assists particular provincial services because they further some important national interest. Withdrawal of the grant to discipline a province must be at the expense of the national interest in question. Furthermore, it is a very serious matter to say that a provincial administration is so bad that assistance must be withdrawn. Obviously no Dominion Government could come to that conclusion about a provincial government of its own political stripe. And a Dominion Government would scarcely dare to withdraw a grant from a provincial government of a different political stripe because of repercussions in the province affected.

Thus the Dominion must always hesitate long before withdrawing a grant. The provinces know this and they are not seriously impressed by threats of such action. The power to withdraw the grant is not an effective sanction except against the most flagrant of abuses. Experience shows that where flagrant abuses have been brought to light, the province in question has hastened to correct them. In the prosaic but much more common cases, where administration is hampered by honest and reasonable differences of opinion, withdrawal of the grant as a means of resolving such differences is out of the question.

On these grounds we are satisfied that, for permanent purposes, the conditional grant, as it works under Canadian conditions, is an inherently unsatisfactory device. It may be used in some special cases and for some limited purposes, as we shall indicate later. But in most activities we believe it to be more costly than if the service in question were financed by a single government. It unquestionably leads to delay and to periodic friction between Dominion and provincial governments.

The experience with conditional grants leads us to doubt whether joint administration of activities by the Dominion and a province is ever a satisfactory way of surmounting constitutional difficulties. Where legislative power over a particular subject matter is divided, it is ordinarily desirable that these powers should be pooled under the control of a single government in order to secure unified effort in administration.

INTRODUCTION

In the course of our work we have come to appreciate as never before the achievements of the Fathers of Confederation. Not only did they devise an instrument of government which has successfully withstood the test

of seventy years of rapid and in large part quite unpredictable change, but they secured assent to the adoption of this instrument under circumstances which, in the minds of some, have given it the same sort of sanctity that the most solemn treaty might possess. By their achievements they laid the foundations of national unity and of the federal system, both of which our instructions enjoin us to respect. It is our hope, and we venture to say our confident expectation, that they accomplished these great things without laying on future generations the dead hand of the past, and that they transmitted to us a constitution capable of development, not only through judicial interpretation but through amendment as well to meet the new situations and problems which were bound to arise incidental to the vast and unforeseeable changes which lay before the people of Canada seventy years ago.

Canadians are so proudly conscious of the national unity which they have achieved, and so respectful of the federal system that has made this unity possible that there may be some danger of their thinking of national unity and of the federal system in the abstract as having some special merits which make them desirable in themselves. We have endeavoured to keep before us at all times the goal of human welfare which should determine the character both of political and economic systems. We are fully alive to the importance of maintaining, and of expanding as rapidly as possible, the national income which is woefully inadequate for the standards of well-being which Canadians have come to adopt. It is this need for a larger national income which has governed us in the recommendations which we have made for simplifying our financial system, for carrying as economically as possible the great burden of public debt, for co-operation in the direction of future governmental investment through borrowing, and for eliminating those features of our fiscal system which involve a high cost of tax compliance or which have a marked tendency to check investment and so to reduce employment.

But it is not merely an expansion of the national income which is needed. If welfare is to be achieved the national income must be better distributed and a greater measure of social and economic security must be provided for those in low income groups. We have not, of course, attempted to lay down a pattern for social legislation in Canada, but we have, in accordance with our instructions endeavoured to clear the way for the sort of legislation which seems probable in the future by making recommendations concerning the responsibility for enacting or withholding it.

The problem of the prevention of unemployment, and in so far as it cannot be prevented, of the relief of its victims, is of outstanding importance both as regards the size of the national income and as regards its distribution. In seeking the highest possible national income we must seek conditions under which full employment of the whole labour force of the nation will occur, and the distribution of the national income is most satisfactory when the incomes of the able-bodied take the form of adequate wages for work done.

There is a second aspect of the distribution of the national income which is of great importance in a federal system, and of particular importance in Canada. The unequal distribution of the national income as between the people of different regions may excite feelings quite as dangerous to national unity as those aroused by gross inequalities between different income groups. The provision of a national minimum standard of social services in Canada cannot (without complete centralization of all social services) be divorced from the assurance to every government of Canada of the revenues necessary for the adequate performance of its recognized functions. This assurance, which the Fathers of Confederation were able to give by means of a system of subsidies and debt allowances financed by taxation that was national in character, is infinitely harder to give now that the recognized functions of provincial governments have become far larger than they were in 1867. We have attempted to compute what the financial balance of each provincial government (and its municipalities) would be with taxation at the national average and after making provision for services of at least national average quality.

In giving this special prominence to economic aims we have not been forgetful that any nation worthy of the name will have other and, in a sense, higher aims as well. Economic aims have of course a moral aspect, and crusading zeal to assail evil social conditions, high rates of sickness and death, poverty, illiteracy and bad housing, cannot be considered as crudely materialistic. But these higher aims are in no danger of conflicting with economic aims unless, of course, they are pursued with a reckless disregard for the necessity of maintaining the national income which is in the long run essential for their achievement.

But there are other aims less closely intertwined with economic well-being. In Canada, whether we speak of personal freedom and democracy, or of preserving the healthy mean between too great liberty for the individual and too great authority for the state, we reach much the same conclusions as to one of the higher aims of the Canadian people. None of these higher aims are, in our opinion, inconsistent with the economic aims which we have discussed. We believe that the proposals which we make in this Report respect economic and moral aims alike. We make important recommendations for adjustments in the distribution of governmental burdens, and in sources of revenue necessary to meet them, but these adjustments will leave untouched the arrangements which during the last seventy years have preserved complete provincial liberty of action in spheres which are primarily cultural and social. Indeed this liberty of action will be assured even better than it is today, as the provinces will be freed from the pressure which is apt to be exerted upon them by demands for this or that social service which, it is said, can be financed only with assistance from the Dominion that would of necessity involve some supervision by the Dominion.

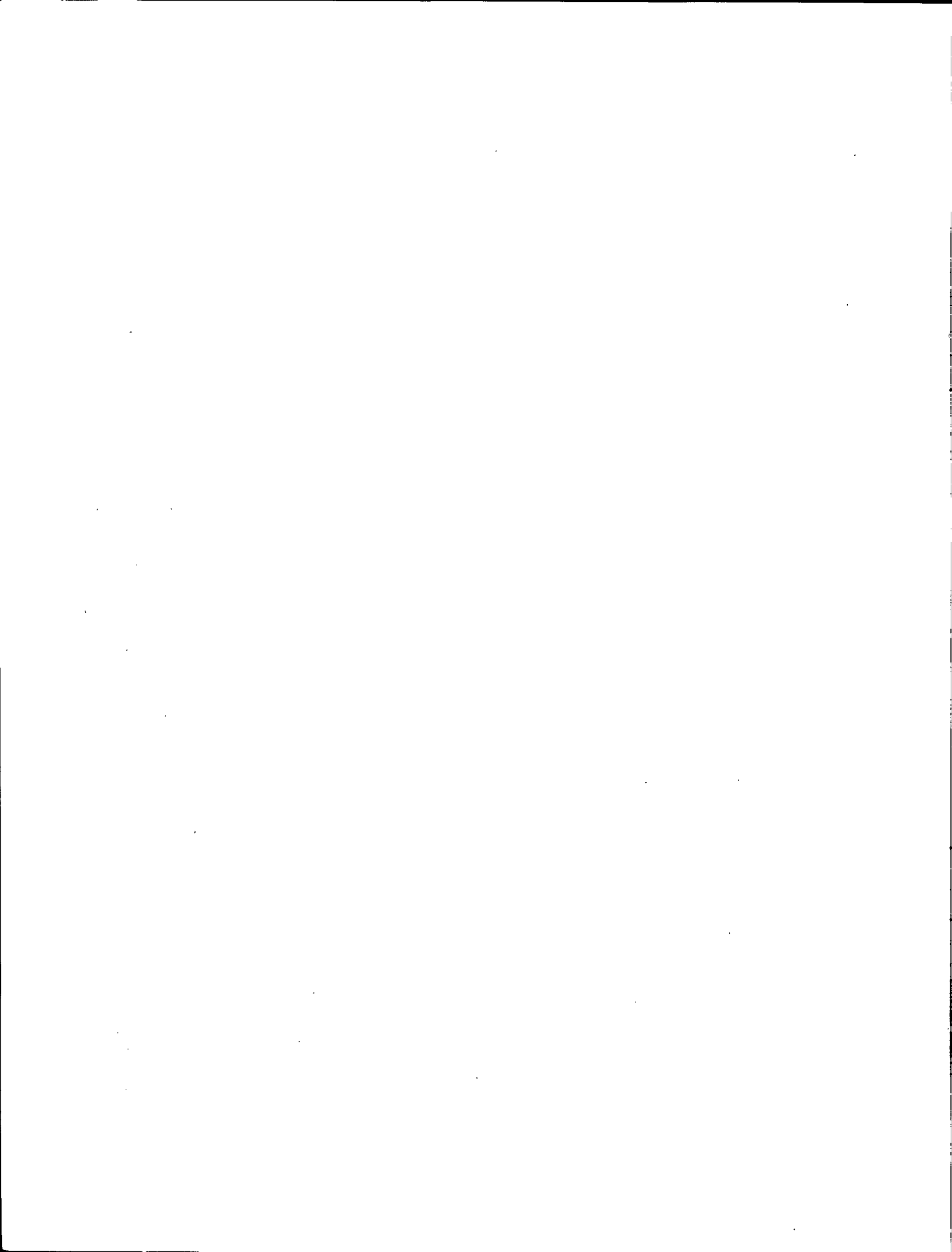
Some of the recommendations which we make throughout the Report may require amendments to the

British North America Act for their implementation. Others might not, although amendment of the Act might be the most satisfactory method of implementing them. We make no attempt to deal with the question of how amendment to the British North America Act should be brought about nor do we attempt to draft amendments, for we feel that once the general will to seek amendment exists these matters can be dealt with more effectively by others than by us.

We realize that at first sight our proposals as a whole may appear to involve bold departures from former practices. We have asked ourselves anxiously whether our proposals are politically impossible. If we are hopeful that they are not politically impossible it is because

we think that when our Report is considered as a whole the people of Canada will see that any lesser departure might lead to disastrous consequences. The present peril is serious and cannot be allowed to grow worse.

We plead most earnestly that our proposals should not be considered one by one in isolation, although we have done our best so to frame them as to withstand even this test. But we have attempted to integrate them in a comprehensive plan of a constructive character, dependent for its harmony on the observance of the general principles which we have set out, and designed to enable Canada to withstand the stresses and strains of today and tomorrow without undue peril either to reasonable national unity or to legitimate provincial autonomy.



Chapter II

FISCAL FEDERALISM, PAST AND PRESENT

The purpose of this chapter is to discuss briefly fiscal relations in a federal system of government. The discussion begins with an identification of four aspects of fiscal federalism and a review of some principles that have been advanced in connection with them. It goes on to provide a brief history of problems of:

1. revenue-sharing, or the problem of fiscal balance;
2. fiscal equalization;
3. financing provincial programs of national interest; and
4. fiscal and economic co-ordination.

On item 3, the chapter discusses in general terms only the concept and use of the federal spending power, leaving a history of federal involvement in specific programs to Annexes B-D to this chapter. Thus, this chapter provides an historical backdrop to the broad questions of public finance and economic union, while the Annexes describe the history and background of federal involvement in certain programs falling wholly or partially within provincial jurisdiction.

Principles of Fiscal Federalism

The distinguishing feature of a federal system of government is that it provides for a division of governmental powers between two orders of government, the existence of which is guaranteed by a written constitution specifying the powers of each. It is in this sense that each order of government may be said to be autonomous. In a federal system, each order of government has a life of its own: neither is subordinate to the other.

The unique nature of a federation is perhaps best understood when compared with what it is not. A federal system of government is different from a unitary system in that the latter concentrates all state powers in a single government. This is the case for countries such as France, the United Kingdom and Italy, where all powers are vested in the central government. In these countries, regional governments do exist, but they are merely 'creatures' of the central government and are, therefore, subordinate to it. A federal system is also different from an international alliance of states because the 'federated' states, while not subordinate to any higher authority, do not enjoy the prerogatives of an independent state. A federal system is thus a distinct breed. It is neither a loose unitary system nor a tightly-organized international organization. What makes it unique is that citizens who live under a federal system may participate actively and simultaneously, as electors, in an autonomous provincial government and in the broader federal state that embraces it.

In the pre-industrialized world, it was relatively easy to assign clear-cut jurisdiction to each order of government, and it was reasonable to expect each to exercise its powers without encroaching on those of the other. However, in the modern world, it is much more difficult to establish distinct jurisdictions because the various functions of government are highly interdependent and can no longer be compartmentalized as was generally the case less than half a century ago. For example, the structure of the federal government's unemployment insurance program can have important implications for income support programs administered by the provinces. Conversely, the sensitivity of provincial educational services to manpower requirements may affect future employment levels.

These examples demonstrate that the modern industrialized state is characterized by a high degree of interdependence and is in a constant state of flux. This implies that a federal system can operate coherently only if its two orders of government work in concert. The effective operation of a modern federal system therefore appears to rest on two fundamental requirements: a recognition of the autonomy of each order of government, and a need for co-operation between the two orders. These requirements, which in some ways conflict, appear to be equally important, because failure to satisfy one or the other can, in the long run, result in complete disruption of the system.

Nowhere is the need for co-operation between the two orders of government more pressing than in the area of public finance. There are essentially four broad public finance issues that must be dealt with in all modern federations. (Because they can only arise in the context of federal systems, they are often referred to as fiscal federalism issues.) These are: revenue-sharing, or the achievement of fiscal balance; fiscal equalization; financing provincial programs deemed to be of national interest; and fiscal and economic co-ordination. Examining how federations deal with these issues provides insights not only into how they actually function, but also about how they cope with the centralizing and decentralizing forces that are constantly at work within them. Put another way, the responses to these broad fiscal issues can usually tell us much about how a federation is meeting the two necessary, yet often conflicting, requirements of unity and diversity.

This chapter examines these four issues in the context of the Canadian federal experience. The last major statement of principles of fiscal federalism was made in 1966 by the Hon. Mitchell Sharp, then federal Minister of Finance:

- a) The fiscal arrangements should give both the federal and provincial governments access to fiscal resources sufficient to discharge their responsibilities under the constitution.
- b) They should provide that each government be accountable to its own electors for its taxing and spending decisions and should make these decisions with due regard for their effect on other governments.
- c) The fiscal arrangements should, through a system of equalization grants, enable each

province to provide an adequate level of public services without resort to rates of taxation substantially higher than those of other provinces.

- d) They should give the federal government sufficient fiscal power to discharge its economic and monetary responsibilities, as well as to pay its bills. In particular, they should retain for the federal government a sufficient part of the income tax field in all provinces—both personal and corporate—to enable it to use variations in the weight and form of that tax for economic purposes, and to achieve a reasonable degree of equity in the incidence of taxation across Canada.
- e) They should lead to uniform intergovernmental arrangements and uniform application of federal laws in all provinces.
- f) The fiscal arrangements should seek to provide machinery for harmonizing the policies and the priorities of the federal and provincial governments.¹

These principles were proposed in the particular context of the negotiations that led to the 1967-72 fiscal arrangements. However, some of them are expressed in terms broad enough to make them relevant to the present discussion.

The first principle is to ensure that each government has sufficient access to fiscal resources to enable it to discharge its responsibilities. It therefore relates directly to the revenue-sharing issue discussed later in this chapter.

The second principle, fiscal responsibility, holds that the government that spends should also be the government that taxes. Many of the federal-provincial discussions in the past 15 years, particularly those relating to shared-cost programs, have been influenced by this principle. In his 1966 statement, Mr. Sharp said:

... We must recognize that the continuous and cumulative use of shared-cost programs in fields of jurisdiction which are primarily provincial, would result in a greater and greater proportion of provincial budgets being devoted to programs whose costs are shared by the federal government, leading to a continuing influence on provincial decision-making. The result would be to reduce the fiscal responsibility of the provinces, and to hamper them in establishing their own priorities.²

With this in mind, and because some provinces, particularly Quebec, had expressed a desire to take full responsibility for social programs, Mr. Sharp announced the federal government's intention to propose a number of steps that were to lead to a "removal of federal conditions in respect of certain well established and continuing programmes, and the assumption by the provinces of full responsibility for them". (It was assumed, however, that the relevant programs would be continued by all provinces and that, in particular, program standards in the health field would be maintained.)

In recent years, the principle of fiscal responsibility has come to be discussed in terms of 'government visibility and accountability.' In his submission to the Task Force, the federal Minister of Finance, the Hon. Allan MacEachen, expressed concern about federal visibility, noting that the role of the federal government in financing health programs, social services and post-secondary education is not publicly recognized. He concluded his remarks by stating that:

This has implications for public accountability which should concern all members of Parliament. How can we properly account for what the federal government does with the taxpayers' money, when a very large number of Canadians are not aware that \$14 billion worth of federal expenditures really serve to finance essential provincial and local services?

To operate in accord with the principle of fiscal responsibility would, of course, call for the federal government to respond to this dilemma by withdrawing (with appropriate surrender of revenue sources) from the use of federal expenditures to finance essential provincial and local services. As noted in Chapter I, it is because a continued federal presence has seemed politically desirable—indeed perhaps essential—that it is now necessary to search for extended mechanisms of accountability for these transfers.

The third principle, relating to fiscal equalization, is discussed later in this chapter. Like the first two principles, it has been present, implicitly or explicitly, since Confederation.

The fourth principle seeks to ensure that the federal government has sufficient control over the personal and corporate income tax fields for economic stabilization purposes. It is an outgrowth of

Keynesian economics, which inspired federal economic policies in the post-War era; a similar concern has returned as a central feature of the 'powers over the economy' debate.

The fifth principle states that there should be uniformity in fiscal relations between the federal government and the provinces, that is, there should be no special deals with individual provinces. This principle was meant to dispel any misunderstanding that might have arisen on account of the contracting-out arrangements, which had been legislated by Parliament in 1964, but of which only one province—Quebec—had taken advantage, despite the fact that they had been offered to all provinces. (The contracting-out arrangements are discussed later in this chapter.)

The sixth principle, that fiscal arrangements should provide for a harmonization of federal and provincial policies and priorities, is particularly relevant to present concerns about the machinery of 'co-operative federalism', designed to accommodate greater interdependence between governments.

The Task Force accepts the essential features of these six principles, with the qualifications noted with regard to the second, as valid guides in analyzing federal-provincial fiscal relations, recognizing that they require interpretation in light of overriding national interests in many programs falling within provincial jurisdiction, and the changing nature of Canadian federalism.

Revenue-sharing*

The issue of revenue-sharing boils down to the following question: how can a reasonable balance be attained between the revenue needs of each order of government and the expenditure responsibilities assigned to them by the British North America (BNA) Act? The allocation of revenues between the two orders of government must be

* The term 'revenue-sharing' has recently been used in Canada to refer to the possibility of an interprovincial sharing of natural resource revenues. For purposes of this report, it will be used in the more traditional way to designate the allocation of revenues between two orders of government so that each order may meet its expenditure responsibilities.

reviewed at regular intervals, because it must be made to correspond with the allocation of responsibilities, which itself tends to change over time. As one expert on federalism put it:

Conditions in a variety of communities joined together in a federation differ too much from time to time and from place to place for a fixed division of financial resources to be laid down finally in a constitution. There is and can be no final solution to the allocation of financial resources in a federal system. There can only be adjustments and re-allocation in the light of changing conditions.³

In Annex II-A is set out a dispassionate account of the way the powers to raise revenues have swung back and forth between the different orders of government in Canada. This account talks in terms of the provinces "requesting control of subsurface mineral rights", and the federal government "agreeing". Tax rental agreements are "proposed" and terminated; transfers of tax room are "requested"; the growing expenditure obligations of the provincial governments are "acknowledged". The results of these negotiations over the course of a century are set out in Table II-1, which reveals the significant changes in the distribution of revenues between the two orders of government that occurred as a consequence.

What is not revealed by the historical account, but what might be inferred from today's headlines describing current 'agreements' relating to control of mineral rights or the transfer of resource revenues, is the struggle and passion that preceded and accompanied these fluctuations. The exercise of political power has driven the structure of the Canadian federation through dramatic swings over the course of a century, and presumably will continue to do so. None of these shifts came easily or without controversy.

This history teaches above all that fiscal federalism in general, and revenue-sharing in particular, cannot be approached with fixed standards or a purely analytical eye. Tables depicting revenue shares are in fact describing the successive outcomes of a perpetual contest between political forces searching for the revenues vital to accomplishing their political goals for Canada. These contests certainly reflect economic determinants, but they also reflect distinct views of the country and its needs at a given time—and they reflect the distinct personalities and accidents of history that shape the development of any nation.

Table II-1 shows that in 1945 the federal government levied 71.4 per cent of all taxes paid by Canadians, while the provinces raised 28.5 per cent. Since then, however, the provincial-local share has grown steadily, reaching 41.8 per cent in 1960, 49.1 per cent in 1970 and 53.3 per cent in 1980.* Throughout the period 1967 to 1976, the two orders of government split the fiscal pie more or less evenly, the federal share hovering around 53 per cent and that of the provinces around 47 per cent. But since 1977, the provincial-local share has grown to about 54 per cent while the federal share has dropped to around 46 per cent. Nothing stays stable, however—there may now be some evidence that the trend is once again turning around.

The extent of fiscal decentralization achieved in recent years appears even greater when federal grants to provinces are taken into account. Deducting the value of these grants from federal revenues and adding it to the revenues of the provincial-local sector yields the estimates set out in Table II-2.

Table II-1
Federal and Provincial-Local Shares of Total
Government Revenues from Own Sources
(per cent)

	Federal	Provincial-Local ²
1926	44.9	55.1
1930	33.4	66.6
1940	54.5	45.5
1945 ¹	71.4	28.5
1950 ¹	64.1	35.9
1955 ¹	63.6	36.4
1960 ¹	58.2	41.8
1965	54.5	45.6
1970	50.9	49.1
1975	51.8	48.2
1977	47.1	52.9
1978	45.2	54.8
1979	45.9	54.1
1980	46.6	53.3

1. Tax rental payments are assumed to be a provincial revenue from own-sources and have been deducted from federal revenues.

2. Municipal or local revenues are treated as provincial revenues because municipal or local governments are 'creatures' of provincial governments and cannot be considered an independent order of government.

Source: Department of Finance, *Economic Review*, April 1981.

* Of course, this trend still fails to restore the provincial-local share to the level prevailing in the late 1920s. (See also Annex II-A.)

Table II-2

Federal and Provincial-local Shares of Total Government Revenues (when federal grants are deducted from federal revenues and considered as revenues of the provincial-local sector)
(per cent)

	Federal	Provincial-Local
1926	43.1	56.9
1930	30.5	69.5
1940	50.2	49.8
1945	69.2	30.8
1950	59.8	40.3
1955	61.1	38.9
1960	51.6	48.4
1965	45.9	54.1
1970	39.8	60.3
1975	39.2	60.8
1977	34.1	65.9
1978	32.2	67.8
1979	33.5	66.5
1980	34.7	65.4

Source: Department of Finance, *Economic Review*, April 1981.

Table II-2 shows that since 1977, the federal share of government revenues, *after* federal transfers have been made to the consolidated provincial-local sector, has been approximately one-third of the total. In the decade preceding 1977, the federal share fluctuated around the 40 per cent level. In the immediate post-war years, and up to 1966, the federal share declined progressively from 68 per cent to about 45 per cent.

The fact that the federal share of total government revenues has been declining over time, and that the federal government has been registering substantial deficits in recent years, has prompted some to argue that there is a 'fiscal imbalance' between the two orders of government. This view is reinforced by the fact that provinces are, in aggregate, in a surplus position.

On closer examination it appears, however, that the concept of fiscal imbalance is not so simple. First, the observation that the provinces are in a surplus position, although not incorrect, must be balanced by another observation: the surplus is attributable to the three western-most provinces, whose oil and gas revenues have increased considerably since 1973. The other seven provinces continue to incur significant deficits.

Second, federal grants to provinces and municipalities expressed as a percentage of total federal

spending have been fairly constant since 1970. There is, therefore, no ground to suggest that federal transfers have been getting out of control. In fact, they grew at a slower rate in the 1970s than they did in the 1960s. They are, moreover, forecast (in the federal government's expenditure plan) to decline over the next three years, not only as a share of federal government expenditures and as a share of GNP, but also relative to forecast growth in the consumer price index.

Finally, it is important to note that the mere fact that one order of government is experiencing a succession of deficits does not necessarily imply that there is a fiscal imbalance, as that term is used by public finance specialists. Only if the fiscal posture of a government has deteriorated for reasons beyond its control is a fiscal imbalance said to exist. That is, there must be some structural cause to explain the situation. The federal deficits registered in recent years can, however, be explained partly in terms of discretionary counter-cyclical fiscal policy—a deliberate attempt to maintain employment in a time of world recession. In addition, the various tax expenditure measures introduced since the 1972 implementation of tax reform, as well as the indexation of the personal income tax system, have deprived the federal treasury—as well as provincial treasuries—of substantial amounts of money, and unusually high debt service charges have compounded the difficulty. *The Task Force concludes that there does not exist a long-term, structural mismatch between the revenue capacities and expenditure responsibilities of the federal government. It cannot be claimed that the capacity of the federal government to raise revenues has reached a structural (as opposed to a political or discretionary) ceiling.*

What is undeniable is that the federal government faces a major budgetary problem in the size of the public debt and corresponding debt service charges. In exercising its unique responsibility for stabilization policy in the post-OPEC period, the federal government—in common with most national governments in the western industrialized world—took on massive deficits. Over the remainder of the 1970s, these deficits accumulated to the point where debt service charges now represent 20 per cent of the federal budget, and this share, which is a completely non-discretionary expenditure, is rising.

Thus the Task Force considers that the concept of fiscal imbalance requires a careful distinction between a structural problem in the design of the arrangements of Confederation, and a problem of budgetary imbalance reflecting political judgments on revenue and expenditure priorities. The federal government is at an interesting intermediate point on the spectrum between these two extremes, a point where a prolonged cyclical budget deficit begins to lead to some aspects of a persistent structural imbalance. The structural problem emerges because the size of the debt accumulated to date begins to constrain to an unacceptable degree the margin of manoeuvre in federal government decisions on fiscal policy.

Whether one views the sequence of federal budget deficits beginning in the early seventies as an inevitable consequence of the federal government's unique responsibility for stabilization policy in an unsettled world economy, or as a deliberate discretionary political choice, is a matter of political judgement. But the fact that the federal government enters the next phase of federal-provincial relations with a stock of accumulated debt that imposes serious constraints on budgetary decisions is beyond debate.

The present federal government has, on several occasions, expressed concern about the size of the deficit, and there can be no doubt that this concern will affect the way in which it approaches the forthcoming round of negotiations on fiscal arrangements. More specifically, the federal Minister of Finance stated in his submission to the Task Force that:

First, the most urgent priority of the federal government is to strengthen its fiscal position. Transfers to the provinces cannot be insulated from policies of restraint; otherwise, the full burden of such restraint would fall within exclusive federal program areas. This would place the federal government in an even weaker position vis-à-vis the provinces.

Second, the reduction in the federal deficit should be implemented gradually. Insofar as expenditures are concerned, there are major categories of outlay over which the federal government has very little discretion, in particular, public debt charges and major transfer programs to individuals. There are other areas where the government's priorities have increased, most notably economic development. The need to accommodate these priorities requires that savings be made in other areas, including social affairs and transfers to provinces.

Third, there should be a continuing emphasis on equity in respect of intergovernmental transfers. The method chosen to cut back on federal transfers to provinces must respect this emphasis on equity.

This view is, of course, predicated on the assumption that the federal government will continue to register large deficits in coming years. However, this assumption is not shared by all experts. Dr. David Slater, Chairman of the Economic Council of Canada, noted in his presentation to the Task Force his belief, based on analyses undertaken for the Council, that if the various elements of the October 1980 budget and of the National Energy Program (NEP) are realized, "the federal government's deficit will be substantially reduced". He also stated that the effects of the NEP on the provinces as a whole "will be to reduce the surpluses of the provinces, although to a lesser amount than the federal deficit". Should the current negotiations between the federal and Alberta governments on oil and gas prices lead to a schedule of price increases more costly to consumers than those announced in the October 1980 budget, the federal budgetary situation in the next few years could be significantly relaxed.

Dr. Slater's view of the Chairman of the Economic Council rests on a projection of federal revenues higher than those currently forecast by the Department of Finance. Whether high revenues emerge from current policies or must be sought through changes in policy, however, it seems clear that the current federal budgetary deficit cannot be redressed by means of expenditure restraint alone. Some increase in federal revenues also will be necessary to achieve greater budgetary balance at the federal level.

What all this shows is that the balance between fiscal capacity and expenditure responsibilities will constitute an important topic in forthcoming negotiations on fiscal arrangements. The historical record suggests that such discussions should be approached with a good deal of pragmatism. There is nothing sacred about the allocation of revenues between orders of government at a particular time. The economic conditions prevailing now are not the same as those that prevailed in 1976, when the current fiscal arrangements were negotiated. It is therefore natural that questions be raised about the current and future fiscal situations of the two

orders of government. The important thing is that in discussing possible changes, the potential effects on *both* the provinces and the federal government must be taken into account.

Fiscal Equalization

The second major fiscal issue raised by a federal system is that of equalization. It arises out of the fact that although most provincial governments have the same constitutional responsibilities, they do not, due to economic disparities among the various regions of the country, have the same financial capacity to assume those responsibilities. Alberta or British Columbia, for example, has the potential to provide a larger number and higher quality of public services than does Newfoundland or Prince Edward Island, while maintaining lower tax rates. (The extent to which this potential is exercised of course also reflects the prevailing political philosophy in each province—but it is the underlying endowment or capacity that poses the problem of equalization.)

The effective functioning of a federation therefore calls for some means of dealing with differences in provincial capacities to provide services. Such means could involve a redesign of interprovincial boundaries, or a centralization of taxing powers coupled with a system of federal grants to all or most provinces, or a system of grants to provinces with low fiscal capacity. Canada has relied mainly on the latter two methods.

Tax rental agreements are a good example of a centralization of taxing powers coupled with grants to all provinces.* Under these agreements, the differences in provincial fiscal capacities were minimized because the per capita yield of the taxes that were rented to the federal government (essentially personal and corporate income taxes) was very uneven between provinces, while the formulas for computing rental payments incorporated an important *equal per capita* component for all provinces. Thus the payments contained a substantial element of implicit equalization.

Grants directed to provinces with low fiscal capacities have, however, been the preferred

* For an explanation of tax rental agreements, see Annex II-A.

Canadian method for countering fiscal disparities. The history of our federal system provides numerous examples of such grants, the first going back to 1867, when it was agreed that New Brunswick would receive special annual grants of \$63,000 for 10 years following Confederation because of the province's special difficulties. Nova Scotia managed to obtain a similar grant in the 1870s after threatening to withdraw from the federation on the grounds that the financial provisions of the BNA Act prevented it from meeting its expenditure needs. Several special assistance grants were paid in the 1920s and 30s to help provinces with particularly severe financial difficulties.

Since 1957, however, the federal government has had in place a distinct program of fiscal equalization (discussed in greater detail in Chapter VII) that is specifically aimed at augmenting the lower fiscal capacity of poorer provinces. The purpose of equalization payments is to ensure that all provinces are able to provide their citizens a reasonably comparable level of public service at reasonably comparable rates of taxation. The assumption underlying this federal program is that provinces levy taxes only with a view to financing public services, and that equalizing provincial fiscal capacities by means of equalization payments will enable provincial governments to provide reasonably comparable services.

From 1957 to 1962, equalization payments were calculated on the basis of each province's yield from personal income tax, corporate income tax and succession duties levied at the standard rental rates. Provinces with a per capita yield lower than the weighted average of the two wealthiest provinces were eligible for equalization grants. In 1962, 50 per cent of natural resource revenues were incorporated into the equalization formula, but the method of determining the level of equalization was changed from the average yield of the two wealthiest provinces to the national average. (It has been suggested that one of the reasons for bringing in resource revenues was to make Alberta ineligible for equalization payments.) The basis for determining the level was temporarily restored to the top two provinces in 1964-65, although in a qualified manner.

In 1967-68, following extensive discussions with the provinces, the federal government introduced the present system of equalization. This formula, which was modified somewhat in subsequent years, takes account of each province's fiscal capacity in respect of almost all sources of provincial or local revenues. It employs the concept of a 'representative provincial tax system'. This system takes into account both the tax bases, such as personal income, retail sales or oil production, and the tax rates that the 10 provinces collectively use. If application to a particular province of the representative tax system results in a lower per capita yield than the average for all provinces, that province is entitled to receive from the federal government an equalization grant covering the difference. The formula is open-ended, with no upper limit on total payout.

The basic policy question that must be asked with respect to equalization grants is whether their size is commensurate with their objective. This question has arisen on several occasions in recent years, particularly because of the inclusion of oil and gas revenues in the equalization formula. The fact that these revenues have grown very rapidly, and that they are unevenly distributed among provinces, has caused the equalization associated with them to become very substantial.

The phenomenal growth in oil and gas revenues that Alberta and, to a much lesser extent, Saskatchewan and British Columbia have experienced since 1973 has meant that provincial revenues in those provinces have become much more closely related to the good fortunes of their petroleum resource bases than to their expenditure needs. Consequently, it can no longer be assumed that the revenues accruing to certain provincial governments are a reasonably good measure of what it costs them to provide basic services to their citizens. In fact, a significant portion of the resource revenues of Alberta and Saskatchewan is no longer administered through the regular budgetary process, but is instead deposited in special heritage funds.

This rapid growth in resource revenues has required several adjustments in the equalization formula. If they had not been made, that is, if the formula as devised in 1967-68 had been retained unaltered, equalization payments would have been

far in excess of those required to meet the fundamental purpose of the program. To prevent this from happening, a number of modifications to the original formula have been introduced:

1. revenues from non-renewable resources, i.e., oil, natural gas and metallic and non-metallic minerals, are equalized to the extent of 50 per cent only;
2. a resource revenue ceiling is in place that ensures that equalization payable in respect of resource revenues of all kinds will not exceed one-third of total equalization; and
3. oil and gas land sales have been excluded entirely from revenues to be equalized.

The ceiling in respect of natural resource revenues has not yet been reached. However, it could become effective in the near future, if the present formula continues to be used. Once the ceiling is in effect, further increases in oil and gas revenues in the three western-most provinces would no longer have any effect on the growth of equalization payments beyond the growth of all revenue sources in total. The ceiling is thus a safety net for the federal government that would limit the potential for further runaway increases in equalization.

Another major current equalization issue is the eligibility of the province of Ontario. Ontario became entitled to equalization payments as of 1977-78, although this did not become known until 1979. That Ontario had become a 'have-not' province was perceived at the time as an unexpected, even unbelievable, phenomenon. It caused concern because its effect was to raise substantially the potential cost of equalization to the federal treasury and because there was genuine doubt that Ontario was unable to provide a reasonable level of public services from its own resources. Although Ontario's revenue-raising capacity (as measured by the current representative tax system formula) was shown to be below average, a special provision was introduced in Parliament that had the effect of excluding that province from receiving equalization. This measure, which was enacted in February 1981 (as an amendment to the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977), stipulates that no equalization can be paid to any province that is above the Canadian average in personal income per capita. If this special measure had not been introduced,

Ontario would have had equalization entitlements for the 1977-78 to 1981-82 fiscal period in excess of \$1.4 billion.

This entitlement reflects the fact that in the last ten years Ontario's revenue-raising capacity, as measured by the current equalization formula, has declined in relation not only to that of the oil and gas-producing provinces, but also to that of other provinces. Much of Ontario's relative decline is attributable to a weakness, perhaps temporary in nature, in Canada's manufacturing sector which is concentrated in central Canada. Thus, the question arises as to whether the special measure taken to prevent Ontario from receiving equalization can be maintained indefinitely.

This is a troublesome problem, however. Few people share any perception of Ontario as a 'have-not' province, and most find the idea of equalization payments to Ontario more than somewhat farfetched. Ontario's image as a province with power and influence, enjoying both a large number of seats in Parliament and a strategic location in the industrial heartland of North America, is at odds with a calculation of fiscal capacity that suggests inadequate revenues to meet obligations to provide an appropriate level of public services. The Task Force discussed at some length the possibility that this phenomenon provides evidence that the formula employed for determining equalization payments is somehow deficient, and does not adequately reflect provincial economic strength. This question is addressed in Chapter VII.

Although the changes in the treatment of natural resource revenues referred to above preserve the purpose of equalization payments, they imply that once equalization payments have been made to less wealthy provinces, there remain significant disparities between the fiscal capacities of resource-rich and other provinces. These disparities will almost certainly widen as oil and gas prices increase. This raises the issue of whether some means should be established for redistributing, among all provinces, at least part of the resource revenues that, for purposes of equalization, are not deemed to be used for financing basic services, and that consequently, are not being equalized. Various proposals aimed at establishing interprovincial schemes have been put forth to deal with this issue. However, the resource-rich prov-

inces have shown little interest in them, partly because they are already implicitly contributing massively to redistribution through forgone oil and gas revenues. The Alberta government has argued that the amount of revenue it has forgone since 1973 on account of domestic prices being lower than world prices is in the order of \$40 billion.⁴ According to calculations done by the Economic Council of Canada, the revenues forgone by Alberta in 1980 alone may be in the order of \$12 to \$15 billion.

One basic question that these proposals have left unanswered is the following: since there already is a fair degree of sharing in the fiscal resources of the federation through equalization, and to the extent that these existing arrangements allow all provinces to provide comparable public services without unduly taxing their citizens, why should resource-rich provinces be asked to share beyond current levels? (Indeed, how does one explain the puzzlingly selective character of the political passion for sharing provincial resource revenues? Although these passions appear to be easily excited by an awareness of large accumulations of public wealth, they seem to be surprisingly more relaxed about accumulations of private wealth.)

Financing Provincial Programs of National Interest

Although provinces are constitutionally responsible for such matters as health, education and social services, there can be circumstances where some federal funding in these areas is thought desirable or necessary. Funding may be warranted on the grounds that certain benefits arising from provincial initiatives tend to spill over into other provinces. Spill-over effects are particularly apparent, for example, in the area of higher education because of the mobility of highly-skilled people. Another reason for federal funding might be a decision on the part of the federal government, or on the part of both orders of government, that a program or programs for which the provinces are constitutionally responsible ought to be provided to all citizens at specific 'national standard' levels.

Again, the clash of many interests makes this more than an analytical matter. Constituents press federal representatives to assume responsibilities

for some programs even in the face of constitutional provisions relating to provincial jurisdiction. The need for co-ordination may dictate joint administration in some activities no matter how reluctant the 'co-operating parties'. Watertight constitutional compartments spring leaks under the pressure of changing circumstance, as society's views on the appropriate roles of government evolve. The arrangements that emerge from time to time reflect not only changing needs but also all these accidents of history that lead not to watertight divisions of expenditure responsibilities, but fiscal arrangements spanning a number of leaky compartments by means of federal financing, at various stages, of programs falling within provincial jurisdiction.

Federal funding in areas of provincial jurisdiction is usually based on what is known as the *federal spending power*, that is, the power of the federal government to pay out money to anyone it chooses for whatever purpose it chooses. The federal spending power, of course, is not unique to Canada; equivalent powers exist in most modern federations. Moreover, it has a counterpart, the *provincial spending power*, under which provinces spend money on matters such as international relations or the provision of financial credit.

There have been discussions as to whether some constitutional limitations ought to be imposed on the federal spending power. The federal government itself proposed in the context of the 1969-70 constitutional review that:

The power of Parliament to make general conditional grants in respect of federal-provincial programmes which are acknowledged to be within exclusive provincial jurisdiction should be based upon two requirements: first, a broad national consensus in favour of any proposed programme should be demonstrated to exist before Parliament exercises its power; and secondly, the decision of a provincial legislature to exercise its constitutional right not to participate in any programme, even given a national consensus, should not result in a fiscal penalty being imposed upon the people of that province.⁵

In the last half-century, the federal government has on several occasions funded major activities in areas of provincial jurisdiction through the mechanism of shared-cost programs, undertaking to share, usually on a 50-50 basis, the cost of particular programs administered by provinces. The most

important of these have been hospital insurance, medicare, the Canada Assistance Plan (CAP) and the post-secondary education transfer. The histories of these programs are discussed briefly in Annexes B-D to this chapter. Here, we simply sketch an outline to illustrate the nature of the federal role.

The hospital insurance program was implemented in 1958 following adoption by Parliament of the Hospital Insurance and Diagnostic Services Act. In order to participate in the program, provinces were required under the Act, "to make insured services available to all residents...upon uniform terms and conditions".

The medical care program began in 1968. In order to be eligible for federal contributions, provincial programs were required only to meet four broad conditions or 'standards', described in Annex C.

Under the Canada Assistance Plan Act, which was passed in 1966, the federal government pays 50 per cent of provincial and municipal costs for social assistance (welfare) and social services to persons in need.

The post-secondary education transfer was introduced in 1967. The value of the transfer to each province was based on the greater of 50 per cent of post-secondary education operating costs incurred in the province, or \$15 per capita, the latter escalated annually thereafter at the rate of growth of total post-secondary operating costs in all provinces. The transfer took the form of an abatement of four equalized percentage points of personal income tax, and one equalized percentage point of corporate taxable income, plus a cash adjustment.* The latter payment was equal to the

* A tax abatement is a means of transferring 'tax room' from the federal government to the provinces. In the case of the personal income tax, as pointed out in Annex A, the value of an abatement is measured in percentage points of federal basic tax. An abatement of one point of personal income tax is a reduction of one per cent of federal basic tax. Such a reduction is accompanied by an increase in provincial taxes designed to collect from taxpayers an amount equal to the federal tax reduction. In the case of the corporation income tax, the value of an abatement is measured in percentage points of the taxable income of corporations. Since the revenues lost to the federal government through an abatement become provincial revenues, they are automatically equalized under the general equalization formula. Thus, a tax abatement involves additional equalization. The real value of an abatement to a 'have-not' province is its 'equalized' value, that is, the value of the abatement itself plus the equalization automatically associated with it.

difference between the total value of the transfer (i.e., the greater of 50 per cent of operating costs or \$15 per capita multiplied by the population of the province) and the equalized value of the abatement. No program conditions or 'standards' applied to this transfer. This particular shared-cost arrangement was meant to help provinces meet a rapidly rising demand for educational services in a way that would accommodate provincial sensitivities about their jurisdiction over education. In announcing the transfer in 1966, the Prime Minister of the time, the Rt. Hon. Lester B. Pearson, noted: "The approach we are proposing rests on an awareness of the extraordinary financial requirements for higher education in the years ahead, together with a recognition of provincial jurisdiction over education".⁶

The foregoing suggests that shared-cost programs were initiated for a variety of reasons. In the case of hospital insurance and medicare, the federal initiative seems to have sprung from a desire to ensure that essential health services be available to all Canadians on a similar basis and to co-ordinate the development of insured health services. Federal involvement in social assistance under CAP has generally been justified simply on the grounds that the federal government has essential responsibilities in the area of income redistribution. The federal role in social services under CAP has been justified on the grounds that these are services requiring development and federal leadership to co-ordinate provincial policies (and in which a single province may find it difficult to take the initiative). As for the post-secondary education transfer, it seems to have resulted primarily from a desire to ensure that provinces had sufficient financial resources to meet the rapidly-growing requirements arising from the baby-boom of the 1950s.

Shared-cost programs have often been perceived by some provinces, notably Quebec, Alberta and Ontario, as an intrusion by the federal government into areas of provincial jurisdiction. These provinces have criticized the fact that, by offering to finance half the cost of a given program, the federal government was compelling them to implement a program that they might not otherwise have introduced, or that they might have introduced in a different form. Because of provincial pressures, especially from Quebec, the federal gov-

ernment announced in 1963 its willingness to withdraw from some of these programs, which were considered to be 'established', and to replace cash grants with a tax abatement.

The expression 'established' was applied to programs that had achieved a certain level of 'maturity'—that is to say, programs that had been in effect long enough and that commanded sufficient public support to justify the presumption that they would not be discontinued by the provinces. The federal government offered to provide additional tax abatements to compensate for ending the conditional grants. Each province would thereby assume the entire financial and administrative responsibility for the programs it administered.

It is open to question, of course, whether any social programs on which views differ widely can be considered 'established' in this sense. Even where the form of a program is maintained, essential features may be eroded by the manner in which administrative discretion is exercised. It is concern on this point that leads to a number of recommendations later in this report, particularly with respect to matters of health care.

The first concrete proposal for bringing about the gradual withdrawal of the federal government from shared-cost programs was put forward to all provinces in 1964 and applied mainly to hospital insurance, and to the welfare programs later incorporated into the Canada Assistance Plan. The next year, the Established Programs (Interim Arrangements) Act was passed, providing a legal framework for the implementation of the proposal. The Act was—as its title implies—designed as an interim measure. Although it amended the form of the federal contribution, it made relatively little change in its conditional nature. Only Quebec took advantage of this offer and entered into what became known as 'contracting-out' arrangements with the federal government. Under these arrangements, Quebec taxpayers were granted an additional abatement of 20 percentage points of the federal basic personal income tax in lieu of the federal cash contribution that would otherwise be payable. Of the 20 points, 14 were for hospital insurance, four for welfare programs, one for vocational training and one for national health grants. The total entitlement to Quebec for these programs remained identical what would have been

granted had the previous arrangements continued. Any difference between the value of the tax abatement for a program and the grant that would otherwise have been paid was made up by a cash adjustment.

In 1966, the federal government reiterated the view that it would not be healthy for the federation to continue to introduce and maintain shared-cost programs, and made a new offer to complement the interim arrangements of 1964-65. The new offer included some modifications to the tax abatement, to which would have been added, over a transition period, cash adjustment payments. Had this offer been accepted by all the provinces, it would have substantially reduced the conditionality and complexity of the three program areas (hospital insurance, welfare and vocational training) and given the provinces full financial and administrative responsibility for them. However, general agreements would have been put in place guaranteeing the portability of benefits between provinces and the maintenance of national standards in the health field. Only Quebec showed any interest. In an attempt to interest the other provinces, the federal government repeated its offer at a meeting of finance ministers in 1968, but with no results. Some of the provinces feared that the fiscal compensation offered as replacement for cash grants would not produce revenues equal to the value of the grants.

In 1973, the federal government proposed further alternatives for financing the medical care and hospital insurance programs.* By then, the federal government's desire to reach an agreement had been strengthened by the fact that these programs, the cost of which it could in no way control, were absorbing an important share of its resources. The 1973 offer was also rejected, however, by a majority of the provinces because they considered that the compensation offered was insufficient for them to take the risk of assuming sole responsibility for financing the shared-cost programs.**

*The offer did not include the Canada Assistance Plan, the principal provisions of which were under review as part of an overall review of Canadian social security policies.

**The federal government proposed the transfer to the provinces of 100 per cent of the taxes and excise duties on alcoholic beverages and tobacco and six tax points on personal income (that is, on the latter, the federal government would have reduced its tax rate by six per cent and the provinces would have raised theirs correspondingly).

Nonetheless, during negotiation of the fiscal arrangements for the period 1977-82, the federal government and the provinces agreed on a new formula, since known as the Established Programs Financing (EPF) arrangements for financing the hospital insurance, medicare and post-secondary education programs. A description of these arrangements, and the issues to which they give rise, forms the core of Chapter III.

The Task force heard submissions from a number of provincial governments suggesting that further transfers of personal income tax points or other revenue sources to provincial governments would be appropriate.* In its reasoning on this question, the Task Force began from consideration of the budgetary positions of federal and provincial governments that would prevail if there were no federal transfers to provincial governments: the federal government would enjoy a modest budget surplus, and many provinces would experience massive deficits. If one then introduces equalization payments as an offset to structural deficiencies in fiscal capacity, the federal government would be seen in a slight deficit position, while most provincial governments would still show substantial deficits. *The majority of the Task Force concludes, however, that further transfers of revenue sources, or 'tax room', to provincial governments would not be the appropriate response to this situation, essentially for three reasons:*

1. expenditure obligations of provincial governments as hospital and medical insurance, post-secondary education and the like are not of concern solely to provincial governments, but are program areas involving significant national interests in which some federal presence is desirable;
2. the federal government must retain sufficient revenue sources to ensure adequate capacity to manage the economy; and
3. the transfer of revenue sources—particularly personal income tax points—provides the

* Technically, a transfer of tax points differs from a tax abatement. With a transfer of tax points, the federal government makes tax room available to provincial governments by lowering its entire rate schedule, and hence the tax yield or basic federal tax. With a tax abatement, the federal government makes tax room available by a special deduction that applies after the federal basic tax is determined.

greatest increase in revenue to the richest provinces, with tax points of highest value—the same provinces already in a position of budget surplus.

This reasoning leads to the general conclusion that in designing fiscal relations for the next few years it is necessary to think in terms of suitable fiscal arrangements to support an appropriate balance in shared expenditure responsibilities, not a separation in which no federal-provincial transfers (with the exception of equalization payments) are necessary.

Fiscal and Economic Co-ordination

Another issue of fiscal federalism is the co-ordination of fiscal and economic policies (including taxation policies) between the two orders of government. Co-ordination is necessary to ensure that the policy measures adopted by one order of government do not neutralize or offset measures taken by the other.

In Canada, fiscal and economic co-ordination has been achieved essentially through the Conference of Ministers of Finance and Treasurers. Since the early 1970s, this Conference has met at least once a year, usually prior to budget time, to review the economic and fiscal outlook.

One area where co-ordination is particularly important is income taxation. This became particularly apparent in the 1930s when the two orders of government were levying incomes taxes with little harmonization in the sense that there was limited co-ordination of tax bases and the allocation of taxable income by province. The consequence was that certain types of income could be taxed in excess of 100 per cent.

During the war and immediate post-war years, income tax harmonization was achieved implicitly through the tax rental agreements. Since 1962, co-ordination in the income tax area has been achieved through the mechanism of tax collection agreements, under which the federal government provides collection services to the provinces by collecting provincial personal and corporate income taxes. Provincial governments that are party to the agreements accept the federal system

as a common tax base for their corporate and personal income taxes. The agreements provide for a formula for allocating the income of individuals and corporations among provinces, so that no element of income is taxed by more than one province and all income taxed by the federal government is taxed by at least one province.

Since 1972, and particularly in the last three years, these agreements have come under some pressure due to a desire for increased provincial flexibility on the one hand, and for the preservation of some degree of tax uniformity and harmony between taxing jurisdictions on the other. The pressure for greater provincial flexibility arises from the fact that provinces, which collectively levy over 40 per cent of all personal income taxes and 28 per cent of all corporate income taxes, are understandably eager to use their tax systems as an instrument to achieve certain social and economic objectives.

Over the past ten years, the federal government has responded to these provincial concerns by agreeing to administer various tax measures such as tax credits, tax rebates, tax reductions and dual corporate tax rates. This proliferation of special measures has had several effects. First, it has made the administration of our tax system more complex. Second, it has modified, from province to province, the progressivity of the combined federal and provincial tax systems. Third, and most important, it has opened up to each province the possibility of adopting special incentive measures in the corporate income tax field to encourage economic activity within its territory. The federal income tax system provides for such measures for Canada as a whole, and it is understandable that provinces would want to proceed in a similar way in their own tax systems. However, if adopted by one province, these measures could lead to pressures on other provinces to compete. This in turn may lead to interprovincial tax competition which this Task Force believes would, in the long run, be detrimental to all governments.

Finally, some provinces have been seeking to introduce some degree of regionally discriminatory treatment in their tax systems. This tendency is manifested in incentives offered only to firms based in, or with head offices in, a particular province and in measures that encourage individu-

als to restrict their investments to their province of residence. Such discriminatory measures establish tax barriers to interprovincial investment flows and can lead to interprovincial tax competition detrimental to all provincial treasuries. The federal government has so far refused to administer such measures through the tax collection agreements. The Task Force is concerned that provincial governments are looking increasingly toward discriminatory tax measures as a means of stimulating economic activity within their territory and shares the federal government's view that they should not be permitted under the tax collection agreements. These questions are discussed further in Chapter VIII of this report.

Notes (Chapter II)

¹ Federal-Provincial Tax Structure Committee (Ottawa: Queen's Printer, 1966).

² Ibid.

³ K.C. Wheare, *Federal Government*, Third Edition, p. 123.

⁴ See *Alberta Report*, June 12, 1981, p. 8.

⁵ *Federal-Provincial Grants and the Spending Power of Parliament*, Working Paper on the Constitution (Ottawa: Queen's Printer, 1969).

⁶ Federal-Provincial Conference, October 1966 (Ottawa: Queen's Printer, 1968).

Annex II-A

Historical Evolution of Federal and Provincial-Local Shares of Total Government Revenues

The Canadian federal experience bears witness to the need for considerable flexibility in revenue-sharing arrangements. When the Fathers of Confederation drafted the British North America (BNA) Act, they gave the federal government the power to raise money "by any Mode or System or Taxation" and, in particular, the exclusive right to levy customs duties which, in those days, accounted for the bulk of the Colonies' revenues. The BNA Act empowered the provinces to levy direct taxes and raise revenues from the public domain. Except for property taxes, direct taxes were uncommon in the 19th century and it was generally agreed that the new provinces would be unable to balance their budgets with such limited taxing powers. The drafters of the constitution therefore decided that the provinces' own-source revenues would be supplemented by a system of federal grants. The payment of these grants was guaranteed under the BNA Act and was to "be in full settlement of all future demands upon the General Government for local purposes".

In the early years of Confederation, federal grants accounted for well over one-half of total provincial revenues. The federal government therefore occupied a predominant position in taxation and revenue matters. Throughout the period leading up to World War I, however, the provinces, pressed by increasing financial obligations in matters such as road construction, education and welfare, began to make increased use of their taxation powers, introducing new taxes such as personal income taxes (British Columbia in 1876 and Prince Edward Island in 1894), a tax on corporate profits (Quebec, 1882) and succession duties (Ontario, 1892). In 1906, the federal government agreed to increase its statutory grants to provinces to help them finance their growing expenditure responsibilities. But this did not deter provincial

governments from further increasing their taxes. Thus, provinces gradually became less financially dependent on the federal government. Between 1880 and 1910, the proportion of provincial revenues accounted for by federal grants slipped from 50 per cent to 26 per cent.¹

With the onset of World War I, the emphasis shifted back to the federal government. Military expenditures increased sharply and required the imposition of additional taxes, including personal and corporate income taxes. Thus began a period of joint occupancy by federal and provincial governments of major tax fields.

After the war, the federal government adopted a relatively low profile in the economic and financial affairs of the country. Governmental priorities shifted toward matters such as roads, education and social welfare, which fall primarily under provincial jurisdiction. Throughout the 1920s, provinces and municipalities implemented huge capital spending programs called for by the increasing use of electricity and automobiles.

The provinces financed their increased expenditure responsibilities by creating such revenue sources as government monopolies on the sale of alcoholic beverages, taxes on gasoline, commercial permits and so on. The prairie provinces which, unlike other provinces, had not been granted control of sub-surface mineral rights at the time of their entry into the federation, requested that the federal government cede this control to them so that they might have the same revenue-raising powers as other provinces. The federal government agreed to transfer the mineral rights in 1930, and the prairie provinces thus acquired what came to be a major revenue source. Although federal grants to the provinces increased substantially

during the period, provincial own-source revenues increased even more quickly and by 1930, grants accounted for no more than 10 per cent of total provincial revenues. That same year, provinces and municipalities combined collected twice the revenues of the federal government.

During the Great Depression, provinces and municipalities were hard-pressed for money. Some western provinces in particular experienced a surge in debt charges and a decrease in revenues that led to a state of catastrophe requiring federal action. Most provincial governments had to increase tax rates and introduce new forms of taxation. Between 1930 and 1940, the number of provinces taxing personal income rose from three to seven, while the number of provinces taxing corporations rose from two to nine. Retail sales taxes were introduced and succession duties were raised. Because revenues from customs duties had declined, the federal government also had to introduce new forms of taxation and increase rates of existing taxation. Both orders of government were thus using every possible means to increase their revenues, and were doing so without any intergovernmental co-operation—hence the so-called ‘tax jungle’ of the thirties.

Under the pressure of circumstances created by Canada’s entry into World War II, the provinces recognized the necessity for strong central government leadership, at least for the duration of the conflict. In 1941, they agreed to refrain from collecting personal and corporate income taxes until one year after the end of hostilities. In return, the federal government agreed to pay them a ‘rent’, that is, a payment for the exclusive occupancy of the personal and corporate income tax fields. This marked the beginning of *tax rental* agreements between the provinces and the federal government. The rental agreements, which had been signed by all provinces in 1941, were renewed by all provinces except Quebec and Ontario in 1947, and by all provinces except Quebec in 1952 and 1957. In 1957, the federal government introduced a *tax abatement* system; it undertook to reduce its income tax rates by a specified percentage for taxpayers living in a province that did not want to rent its income tax fields. This measure was designed essentially to accommodate the Quebec government, which had set up its own personal income tax system in 1954.

In 1962, the federal government proposed that tax rental agreements be replaced by a new mechanism to provide the provinces with greater fiscal flexibility. The tax rental agreements were to be replaced by tax collection agreements, under which the provinces legislated their own income tax laws and the federal government undertook to collect provincial and corporate income taxes free of charge. Provinces could thereafter impose whatever rates they desired without having to set up their own collection services.

At the same time, the federal government offered to provide some *tax room* to the provinces, so that they might impose higher personal and corporate income tax rates without increasing the overall burden on their taxpayers. This was achieved by means of tax abatements. The federal government offered to abate or reduce its personal and corporate income taxes so that provinces might concurrently levy taxes on the same base without increasing the burden on taxpayers. Tax abatements were therefore conceived as a means of transferring tax room from the federal government to the provinces.*

Under the tax collection agreements of 1962, the abatements were first set at 16 per cent of basic federal tax on personal income and nine per cent of corporate taxable income. Steps were taken to increase the personal income tax abatement from year to year until it reached 24 per cent in 1966. In 1967, it was further increased by four percentage points to 28 per cent, while the corporate income tax abatement rose from nine to ten per cent of taxable income. The latter increase was part of the compensation paid to provinces under the new program to help them meet the rapidly rising costs of post-secondary education.

By transferring tax room to the provinces through tax abatement, the federal government acknowledged that the growing expenditure requirements of the provinces called for some re-adjustment in the distribution of revenues between the two orders of government, and that such a

*In the case of the personal income tax, the value of an abatement is measured in percentage points of federal basic tax. An abatement of one point of personal income tax is a reduction of one per cent of federal basic tax. In the case of the corporation income tax, the value of an abatement is measured in percentage points of the taxable income of corporations.

re-adjustment ought not to be achieved through net increases in the level of taxation. Since 1966, however, the federal government has maintained that if a government needs additional revenues to finance new expenditure responsibilities, it should seek those revenues through tax increases. More specifically, the federal government has usually rejected the notion that if the expenditure requirements of one order of government are consistently higher than its revenues, it should seek to redress its situation by 'sharing' its deficit with the other order.

Successive increases in federal tax abatements between 1962 and 1967 enabled the provinces to increase their tax revenues substantially without increasing the burden on their taxpayers. Since 1967, the provinces have also exercised the fiscal freedom provided by tax collection agreements by increasing their income tax rates. These measures, combined with increases in federal transfers to the provinces, have brought about significant changes in the distribution of fiscal revenues between the two orders of government.

Notes (Annex II-A)

¹ M.A. Moore, J.H. Perry, Donald T. Beach, *The Financing of the Canadian Federation, The First Hundred Years* (Toronto: Canadian Tax Foundation, 1966), p. 119.

Annex II-B

Fiscal Arrangements for Social Security

Social security: up to 1966

In the early 1900s, income maintenance programs were limited mainly to workmen's compensation, provincial programs for mothers with children and some municipal relief plans. Social services were provided by religious groups and some secular voluntary organizations. But with the pressure of increasing industrialization, the spread of the market economy and the shrinking of the extended family, the need for a more organized form of support became increasingly apparent. In 1927, the federal government introduced the first major conditional grant program, allowing cost-sharing of provincially administered old age assistance. But it was during the Depression and post-war reconstruction that the modern system of fiscal arrangements was born.

The Depression caused extraordinary financial pressures on municipalities, and provincial governments consequently became more extensively engaged in what had been municipal welfare. The federal government was then forced to provide ad hoc grants to hard-pressed provincial governments. Responding to the circumstances of the time, Parliament passed an unemployment insurance act in 1935. It was declared unconstitutional in 1937, but this setback was short-lived. Ottawa obtained provincial consent for a constitutional amendment, allowing it to pass a new unemployment insurance act in 1940.

In 1937, cost-sharing programs similar to that for the aged were widened to include provincially-administered assistance to the blind. By this time as well, major secular voluntary agencies such as the Children's Aid Societies had become firmly established in most urban centres in Canada.

A good deal of the impetus for unemployment insurance and other social security measures

stemmed from the recommendations of the Rowell-Sirois Royal Commission on Dominion-Provincial Relations. In addition to recommending a national unemployment insurance scheme, it also argued that income insurance for the elderly should be a responsibility of the federal government. Social services, on the other hand, were to remain matters of provincial jurisdiction, with the important proviso that the federal government was to ensure national standards were maintained.

Many of these recommendations, along with the prevailing Keynesian economic beliefs, were reflected in the Green Book proposals of 1945, which were the centrepiece of post-war reconstruction. Following the Green Book, a universal Family Allowance was introduced in 1945. In 1950, a joint committee of the Senate and House of Commons recommended a universal old age pension to begin at age 70 and a means-tested pension for those 65 to 70. The federal government wanted to set up an 'earmarked' tax to fund the new pension, and believed that a constitutional amendment was required, because the courts had interpreted funded plans as insurance programs falling under the "property and civil rights" clause of the BNA Act for exclusive provincial jurisdiction. To obtain unanimous consent for the amendment, the federal government agreed to include a condition that no federal law could limit the powers of the provinces with respect to old age pensions. The universal Old Age Security and the means-tested, cost-shared program came into effect in 1952.

Provinces had in the meantime continued to develop their welfare programs, and were providing assistance to persons not covered under cost-sharing. With the possible exception of Quebec, it might be fair to say that provinces had begun to see cost-sharing of social assistance as an obligation of the federal government. Largely in response

to provincial requests, a series of categorical cost-shared plans were introduced in the 1950s:

In 1951 the federal government established a means-tested Blind Persons' Allowance similar to old age assistance. It provided for federal aid to the provinces of 75% of the cost of allowances, up to \$40 a month, to blind persons aged 21 years or more, subject to a means test.

The Disabled Persons Act of 1954 provided for federal aid to the provinces of 50% of the cost of allowances, up to \$40 a month, to totally and permanently disabled persons 18 years of age or more, not blind or disabled for causes covered by Workmen's Compensation, subject to a means test.

The Unemployment Assistance Act of 1956 for the first time provided federal reimbursement to any province entering into an agreement of 50 per cent of the amount spent by the province and its municipalities on financial assistance to needy unemployed persons. In 1957 federal cost sharing was extended to both the employable and unemployable.

This legislation came about as a result of pressures from the provinces on the federal government to enact a supplementary social assistance program for those temporarily unemployed due to the economic downturn of 1954. No limits were placed on the levels of aid which the federal government would share; a means test was not specified as a condition of sharing.¹

Thus, the 1950s saw increasing federal co-ordination of the social security system. Where direct federal programs were not established, fiscal arrangements, mainly cost-sharing, were used to ensure that similar programs were available throughout Canada. As discussed in Annex III-C, hospital insurance was enacted in 1958 as the first major cost-sharing arrangement not in the area of income security. But by the late 1950s, there were signs of discontent from the province of Quebec. The Quebec Royal Commission of Enquiry on Constitutional Problems (Tremblay Commission) argued that the entire area of social security, including veterans' benefits and unemployment insurance, was one of exclusive provincial jurisdiction.

With the Quiet Revolution in Quebec, federal efforts to co-ordinate Canada's social security system encountered greater resistance. But this resistance arose as much from federal-provincial

differences over program design as from differences over jurisdiction per se.

In 1963, the federal government began to seek a consensus on a national pension scheme. There followed a long series of federal-provincial conferences where both Ontario and Quebec objected to the federal plan. A complex package resulted from the pension discussions, with effects for all of Canada's social security system, as well as other fiscal arrangements. This included an offer of 'opting out' of federal programs with compensation to provincial governments through a tax abatement. During negotiations, the federal government introduced its own youth allowance program, essentially the same as that begun by Quebec a few years earlier. Federal taxes in Quebec were reduced by three tax points and provincial taxes were increased by the same amount to compensate for the costs of Quebec running its own youth allowance program. It was also agreed that opting out would be allowed for the cost-shared programs developed in the 1950s. The federal government obtained unanimous consent to amend the BNA Act so that it could provide pensions for the disabled and widows as well as for the elderly.

When the Canada and Quebec Pension Plans were finally brought into effect in 1966, the Old Age Security Act was also amended to provide for direct federal delivery of the Guaranteed Income Supplement. This was Canada's first (and until the introduction of the Child Tax Credit in 1978, the only) federally-administered income-related program.

In 1965, Parliament had enacted the Established Programs (Interim Arrangements) Act, allowing provinces to opt out of federal conditional grant programs and receive, in their place, tax abatements as follows:

- Hospital Insurance—14 points
- Assistance for old age, blind and disabled persons—2 points
- Unemployment assistance—2 points
- Vocational training—1 point
- Health grants—1 point

Provinces accepting the opting-out offer were guaranteed that if the fiscal transfer were ever less

than the amount they would have received had they remained in the conditional program, the difference would be made up in cash payments. Despite the generosity of this offer, only Quebec accepted the fiscal transfer. In 1966, the opting-out offer was renewed and combined with new post-secondary education arrangements, new equalization and other measures. Quebec remained the only province opting out. The federal offer was withdrawn in 1969 to allow time to assess adequately the effects of tax reform.

The Canada Assistance Plan Act

In 1965, federal and provincial governments entered into a series of discussions on reforming the existing cost-sharing agreements. These negotiations eventually resulted in the Canada Assistance Plan (CAP) Act of 1966, which consolidated and expanded the provisions of the prior categorical cost-shared programs, and for the first time paid federal cost-sharing toward provincial social service expenditures. The following is an account prepared by an interprovincial committee of officials of the introduction of the Canada Assistance Plan:

The Canada Assistance Plan of 1966 replaced these federal programs: unemployment assistance, old age assistance, blind persons allowance, and disabled persons allowances. Like these, it linked the legislative authority of the provinces to the spending power of Parliament. Assistance was to be provided by the provinces. Cost sharing now included mothers' allowances, child welfare and welfare services and non-insured health services for people in need or likely to become in need.

A more liberal needs test rather than a means test was required in order to obtain federal cost-sharing. Administration costs were shareable.

The Canada Assistance Plan was an expansionary document and probably the most harmonious product of federal-provincial relations of the decade. Its provisions were influenced by the report of the Quebec Committee on Public Assistance (Boucher Report) even though the Boucher Report recommended a retreat by the federal government in this sector. Most of the considerable growth of provincial welfare programs in the late sixties was well provided for by cost-sharing under the Canada Assistance Plan. Virtually the only non-shareable provincial programs were the Quebec and Newfoundland Family Allowance supplements. The Canada Assistance Plan thus allowed most provinces to consolidate the various

income support programs operated provincially and municipally into a single comprehensive system of income maintenance. Its emphasis on eliminating the causes of poverty spurred the proliferation of welfare services.

The Plan was supported by both levels of government as a needed step to consolidate the various categorical cost-sharing measures which had been enacted in the previous decade. Both levels of government were involved in establishing its basic contents through an extensive process of consultation in the formulation stage.²

The CAP thus allows the federal government to pay 50 per cent of provincial and municipal costs of social assistance (welfare) to persons in need, and of social services to persons in need or likely to become in need if they do not receive such services. For a person or family to be 'in need' they must have assets less than a maximum specified ceiling and their needs must be greater than their financial resources. The CAP also cost-shares work activity projects designed to improve the employability of persons who have unusual difficulty finding and retaining jobs.

The CAP and related agreements (notably the Vocational Rehabilitation for Disabled Persons (VRDP) Act) resulted in a rapid expansion of provincial social services and social assistance programs in the late sixties. But by the early seventies, some provinces were beginning to go beyond the limits of CAP sharing, in particular the requirement that services could only be cost-shared if provided to those in need or likely to be in need. As early as 1970, the federal White Paper, *Income Security for Canadians*, commented on this shortfall of the CAP and called for its amendment:

...the extension and development of welfare services have not resulted in the level of services required to achieve the objectives of the Plan.

This deficiency is particularly marked in respect to day care and homemaker services...access to such services is also needed by other employed people with low incomes. An alternative to the needs test now employed under the Plan would be to develop a simplified income test. Through it the services would be provided, with the extent of payment by the family being determined through the use of a scale of payments related to family income.

Discussions concerning the development of an alternative income test of this kind for the support of day-care and homemaker services and of consequent changes in the Canada Assistance Plan will be held with the provinces.³

The 1970s also saw continuing development of provincial social security programs largely outside of any national framework:

Provinces began to implement programs to supplement the Old Age Security/Guaranteed Income Supplement. British Columbia was the first province to introduce a provincial elderly supplement; other provinces introduced similar supplements shortly afterwards. These programs were only partially cost-shared after complex, mainly bilateral, negotiations. Provinces also began to establish various new initiatives for the provision of, for instance, drugs, day care, dental care, ambulances, home care, and nursing home care on a more universal basis. These programs were not clearly covered under the needs-test provisions of the Canada Assistance Plan, and some even resulted in a loss of cost-sharing.⁴

In 1974, Saskatchewan introduced Canada's first income-tested general supplementation scheme, called the Family Income Plan (FIP). FIP pays a benefit for each child to every family with income below a maximum; the benefits are then gradually reduced as income increases. Saskatchewan administers needs tests to FIP recipients, although their benefit is not dependent upon the test, and CAP shares 50 per cent of the cost of all recipients passing the 'notional' needs test. In 1979, Quebec introduced an earned income supplementation scheme. This program is not cost-shared under CAP, primarily because Quebec refuses to administer a notional needs test. In 1981, Manitoba became the third province to introduce a general supplement with its Child Related Income Support Program (CRISP). This program is similar to FIP and will likely be cost-shared in the same way.

Canada's system of social security has thus become more complex and less integrated over the last decade. Seeing the necessity of providing some overall direction to reform and in response to provincial requests, the Minister of National Health and Welfare initiated a comprehensive review of Canada's social security system using the Orange Paper, *A Working Paper on Social Security*, as a basis for discussion. A reporting structure was set up under the Federal Provincial Conference of Ministers of Welfare under the name, "The Social Security Review." The Review lasted until 1976 and recommended a new Social Services Act (SSA) to replace the CAP (and the Vocational Rehabilitation for Disabled Persons

Act) provisions for *social services*. The SSA would have broadened eligibility conditions with continued 50 per cent cost-sharing. However, some provinces (Quebec and Ontario), as well as a substantial current of opinion within the federal government, felt that cost-sharing of social services, a recognized area of provincial jurisdiction, was inappropriate. As a result, the SSA was withdrawn and the Social Services Financing Act (SSFA) was introduced in its place.

The SSFA would have provided block-funding for social services on a basis similar to the Established Programs Financing arrangements for health services. The condition on provinces would have been to supply information of a statistical nature and to impose no residency restrictions. There also would have been a substantial increase in federal transfers paid to the provinces. Some provinces objected in principle to block-funding, but were willing to agree with the SSFA in the absence of an alternative. However, the SSFA was withdrawn by the federal government in November 1978, as part of its effort to restrain spending.

In the area of *social assistance*, the Social Security Review resulted in a proposal for a cost-shared income support and supplementation program. The income support component was designed to provide financial assistance to those with little or no other income. The provisions to costshare the support level were similar to those of CAP. The supplementation component was meant to cover the working poor and was based on two-thirds federal and one-third provincial sharing. Unlike social services, Canada has regarded programs of income redistribution as co-jurisdictional, with neither level of government having sole responsibility. As a result, this cost-sharing proposal was not seen by federal authorities as the use of federal spending power in an area of provincial jurisdiction. Some provinces, notably Quebec, have disagreed with this interpretation of the division of powers. For this reason, as well as for fiscal reasons, there was insufficient agreement among the provinces to proceed with the cost-shared income support and supplementation proposal, and it was withdrawn in August 1976.

The original 1966 CAP therefore remains the basis for cost-sharing of provincial social services and assistance programs, despite federal and pro-

vincial recognition of its inadequacies. The federal government has now joined the provinces and begun using the income tax system to experiment with delivering its own income supplementation program (the Refundable Child Tax Credit).

After the Social Security Review failed to produce the expected results, federal-provincial consultation on reform ceased for a few years: However, the Social Security Review had resulted in a general 'upgrading' in the planning capacities of provincial social services departments. The provincial ministers established an interprovincial working group in 1978 to report on the social security system as a whole. The Interprovincial Task Force on Administration of Social Security report was published in 1980 and reawakened interest in a further attempt at reform.

In 1980, a federal-provincial Task Force to review the CAP and VRDP was established, with a mandate to identify particularly problematic areas of CAP and VRDP where additional flexibility might be most warranted but without implying large additional costs. At the time of writing this report, that Task Force report had not been made public. But the Minister of National Health and Welfare, in testimony to the Task Force on Federal-Provincial Fiscal Arrangements, indicated that the review had been harmonious and productive.

Notes (Annex II-B)

¹ Interprovincial Conference of Ministers Responsible for Social Services, *The Income Security System in Canada* (Ottawa, 1980), p. 20.

² *Ibid.*, p. 25.

³ Health and Welfare Canada, *Income Security for Canadians* (Ottawa, 1970), p. 19.

⁴ *The Income Security System in Canada*, p. 27.

Annex II-C

Health Programs

As in many other areas of public life, the history of modern fiscal arrangements for health begins with the federal Green Book proposals placed before the Dominion-Provincial Conference on Reconstruction in 1945. Financial aid was offered to provincial governments for a comprehensive health insurance program, nation-wide in scope. Although these proposals were not accepted at the Conference, the federal government took the first steps on the road to national health insurance by introducing a program of general health grants in 1948. The grants assisted in the improvement of provincial public health services and led to a standard hospital accounting and reporting system, an upgrading of diagnostic services and, through the Hospital Construction Grant, an upgrading of physical facilities.

In January 1956, the federal government placed concrete proposals before the provinces to inaugurate a phased health insurance program, with priority to hospital insurance and diagnostic services. When proclaimed in 1957, it was planned that the Hospital Insurance and Diagnostic Services Act (HIDSA) would come into force when a majority of the provinces having a majority of the population agreed to implement hospital insurance plans that qualified under the Act. However, after the Rt. Hon. John G. Diefenbaker became Prime Minister, the limiting provision was deleted, permitting the federal government to implement the Hospital Insurance Program from July 1, 1958.

As documented by the Royal Commission on Health Services (the Hall Commission, 1961-65), a variety of factors contributed to the 1956 federal decision to proceed with a national hospital insurance program. There were successful provincial plans in British Columbia and Saskatchewan, a more limited but expanding provincial-municipal

plan in Alberta and a plan in Newfoundland. Equally important were the Blue Cross plans, which, although they could not reach all the population (in Ontario, Blue Cross insured 40 per cent of the population in 1956), were sound in principle. Another factor was the gradual improvement in the supply of hospital beds and personnel, achieved partly through the Hospital Construction Grant and other health grants.

Despite voluntary prepayment and commercial insurance, demands on provincial governments and municipalities for increased hospital grants were large and persistent. Even in Ontario, only two-thirds of the population had any health insurance protection, and much of this was inadequate. Hospitals were also, by and large, in serious financial difficulty.

Four provinces, Newfoundland, Saskatchewan, Alberta and British Columbia, were already operating hospital insurance plans in 1957 when the HIDSA was passed. They, plus Manitoba, entered into federal-provincial agreements on July 1, 1958, and were later joined by Prince Edward Island, Nova Scotia, New Brunswick and Ontario in 1959, the Northwest Territories and Yukon in 1960, and Quebec in 1961.

The following are some of the main features of the hospital insurance program:

- It is a joint federal-provincial program that recognizes the constitutional position of the provinces and leaves responsibility for administration with them.
- The services authorized as insured services under the Hospital Insurance and Diagnostic Services Act are, by and large, all the in-patient services normally provided

at the standard ward level in an active treatment hospital, hospital for the convalescent, or a hospital for the chronically ill, but not in mental hospitals, tuberculosis sanatoria, nursing homes, homes for the aged, infirmaries or other institutions the purpose of which is the provision of custodial care.

- The program is based on the assumption of universal coverage of all citizens on uniform terms and conditions regardless of age, sex, physical or economic condition. (Subsequent interpretations of "uniform terms and conditions" have tended to limit the application of uniformity through such things as age exemptions from premiums and different levels of authorized charges for different ages.) It also facilitates portability of benefits from province to province.
- The original formula for cost-sharing paid each province a per capita grant for in-patient services equal to one-quarter the national per capita cost plus one-quarter the provincial per capita cost. Thus, the federal contribution was proportionately higher in low-cost provinces than in high-cost provinces.
- The Act is not concerned solely with the financing mechanism; hence the requirement that each province indicate the means whereby it proposes to "license, inspect and supervise the standards of hospitals". The Act is primarily a legislative enactment to enable people to obtain the services they require, and secondarily, a financial arrangement to assist in payment for those services.

At the option of the individual province, out-patient services can also be cost-shared. Although the range of insured out-patient services still varies from province to province, over the decade following introduction of the program out-patient benefits became much more comprehensive and uniform.

During the 1930s and 40s a number of medical care insurance plans had been implemented under medical society sponsorship. These plans supplied comprehensive coverage for physicians' services

and were known as 'service plans' in which the plan payment to doctors was accepted as payment in full. The service plan approach became the most popular type of insurance arrangement with the public and medical profession. It is not surprising, therefore, that this approach was eventually reflected in the medical care program.

In 1959, the Premier of Saskatchewan, the Hon. T.C. Douglas, announced his government's intention to develop a comprehensive medical care program that would embody five basic principles—prepayment, universal coverage, high quality of service, administration by a public body responsible to the provincial legislature and a form that would be acceptable to both those providing the service and those receiving it. Legislation reflecting these principles was assented to in November 1961, and July 1, 1962 was set as the starting date.

On July 1, 1962 the provincial College of Physicians and Surgeons withdrew all physician services except for emergency treatment, pending certain demands being met. Services were not reinstated until July 23, 1962 after an agreement had been reached between the government and the College that contained concessions from both sides. In the settlement, the government accepted the right of doctors to operate outside the system and bill patients directly rather than billing the government. The doctors conceded the right of the provincial government to implement a universal plan, while the government agreed to retain voluntary health insurance agencies as intermediaries in the processing of claims.

Prior to the introduction of the medical care program, three other provinces (Alberta, British Columbia and Ontario) introduced some type of medical care legislation, although none tried to repeat the Saskatchewan requirement of universality.

The Royal Commission on Health Services was appointed in 1961, and over the next few years carried out the most extensive inquiry so far undertaken to determine the future health care needs of Canadians and how these needs might best be met. The Commission recommended a program that would ensure that virtually all Canadians had access to necessary medical care on a prepaid basis. These recommendations formed the basis for the medical care program.

At the 1965 Conference of First Ministers, the Prime Minister, the R. Hon. Lester B. Pearson, announced that the federal government was prepared to contribute to the provinces approximately one-half of the national cost of insured medical services. Provincial medical care insurance plans would be required to meet the following four principles:

1. The scope of benefits should be, broadly speaking, all medically required services provided by physicians, both general practitioners and specialists. Whether the federal contribution should be extended subsequently to encompass a broader range of services was to be a matter for future agreement.
2. The plan should provide coverage to all eligible residents of the province on uniform terms and conditions.
3. The plan should be publicly administered, either directly by the provincial government or by a public agency fully accountable to the provincial government.
4. The plan should provide full transferability of benefits when insured persons are absent from the province or when moving to reside in another province.

Following the 1965 Conference of First Ministers, there were two federal-provincial conferences of Ministers of Health at which the federal government's proposals for the medical care program were discussed. Only one province (Alberta) objected to the proposed program, on the grounds that commercial profit-making insurance carriers would be excluded from having other than an agency role in the publicly-financed scheme. To be eligible for federal contributions, provinces would be required to have a minimum of 90 per cent of eligible residents insured. Several provinces indicated a preference for a more gradual introduction. This preference was primarily related to the problems involved in setting up the administration, and was not based on opposition to the principle of universal coverage per se. However, several provincial treasurers expressed their concern about the timing of the program and the effect this would have on provincial priorities.

The Medical Care Act was introduced in the House of Commons on July 12, 1966. The details of the Bill followed the principles described earlier,

but new policies were also embodied. The first was that the financial base on which the federal share would be calculated would be the national per capita cost calculated on the costs in participating provinces rather than in all provinces. The second was that the definition of public administration was broadened to permit non-profit private insurance carriers a limited role in the administration of the provincial plan. The original starting date proposed for the medical care program had been July 1, 1967. However, after consultation with the provinces, the federal government decided in September 1966 to change this to not later than July 1, 1968 in view of the general economic situation. The Medical Care Act was passed by the House of Commons on December 8, 1966 with only two members dissenting at third reading and 177 in favour.

Participation in the medical care program followed the general pattern of other cost-shared health and welfare programs, with some provinces participating from the beginning of the program and others entering later as provincial priorities permitted. All 10 provinces introduced qualifying medical care insurance plans within two and a half years of the implementation of the national program, followed by plans in the Northwest Territories and Yukon in 1971 and 1972 respectively.

The implementation of the medical care program was not free of acrimony. The Minister of Health in Alberta, the Hon. J. Donovan Ross, and the Provincial Treasurer in Ontario, the Hon. Charles MacNaughton, were vociferous about this use of federal spending power. Mr. MacNaughton was particularly concerned about the problem of financing. He disliked the cost-sharing formula and preferred to have each province reimbursed at 50 per cent of its actual costs. He also preferred a major reallocation of revenues to the provinces before proceeding with the medical care program. Mr. Ross objected to the exclusion of commercial profit-making insurance carriers.

In most provinces there was considerable tension evident during negotiations between the provincial government and the provincial medical associations as provinces prepared to implement their plans. Fortunately, with one notable exception, there was no repetition of the doctors' strike that Saskatchewan experienced in 1962. The exception

was the withdrawal of services by specialists in Quebec prior to the implementation of the medical care insurance plan in Quebec on November 1, 1970.

In Quebec, the background for implementation of medicare was different from what pertained in most of Canada. During the 1960s Quebec was the only province without a first-dollar coverage service plan, and there was no uniform provincial fee schedule to standardize physicians' charges. There was a disproportionately large number of specialists versus general practitioners and the provincial medical association was not the negotiating body for the medical profession as in other provinces. The specialists and general practitioners are separate negotiating groups, called syndicates.

During the summer of 1970, the Quebec government eliminated the right of physicians to opt out of the provincial plan without loss of plan benefits to insured patients. This led to the specialists' syndicate ordering, on October 8, 1970, a withdrawal of services except for emergency services in selected hospitals. The specialists returned to work on October 18, 1970, having gained no real concessions.

At the December 1970 Conference of Ministers of Health, the federal government raised the possibility of new financing arrangements for health. It was felt that greater provincial flexibility could offer increased prospects for innovation in the development of less costly alternatives and enable the provinces to develop their plans more in accordance with their particular needs.

A formal federal offer on health financing was placed before the provincial governments in 1973. The offer included a block per capita arrangement for health financing related to the growth in the Gross National Product and a thrust fund. The offer included provision for risk-sharing, in that additional federal contributions would be provided if provincial costs escalated at a high rate. A condition was that the existing national standards of comprehensiveness, accessibility, universality and portability were to be retained by the provincial plans. However, in 1974 the provinces unanimously rejected the federal offer.

Under the Hospital Insurance and Diagnostic Services Act, the federal government must give

five years' notice before the existing arrangements can be terminated and new arrangements undertaken. The Minister of National Health and Welfare, the Hon. Marc Lalonde, notified the provinces in July 1975 that the agreements would be terminated as of July 15, 1980. At the same time, the Minister assured the provinces that this notice should not be interpreted as an intention on the part of the federal government to withdraw its financial support for hospital care services at the end of the five-year period. He expected that new financing arrangements would come into effect at that time, if not earlier.

In the 1975 budget, ceilings were announced on the rate of growth of the federal per capita contributions to the provinces under the Medical Care Act. The ceiling on the federal per capita contributions under the Medical Care Act for fiscal year 1976-77 was enacted at a level of 113 per cent of the 1975-76 per capita contributions.

By 1977 the federal medical care and hospital insurance fiscal arrangements had achieved their main objective: to establish a universal, comprehensive system of health insurance in Canada. But once this goal was achieved, much of the reason for the particular design of the fiscal arrangements was removed. In particular, the costs of the programs were now relatively well understood, and organized opposition to the programs had disappeared. It no longer seemed necessary for the federal government to play an advocacy role, through shared-cost programs, to develop a national system of medicare and health insurance.

As the need for the earlier fiscal arrangements diminished, problems with them came all the more clearly into view. These were reflected in provincial complaints about rigidity (often accompanied by calls for expanded coverage), and, as we have noted, federal actions to retain control over its own spending decisions. These problems, and how they were addressed, are discussed in the Chapter III.

Annex II-D

Evolution of Federal Support of Education in Canada*

Early Developments

At the time of Confederation, the federal government played no role in education in Canadian society. Under the terms of Confederation in 1867, the British North America Act placed responsibility for education with provincial governments. At that time... public responsibility extended only to elementary schooling. Secondary schools, which were usually supported by religious organizations, were reserved to train future elites... However, social and economic changes over the hundred years since confederation moved the federal government into an increasingly active role in education. Thus the federal government responded to educational demands of industrialization in the early 1900s, veterans returning from wars, and expanding post-secondary enrolments in the 1960s. These and other events, which placed heavy strains on education facilities, resulted in increased federal commitment....

Federal participation dates back to 1876 when... to train more Canadians to serve as army officers, the Royal Military College was established at Kingston. Another early step was a 150,000-acre land endowment to the University of Manitoba in 1885...for capital expenditures and...a permanent source of revenue for the university.

Pressure for educational reform came to bear on the federal government in the early 1900s.... Following requests for action from business and labour, the federal government appointed the Royal Commission on Industrial Training and Vocational Education in 1910.

*This history is based in large part on extracts from a 1975 submission by the Government of Canada to the Organization for Economic Co-operation and Development. The submission was prepared by the Department of the Secretary of State.

The work of the Commission resulted in.. the Agricultural Aid Act of 1912, and the Agricultural Instruction Act of 1913. The former supplied grants to provinces to develop agricultural education and techniques; the latter specifically gave assistance for training, directly to the three existing veterinary colleges and indirectly (by channelling funds through the provinces) to agricultural colleges....

In 1919, the federal government, in consultation with the provinces, introduced the Technical Education Act which bound the federal government to grant ten million dollars over a ten-year period for upgrading vocational, technical and industrial education in Canada.... Funds were not to exceed, in any year, the amount which each provincial government spent on technical education.

There were problems with the Act: it was poorly administered.... Furthermore, since benefits for each province were related to its willingness to spend in the designated sector, it was difficult for poorer provinces to take full advantage of available funds. As a result, when the Act lapsed... (in 1929)... Ontario was the only province which had taken full advantage of the allotted funds. Extensions had to be implemented to permit other provinces to claim their allotments.

In 1916, as a result of Canada's war involvement and a desire to improve research and development, the federal government formed the National Research Council (NRC). Initially, this was an effort to co-ordinate government research programs. During World War II, NRC played a vital role in co-ordinating and conducting scientific research.

When the federal government established the Dominion Bureau of Statistics in 1918, provision

was made for a division to be concerned with education statistics. The Education Division published its first statistical report in 1921.

In the late 1920s, anticipating the expiry of the Technical Education Act, the provinces approached the federal government to continue federal aid. Another Royal Commission to study technical and professional services was appointed in 1927. The report of the Beatty Commission resulted in the Vocational Education Act of 1931 which, due to the depression, was never proclaimed. This Act would have provided for the continuation of the programs initiated under the Technical Education Act of 1919. As it was, the Technical Education Act was given two five-year extensions which prolonged its existence until 1939.

The economic depression of the 1930s helped identify a major problem within the secondary school systems. On school leaving, many students found they had few occupational skills.... In an attempt to alleviate this problem, the federal government introduced a new program for technical education in 1937 with the Unemployment and Agricultural Assistance Act. This Act, directed towards maintaining the morale and increasing the employability of young people, was negotiated in agreement with the provinces, on a cost-sharing basis, through the establishment of various occupational training projects.

In 1939, the Youth Training Act, introduced as the successor to the Unemployment and Agricultural Assistance Act, directed \$4.5 million over the following three years to the provinces for the purpose of training young people between the ages of 16 and 30. Emphasis was below the post-secondary level. In addition, further assistance in the form of grants and loans was provided to post-secondary students under the Dominion-Provincial Student Aid Program.

In 1942, the existing federal-provincial agreements on vocational training were combined under the Vocational Training Co-ordination Act. This Act permitted the continuation of projects under the Youth Training Act, 1939, and provided for the establishment of a Vocational Training Advisory Council. The new Act also made provision for vocational training of discharged servicemen.

Royal Commission on Dominion-Provincial Relations

This Commission, known as the Rowell-Sirois Commission, was appointed in 1937 to make an assessment of the economic and financial basis of Confederation; the distribution of federal and provincial powers; and federal-provincial financial relations. While its mandate did not extend to education, the Commission felt that equality of educational opportunity did come within its domain. According to the Commission, the concept of "education" had changed and expanded to include new dimensions since the time of the British North America Act. In view of this, the Commission recommended that "the federal government should have full power to provide employment aid for those recognized as employable... (which would) make the training of unemployed youth a matter of even greater federal concern than at present". The Commission assumed that the provinces would provide a system of courses to those Canadians requiring further training.

While the Commission stated that a free hand in education was vital to provincial autonomy, it identified certain problems arising in this context.... Although the Commission lamented the disparity in educational opportunity throughout the country, it made no relevant recommendations, due to constitutional restraints. Solutions rested on financial proposals which would place the provinces in a position to meet their responsibilities for education, if they chose to do so.

...However, in view of the importance of higher education to Canadian society, and the fact that academic freedom required financial security, the Commission offered the following advice: "it is conceivable that even the provinces might welcome a small Dominion grant to their universities made contingent on the maintenance over a period of some years of the provincial grants to the same institutions and on the preservation of high academic standards". In addition, it suggested that grants could be given on a per capita basis, and scholarships and bursaries could be provided in order to attract more students from lower-income groups.

Another suggestion was that a council, analogous to the National Research Council, could be established to support research work in the social sciences in Canadian universities and elsewhere. The Commission suggested, furthermore, that it might be appropriate for the federal government to establish a national library.

The Veterans' Rehabilitation Act

The Veterans' Rehabilitation Act of 1945 was a federal response to the thousands of soldiers returning from World War II with little education and poor job prospects. By virtue of this Act, a veteran attending an educational or vocational training institution was entitled to receive a monthly living allowance, and have his tuition fees paid by the government. These provisions permitted over 50,000 veterans to attend universities, and another 85,000 to enroll in vocational and technical training courses.

While the Veterans' Rehabilitation Act assisted veterans, it also helped to ease the financial difficulties of Canadian universities, which had experienced a steep decline in enrolments and revenues during World War II. Under the provisions of the Act, universities became entitled to a direct subsidy of \$150 per year for each veteran enrolled. In addition, they received further direct aid for construction of new buildings and facilities. However, by 1950, the inevitable decline in the number of veterans enrolled came to be an important factor leading to new financial difficulties for Canadian universities.

Royal Commission on National Development in the Arts, Letters and Sciences

Growing Canadian cultural awareness and concern for a Canadian identity prompted the federal government to appoint in 1949 the Royal Commission on National Development in the Arts, Letters and Sciences (the Massey Commission). The Commission released its report in June 1951. In the field of higher learning, the Commission saw three major problems: a scarcity of financial aid to the arts and humanities; the financial condi-

tion of universities; and orientation toward a small educated elite. As the Commission noted, the number of veterans enrolling as students was quickly diminishing and, as a result, the federal aid that came with them was eroding. The Commission believed that action was urgently required in this sector and that it was the duty of the federal government to assist in some way.

In view of the fact that the Canadian constitution did not forbid financial assistance to a citizen in order to help him to carry on studies in his chosen field, the Commission did not feel that it would be improper to recommend federal aid in the form of contributions to individuals. A further recommendation was the continuation of federal support for the program of the National Research Council. Outside of the boundaries of natural science, the Commission recommended the establishment of... the Canada Council, with the stipulation that such a council receive an annual grant from the federal government for the establishment and maintenance of an adequate number of scholarships, studentships and bursaries for post-graduate students of Canadian universities in the humanities, the social sciences and law. Further recommendations included a broadened and improved system of aid to undergraduates, and funds for exchange scholarships.

Recognizing the increasingly vital role of universities in the Canadian society, the Commission felt that the Government of Canada had responsibilities towards these institutions. The Commission therefore recommended:

- That in addition to the help already being given for research and other purposes, the federal government make annual contributions to support the work of the universities on the basis of the population of each of the provinces of Canada;
- That these contributions be made after consultation with the government and the universities of each province, to be distributed to each university proportionately to the student enrolment;
- That these contributions be sufficient to ensure that the work of the universities of Canada may be carried on in accordance with the needs of the nation.

Other recommendations in this report were that all members of the National Conference of Canadian Universities be eligible for the above-mentioned grants and that grants be made directly to the universities for each scholarship holder to compensate for the supplementary expenses incurred by the institution. Furthermore, as the Rowell-Sirois Commission had suggested, the Massey Commission recommended that a National Library be established as soon as possible.

The Technical and Vocational Training Act

Toward the end of the 1950s there was growing concern about the need to expand the training facilities for Canada's manpower, which was short of skilled workers. ...the Technical and Vocational Training Assistance Act (TVTA) of 1960 marked a major federal attempt to overcome Canada's skilled manpower shortage.

The TVTA authorized the investment of a vast amount of federal funds in capital development and a wide variety of programs. These programs ranged from technical and vocational high school training to the training of technical and vocational teachers. The largest expenditures were made under the 75 per cent cost-sharing Capital Assistance Program. This program, which permitted the provinces to undertake capital development of 25 per cent of the costs, resulted in a substantial expansion of technical and vocational education facilities in Canada.

While the programs inaugurated under TVTA did not completely eliminate Canada's skilled manpower shortage, the number of students that could be accommodated in technical and vocational training courses was increased by four times. A total of 688 new schools were built and 440 projects involving additions and alterations to existing schools were completed.

Adult Occupational Training Act

In 1967 (concomitant with the introduction of the fiscal transfers for post-secondary education discussed below), the federal government ter-

minated the Technical and Vocational Training Act programs but introduced the Adult Occupational Training Act (AOTA). This signalled the end of cost-sharing with the provinces in the technical and vocational area, and the assumption by the federal government of responsibility for the upgrading and retraining of adult members of the labour force. The Act led to the establishment of the Canada Manpower Training Program, which is administered by the Department of Manpower and Immigration (now the Canada Employment and Immigration Commission). The program, which is designed to contribute to economic and social development while reducing regional and individual disparities, provides employment-oriented training.

Grants to Universities

Not only were Canadian universities threatened in the late 40s and early 50s by decreasing veterans' enrolments, and corresponding decline in federal assistance, but also by rising costs. Tuition fees were increased, restricting access to university education.

Obviously, a long-term solution had to be found to the problem of financial instability of Canadian universities. In 1949 the National Conference of Canadian Universities (NCCU) presented a statement to the Rt. Hon. Louis St-Laurent, then Prime Minister, in which they offered a justification of federal participation in university financing. A few weeks later, an NCCU brief presenting a similar case was submitted to the Massey Commission. In both instances, federal aid was justified by the NCCU in terms of national requirements for professional manpower. As a result, the Massey Commission, in its report, supported federal assistance to universities in co-operation with provincial governments. The federal government instituted, by Order-in-Council, a program of direct assistance to universities for 1951-52; a grant of 50¢ per capita of each provincial population was made available to universities in the respective provinces.

This assistance was welcomed by the universities. It was less well received by provincial governments, since the plan had not gone through the recommended intergovernmental process. The

Quebec government, furthermore, viewed this as an incursion into an area of provincial jurisdiction and instructed its institutions to refuse the grants. This issue was finally settled by a federal-provincial agreement in 1959.

Over the years the grants under the program were gradually increased until they reached \$5 per capita in their final year, 1966-67. During the program's 16-year existence, \$400 million was distributed to universities across Canada. This program was replaced by the Federal-Provincial Fiscal Arrangements Act of 1967.

The Canada Student Loans Plan

Until the early 1960s, there was little direct government assistance available in Canada for post-secondary students. A small-scale federal plan, the Dominion-Provincial Student Aid Program, in existence since 1939, was limited in scope. Federal expenditure on the program totalled less than \$45 million during its 25-year existence, affecting on an average fewer than 3,000 students a year.

It is important to note that in the early 1960s only about five per cent of the relevant population attended university, with enrolment comprising to a great degree students from families in the middle and upper income groups. It was evident that university accessibility was restricted. In an attempt to overcome this inequity, the federal government in 1964 introduced legislation creating an extensive national program of loans to students at the post-secondary level.

Fiscal Transfers for Post-Secondary Education, 1967-1976

In 1966, in the face of mounting evidence that university enrolments were likely to double in the next ten years, the federal government proposed to assist the provinces in financing the anticipated costs of post-secondary education by a special arrangement of fiscal transfers. This approach rested on an awareness of the extraordinary financial requirements for higher education in the years

ahead, together with a recognition of provincial jurisdiction over education.

To effect these transfers, the federal government reduced its tax on incomes of individuals by 4 per cent of the basic tax, and its corporation income tax by 1 per cent of corporate profits, thus enabling the provinces to raise their own taxes by corresponding amounts. It was recognized, furthermore, that the foregoing tax transfers would meet a different proportion of the expenditure needs of each of the individual provinces for post-secondary education. This was because of the differences in the levels of education expenditures across Canada, and because of differences in provincial tax yields even after application of a supplementary equalization formula. Thus a straight transfer of tax points would result in an unequal federal contribution toward the expenditures of the different provinces in this field. The federal government therefore made provision for additional payments to be known as the post-secondary education adjustment payments. This latter element of the fiscal transfers rested on a formula linked to the expenditures in each province in the field of post-secondary education, with the federal government guaranteeing that its total contribution for post-secondary education to a province would equal a certain proportion of these expenditures.

It was felt that the broad financial needs of the provinces in higher education could best be measured by totalling the operating expenditures of the post-secondary institutions in each province, i.e., the expenditures of universities, technical institutes and other post-secondary institutions that arise from the training of students beyond junior matriculation. The post-secondary education adjustment payments were, therefore, set at a level necessary to augment the tax transfer to each province to a total compensation equal to 50 per cent of the operating expenditures for post-secondary education in each province. It was recognized that this method might not suit some of the provinces. Consequently, provision was made for an alternate formula representing the flat figure of \$15 per capita, which was roughly equal to 50 per cent of post-secondary operating expenditures in all provinces combined.

The statutory provisions governing the new program of fiscal transfers for post-secondary educa-

tion were written into Part II of the Federal-Provincial Fiscal Arrangements Act, 1967, which took effect on April 1, 1967.

The 1967 formula was modified in 1972 with the placing of a 'cap' on the federal overall contribution, restricting its rise to a maximum of 15 per cent annually.

Established Programs Financing, 1977-1982

The original post-secondary transfer of 1967 was subsumed under the Established Programs Financing arrangements introduced in 1977. In these new arrangements the federal compensation to provinces in support of post-secondary education was placed on a per capita basis and escalated at the rate of growth of the economy. The federal contribution is half in cash (called 'basic cash') and half through a combination of tax room transfer and cash 'transitional' payments. (These arrangements are described in Chapter III.)

The Granting Councils

Federal support for university research has been channelled through funding councils for many years.

National Research Council Founded in 1916, the National Research Council (NRC) has assisted and promoted scientific and industrial research in Canada and scientific and engineering competence in its own laboratories, in universities and in industrial communities.

Through its program of scholarships, fellowships and grants in aid of research, it has provided support to university faculty members, graduate students, post-doctorate fellows and universities. The fields of research supported through NRC awards include such areas as agriculture, biology, astronomy, chemistry, computing and information science, engineering, geology physics.

Since 1978, when its university research and scholarship functions were assumed by the Natural Sciences and Engineering Research Council,

the NRC has concentrated on work in its own laboratories across the country. It also continues to provide some industrial research support.

Medical Research Council The MRC has its origins in 1939 as a committee for medical research in the NRC. It became an autonomous granting body attached to the NRC in 1960, and in 1968, a separate Crown corporation.

Research grants and research fellowship are awarded to university faculty members in the health sciences.

Canada Council Established in 1957, the Canada Council provides grants and fellowships in support of university research in the humanities and social sciences. The Council also finances the arts through bursaries, awards to individuals and grants to organizations. This latter responsibility, along with certain other measures related to the arts, is now this Council's main function. Its grants and scholarship program was assumed by the Social Sciences and Humanities Research Council when it was established in 1978.

Certain changes in the granting council system were mentioned above. In early 1978, Parliament passed legislation that established the *Natural Sciences and Engineering Research Council*, and the *Social Sciences and Humanities Research Council*. The Medical Research Council had its mandate broadened by the same legislation. These Councils provide major support for research in universities. The broad objectives of these bodies are as follows:

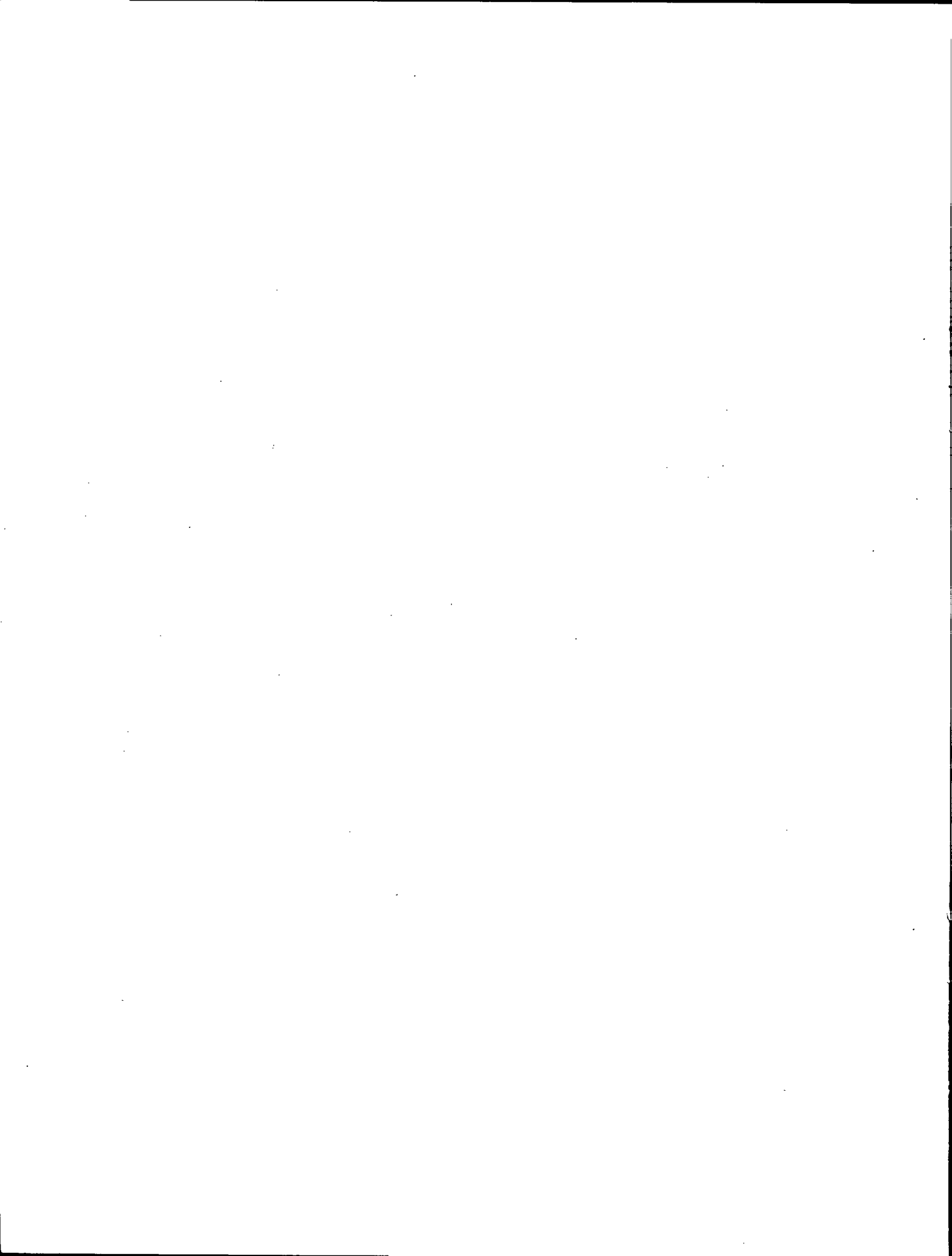
1. In their five-year plans submitted to the government, each of the granting councils has proposed a broad-ranging program of scholarships, fellowships and research associate-ships that would help to alleviate this critical barriers to manpower availability. The programs are also designed to compensate for the effects on university research of the significant reduction in university enrolments projected for the period 1985-95.
2. *The need to expand university research in areas of national concern* The rationale for increased federal support of university research has recently included a new element—research targeted in areas of national

concern. Each of the granting councils has developed strategic grants programs in their five-year submissions.

3. *The need to maintain a strong foundation of fundamental research* Canada's investment in fundamental research declined in real terms in the 1970s. A special effort has been made over the last two years to support fundamental research in the face of budget cuts in other sectors. Since nearly all of the fundamental research carried out in Canada is performed in university laboratories, a continuation of strong federal support for this type of research activity is indicated.
4. *Scientific equipment requirements* The reduced funding levels for university research during the 1970s resulted in a deterioration of the available research tools. A long-term scientific equipment and facilities refurbishment program has been proposed in the granting councils' five-year plans.

Other Current Federal Expenditures and Transfers

Table V-1 in Chapter V provides further details on federal involvement in research and education by a wide range of other agencies.



Chapter III

ESTABLISHED PROGRAMS FINANCING

Introduction

This chapter describes the development of the Established Programs Financing (EPF) arrangements negotiated in 1976 for the 1977-82 period, the apparent consequences of those arrangements, and the approach recommended by the Task Force in developing revised arrangements for the period 1982-87.

As outlined in the brief history in Chapter II and its annexes, this story began long before 1976. While the arrangements for social security remained on a cost-shared basis, despite proposals for changes throughout the seventies, those for health and post-secondary education were brought together in a package that went some way toward submerging their identities in a common block-funding formula.

Other federal programs also involve transfers to provincial governments, and it is perhaps useful to consider this slightly broader context before turning to an examination of the EPF. It is worthwhile noting, for example, that current federal transfers to provinces take a variety of forms:

- unconditional equalization payments, which are unaffected by provincial expenditures, but based on provincial revenues;
- almost unconditional transfers intended for designated purposes, such as post-secondary education support, unaffected by either provincial expenditures or revenues;
- broadly conditional (block-funding) transfers such as those for health, which are also unaffected by provincial revenues or expenditures

(except possibly to the extent that these are related to satisfaction of program conditions);

- cost-shared programs or matching grants, such as the Canada Assistance Plan (CAP), in which the amount of federal transfer is directly related to provincial expenditures in the eligible programs; and
- direct federal payments, such as those under the Canada Manpower Training Plan, for services rendered.

There are a number of critical links between these different federal programs under which funding is provided to provincial governments—not only direct interactions arising out of eligibility conditions (such as those in which an individual might move sequentially from manpower training programs to UIC to social assistance), but also indirect interactions that permit one program to affect another by altering underlying circumstances (such as the way in which a successful expansion of economic development programs may raise income and employment levels and reduce the required scale of social assistance programs). Both categories of interaction, while difficult or impossible to measure, are critical to any assessment of the consequences of changes in one area of federal programming or another.

Tables III-1 and III-2 and Figure III-3 provide details of the major transfers to provinces, territories and municipalities for 1981-82. Table III-1 sets out the federal contributions by province. Table III-2 provides the same information in summary form, but on a per capita basis. Figure III-3 sets out total federal transfers to provinces as a

Table III-1
Detailed Federal Transfers to Provinces, Territories
and Municipalities, Fiscal Year 1981-82
(\$ millions)

Program	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	N.W.T.	Yukon	TOTAL
Statutory Subsidies	9.8	.7	2.3	1.8	4.6	6.0	2.2	2.2	3.5	2.5	—	—	35.6
Fiscal Equalization	416.7	95.6	488.5	418.7	1,842.4	—	365.3	—	—	—	—	—	3,627.2
1971 Undistributed Income on Hand	*	—	*	—	3.4	.4	*	*	.3	.1	—	—	4.2
Reciprocal Taxation	9.3	2.9	18.7	8.5	35.0	57.5	—	—	—	—	—	—	131.9
Public Utilities Income Tax Transfer	4.7	.8	—	—	1.4	21.6	2.0	*	36.9	1.5	.3	.3	79.5
Youth Allowances Recovery	—	—	—	—	179.6	—	—	—	—	—	—	—	179.6
Prior Year Adjustments**	—	—	—	—	—	—	—	—	—	—	—	—	200.0
Total Fiscal Transfer Cash Payments	440.5	100.0	509.5	429.0	1,707.2	85.5	369.5	2.2	40.7	4.1	.3	.3	3,898.8
Hospital Insurance	79.7	17.2	117.1	97.5	592.2	1,103.0	140.8	133.7	249.8	330.0	5.7	2.4	2,869.1
Medicare	27.4	5.9	40.3	33.6	203.9	379.8	48.5	46.0	86.0	113.6	2.0	.8	987.8
Post-Secondary Education	50.7	10.9	74.5	62.0	376.8	701.8	89.6	85.0	159.0	209.9	3.6	1.6	1,825.4
Extended Health Care	17.2	3.7	25.3	21.1	186.3	254.8	30.5	28.9	62.8	78.5	1.3	.6	711.0
Prior Year Adjustments**	—	—	—	—	—	—	—	—	—	—	—	—	18.0
Established Programs Financing Cash Payments	175.0	37.7	257.2	214.2	1,359.2	2,439.4	309.4	293.6	557.6	732.0	12.6	5.4	6,411.3
Canada Assistance Plan	56.3	13.0	72.7	79.0	572.3	553.4	72.2	75.3	167.0	323.2	8.9	2.1	1,995.4
Health Resources Fund	—	.2	1.5	—	3.2	.9	—	—	—	.2	—	—	6.0
Other Health and Welfare	1.0	.5	2.4	4.5	—	33.1	5.5	5.2	9.2	4.0	.1	1.4	66.9
Bilingualism in Education	1.5	.7	2.6	13.4	108.2	41.2	4.0	1.4	3.8	4.3	.1	.1	181.3
Economic Development	54.0	28.9	62.9	75.3	218.3	54.5	42.0	29.2	13.7	34.9	5.0	2.9	621.6
Crop Insurance	*	.9	.2	.2	3.8	13.7	9.8	41.3	27.4	1.7	—	—	99.0
Territorial Financial Agreements	—	—	—	—	—	—	—	—	—	—	273.6	62.1	335.7
Municipal Grants	1.7	.7	9.2	5.0	32.7	75.6	10.1	4.2	9.7	16.8	.8	1.3	167.8
Total Other Cash Payments	114.5	44.9	151.5	177.4	938.5	772.4	143.6	156.6	230.8	385.1	288.5	69.9	3,473.7
TOTAL CASH TRANSFERS	730.0	182.6	918.2	820.6	4,004.9	3,297.3	822.5	452.4	829.1	1,121.2	301.4	75.6	13,783.8
Established Programs Financing Tax Transfer	—	—	—	—	—	—	—	—	—	—	—	—	—
13.5 Personal Income Tax Points	49.5	10.7	94.0	69.9	931.2	1,502.7	132.2	122.6	381.8	480.6	7.3	5.1	3,787.6
1.0 Corporate Income Tax Point	2.9	.5	5.6	3.7	58.6	109.9	9.6	11.3	59.9	35.5	.7	.3	298.5
Contracting-Out Tax Transfer	—	—	—	—	—	—	—	—	—	—	—	—	—
8.5 Personal Income Tax Points for EPF	—	—	—	—	532.7	—	—	—	—	—	—	—	532.7
5.0 Personal Income Tax Points for CAP	—	—	—	—	300.1	—	—	—	—	—	—	—	300.1
3.0 Personal Income Tax Points for Youth Allowance	—	—	—	—	179.6	—	—	—	—	—	—	—	179.6
TOTAL TAX TRANSFERS	52.4	11.2	99.6	73.6	2,002.2	1,612.6	141.8	133.9	441.7	516.1	8.0	5.4	5,098.5
TOTAL CASH PLUS TAX TRANSFERS	782.4	193.8	1,017.8	894.2	6,007.1	4,909.9	964.3	586.3	1,270.8	1,637.3	309.4	81.0	18,882.3
Fiscal Equalization — Dollars per capita	712	765	569	588	291	—	355	—	—	—	—	—	—

*Amount too small to be expressed.

**Distribution not available.

Source: Department of Finance.

Table III-2
Federal Transfers to Provinces, Territories and
Municipalities for Fiscal Year 1981-82
(per capita \$)

PROGRAMS/PROVINCES	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta	B.C.	N.W.T.	Yukon	TOTAL
1. Per Capita Equalization (Cash)	712	765	569	588	291	—	355	—	—	—	—	—	376
2. Per Capita EPF ⁵ (Cash and Tax)	470	470	470	470	470	470	470	470	470	470	470	500 ⁶	470
3. Per Capita EPF ⁵ (Cash)	299	299	299	299	299 ²	281	299	328 ⁴	253	273	283	250	265
4. Per Capita CAP (Cash)	96	104	74	116	137 ³	64	70	76	77	119	206	100	82
5. Per Capita Total (Cash Plus Tax ¹)	1,335	1,550	1,186	1,256	949	569	938	598	589	605	7,195 ⁷	3,857 ⁷	781
6. Population (000)	586	125	858	712	6,329	8,634	1,028	980	2,159	2,708	43	21	24,181

1. Per Capita Total does not add up due to inclusion of other cash transfers.

2. Includes 8.5 personal income tax points for EPF contracting out in Quebec.

3. Includes 5.0 personal income tax points for CAP contracting out in Quebec.

4. Includes \$29 per capita of additional transitional payments associated with equalization of EPF tax points. Other provinces receiving EPF tax point equalization also receive general equalization and their EPF tax point equalization is included on line 1.

5. Includes \$29.58 Extended Health Care and equalization on tax points.

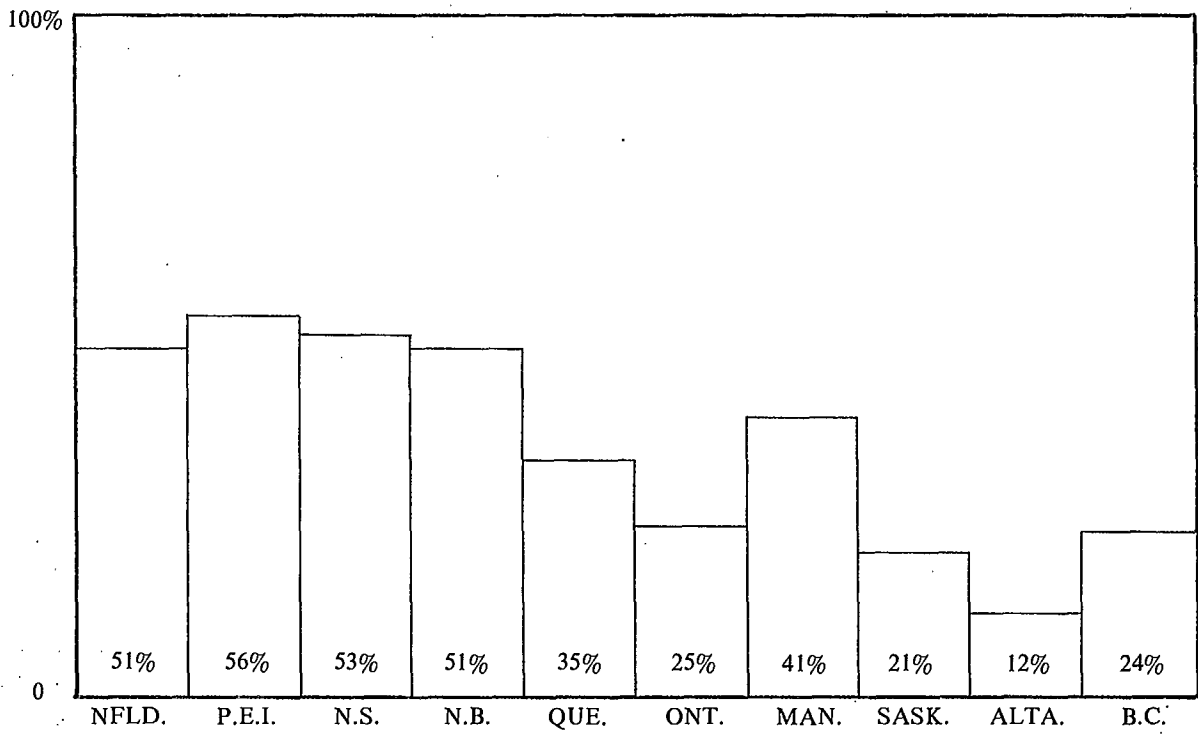
6. In 1981-82 the Yukon EPF tax abatements will be worth more than the transitional payments.

7. Includes the Territorial Financial Agreements.

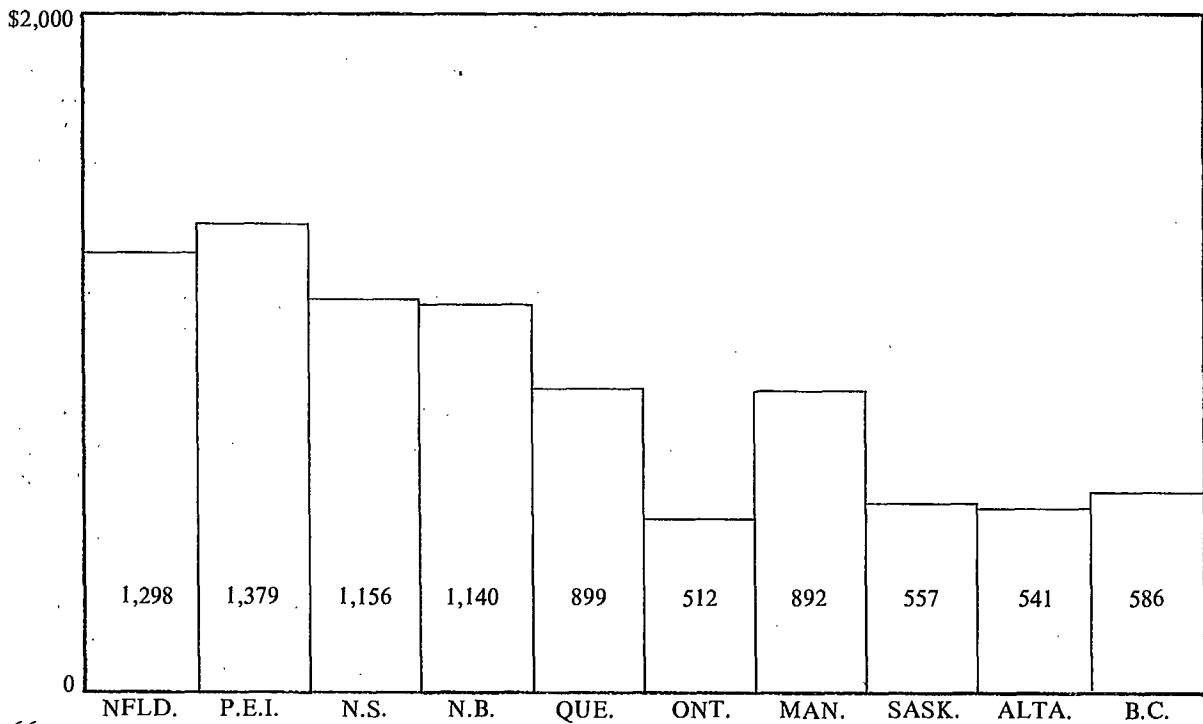
Source: Department of Finance.

FIGURE III-3

1980-81 FEDERAL TRANSFERS AS A PERCENTAGE OF PROVINCIAL REVENUES



1980-81 FEDERAL TRANSFER PER CAPITA



percentage of provincial revenues and the value of the same totals in per capita terms. These tables demonstrate the importance of federal transfers for both provincial and federal governments. Overall, cash transfers alone represent some 20 per cent of federal expenditures.

Annex A to this chapter sets out an inventory of federal transfers to provinces. (It will be noted that a substantial array of programs involving significant federal outlays is represented; some members of the Task Force believe that expenditures on some of these programs are of distinctly lower priority than those falling directly within the Task Force mandate, and should be candidates for expenditure reduction before the federal transfers to provinces falling within the social affairs envelope or within the EPF arrangements in particular.)

What is therefore significant is that transfers for health and post-secondary education support represent only two from a long list of transfer programs. But the importance of these programs, and sensitivities of provincial governments with respect to jurisdiction in these areas, has dictated special arrangements in the form of federal financial support. Finally, the big transfer programs are statutory and the federal government has little choice but to pay whatever costs are involved until the legislation is changed. Still other transfers are made pursuant to signed agreements. These two categories make up the bulk of the federal payments to provinces. Table III-1 illustrates this point.

Established Programs Financing: the negotiations

The 1977 EPF arrangements were the culmination of many years of federal and provincial attempts to rationalize their fiscal arrangements for public programs while, at the same time, retaining national objectives and respecting provincial jurisdiction. Along with the historical account sketched in the annexes to Chapter II, a little further background related to the tax side is necessary to set the stage.

As indicated earlier, the 1966 opting-out offer was withdrawn in 1969 because of pending tax reform. In its White Paper on Tax Reform, how-

ever, the federal government gave notice that, "A revised offer will be considered after reform of the income tax is implemented and the relative value of 'tax points' and the costs of the major, continuing joint programs can be better appraised." In addition, in order to encourage provincial governments to adopt the changes in their income taxes proposed by the federal government in respect of federal taxes, the White Paper also proposed "...to guarantee provincial revenue against unforeseen reductions in the aggregate yield of the revised personal and corporate income taxes for a period of several years".¹

The pressures that had first prompted the offer continued:

- provincial complaints and 'efficiency' concerns of governments about in flexibility in program delivery;
- opposing complaints that federal withdrawal would imply loss of co-ordination and no sharing of economic risks;
- federal concern that it was no longer in control of its own spending to the extent that transfers under shared-cost arrangements were dependent upon provincial decisions;
- concern that most transfers remained unequal among the provinces on a per capita basis, usually with the less well-to-do provinces receiving less than the others; and
- provincial and federal government concerns about the extent to which continuation of shared-cost conditional arrangements constituted an undesirable intrusion in areas of provincial jurisdiction.

Given these problems, there was clearly a great temptation to imagine a past when each order of government ran its own programs without the complications imposed by fiscal arrangements. If order could be restored by a simple transfer of tax room, federalism and Canadian political life would be vastly simpler. But this idea misses the point: fiscal arrangements for programs arise in the first place not solely because one order of government has revenue sources more appropriately disbursed by the other, but more importantly because actions by one order of government affect, and often are intended to affect, policies within the jurisdiction of the other order of government. The tensions

that create continuing and changing demands for fiscal arrangements cannot be avoided. For example, the CAP was negotiated at about the same time as the 1966 opting-out offer was made, and subsequently, in 1968, the federal government elected to use its spending power to introduce medicare.

After 1969, the negotiating process continued. As discussed in Chapter II, the federal government proposed the transfer of further taxes to the provinces as an alternative to existing health and post-secondary arrangements. In 1971, during the further negotiations on tax reform, the revenue guarantee mentioned above was extended from three years to five, and expressed more precisely in order to assure provinces that if the proposals for tax reform were adopted, the federal government would guarantee for five years that the revenue yield to provincial governments of the new system would be no less than that under the system existing at the time.

In 1972 a ceiling was placed on the growth of the post-secondary transfers. In 1974 CAP 'replacement funds' were negotiated to compensate provinces who lost cost-sharing because they had made some of their extended health care services universal. Also in 1975, the federal government placed a ceiling on its medicare-related transfers. This coincided with federal notice that it would withdraw from the existing arrangements for hospital insurance and that discussions on all fiscal arrangements should begin immediately. The results of these negotiations were given effect in the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977.

The proposed EPF arrangements were tabled at the June 1976 conference of First Ministers. At that time, the Prime Minister enunciated five principles to form the basis for continued federal participation in the three major shared-cost programs in health (hospital insurance and medical care) and post-secondary education.

1. The federal government should continue to pay a substantial share of program costs.
2. Federal payments should be calculated, independently of provincial program expenditures.
3. There should be greater equality in per capita terms among the provinces with

regard to the amount of federal funds they receive under the programs.

4. The arrangements for these major programs should be placed on a more permanent footing.
5. There should be provision for continuing federal participation with the provinces in the consideration and development of policies of national significance in the fields of health and post-secondary education.

After long and complex negotiations, including a number of last-minute accommodations, the arrangements governed by the present Act were accepted by all provinces.

The following is a résumé of the EPF section of the 1977 Act provided by the Hon. Allan J. MacEachen, Minister of Finance, in his submission to the Task Force:

... the EPF arrangements came into effect on April 1, 1977. Under these arrangements, federal contributions to the provinces for the three "established" programs—Hospital Insurance, Medicare and Post-Secondary Education—are no longer tied to provincial expenditures on the basis of 50:50 cost-sharing formulae. Rather, federal contributions in a base year (1975-76) are escalated by the rate of growth of GNP.

As the Chart [Figure III-4] illustrates, the federal contribution under the EPF arrangements is in the form of cash payments and tax transfers. The tax transfer under the EPF arrangements consists of 13.5 personal and one corporate income tax points. These are equalized to the national average under the general equalization formula. The cash payments consist of "basic cash" contributions and "transitional adjustments". The "basic cash" portion is calculated by taking 50% of the federal contributions under the three "established" programs in 1975-76, and escalating them by the rate of growth of GNP. The "basic cash" contributions are intended to provide for stable, long-term funding and for continued federal presence. The "transitional adjustments" are equal to the difference, if any, between the value of the tax transfer and the "basic cash" contribution. In other words, the "transitional adjustments" top up the value of the tax transfer to ensure that no province loses as a result of accepting part of the federal contribution in the form of a tax transfer.

Payments to the provinces are made by the program Departments. Roughly one-half is allocated to Hospital Insurance, one-sixth to Medicare, and the remaining one-third to Post-Secondary Education.

The above provides an overview of the way the EPF formula works. A more detailed description is provided in the following paragraphs.

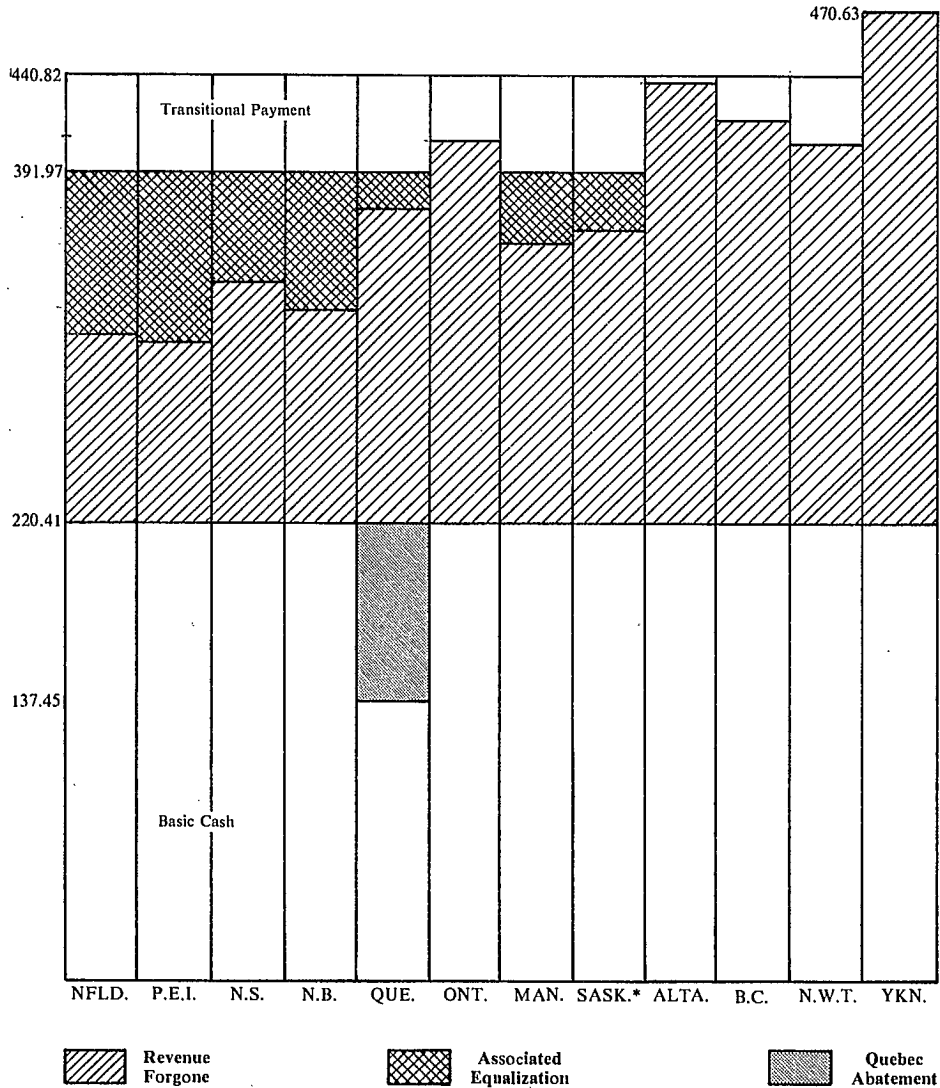
The Base Year Base year contributions under the three "established" programs are displayed in [Table III-5]. It should be noted that 1975-76 was selected as an appropriate base year because it was recent enough to be relevant and because the chances for provinces to "load" expenditures into

the base year were thought to be minimized because the year had ended before the negotiations began.

Basic Cash The so-called "basic cash" contributions to the provinces are calculated by the following formula:

$$\left[\frac{\text{Base Year Contributions}}{\text{Per Capita}} + \$7.63 \right] \times \text{Escalator} \times \text{Population}$$

FIGURE III-4
EPF ENTITLEMENTS PER CAPITA
1981-82



*Since Saskatchewan does not receive equalization payments under the equalization formula, the associated equalization is paid through transitional cash.

Source: Department of Finance, January 1981 estimates.

Table III-5

Base Year Contributions to the 'Established' Programs
1975-76

Province	\$ Millions	\$ Per Capita	% Share of Costs
Newfoundland	104.2	189.77	57.4
Prince Edward Island	20.9	178.48	65.9
Nova Scotia	165.3	201.71	52.3
New Brunswick	127.1	191.07	58.1
Quebec	1,427.4	231.01	46.9
Ontario	1,721.8	210.69	50.1
Manitoba	212.6	209.75	53.0
Saskatchewan	179.8	198.15	53.7
Alberta	381.2	214.36	48.7
British Columbia	472.9	194.35	46.7
TOTAL	4,813.2	212.65	49.3

As [Table III-5] shows, base year contributions per capita are equal to \$212.65. This amount is divided by 2 because half the continuing federal contribution is in the form of cash. To this amount of \$106.32 is added \$7.63. The latter amount is the cash equivalent of one equalized personal income tax point per capita in 1975-76. This was part of the negotiated settlement. It was intended to provide compensation for termination of the 1972 Revenue Guarantee program and was given to the provinces on the condition that they agreed to integrate the Hospital Insurance program into the EPF arrangements on April 1, 1977. (The provinces had the option of continuing to receive shared-cost entitlements for hospital insurance until July 15, 1980 when the Hospital Insurance agreements were due to expire.)

The Escalator The factor used to increase the basic cash per capita from year to year is a three-year, compound moving average of nominal GNP per capita.

Population The population data used for the purpose of the EPF arrangements are those published by Statistics Canada.

Transitional Payments Transitional payments are equal to the difference, if any, between cash and the tax transfer. They are designed to ensure that no province loses as a result of accepting part of the federal contribution in the form of tax rather than all in cash. In the event that the tax transfer exceeds basic cash in a province, the province keeps the excess. The provinces had requested "equalization to the top". This was not acceptable to the federal government because of the precedent that it could create for the general equalization formula.

The Tax Transfer As noted above, the tax transfer is equal to 13.5 personal and one corporate income tax points. The corresponding

increase in provincial revenues is equalized to the national average under the general equalization formula. Because 4.357 personal and one corporate income tax points had already been transferred to the provinces under the previous Post-Secondary Education arrangements, the federal tax reduction associated with the implementation of the EPF arrangements was the difference between what the provinces had and what they received. This difference is 9.143 personal income tax points. Hence, federal basic tax was reduced by 9.143% on January 1, 1977.

Levelling Adjustments Because the per capita contributions varied among the provinces in the base year, a mechanism was needed to ensure a smooth transition from the previous, shared-cost arrangements. Provinces above the national average per capita are "levelled down" to the national average by the beginning of the fifth year of the program; those below are "levelled up" by the beginning of the third.

The Tax Transfer Recovery Because the tax transfer was effected at the beginning of the tax year on January 1, 1977, whereas the EPF arrangements began at the beginning of the fiscal year on April 1, 1977, a portion of the tax transfer in respect of this three-month period was recovered from the provinces over the first two years of the program.

The Special Abatement to Quebec Under the previous shared-cost arrangements for Hospital Insurance, Quebec received a special abatement of 16 personal income tax points. Following the implementation of the EPF arrangements, this special abatement became 8.5 personal income tax points. The value of these 8.5 points is subtracted from the EPF cash transfer and added to the EPF tax transfer in Quebec. Hence, the total transfer to Quebec, i.e., cash plus tax transfers, is calculated in precisely the same way as the total transfer in the other provinces; only the form of the transfer differs.

Allocation As noted above, the cash transfer is allocated among the "established" programs on the basis of the ratios which obtained in the base year: 50.5% is allocated to Hospital Insurance, 17.4% to Medicare and the remaining 32.1% to Post-Secondary Education. From the point of view of a particular province, these ratios are somewhat arbitrary and, over time, become less closely related to actual provincial spending in the relevant program areas.

Extended Health Care Prior to the start of the EPF negotiations, the Minister of National Health and Welfare had made a commitment to the provinces to broaden the base of cost-sharing under the health programs in exchange for a commitment from the provinces to set targets for the numbers of acute care beds and medical practitioners. This proposal was designed to increase

the flexibility of the provinces in program design and to permit cost saving over time through increased efficiency. Because cost-sharing would come to an end under the EPF arrangements, the base for cost-sharing could no longer be broadened. The federal commitment was therefore met by the introduction of the Extended Health Care program. This program was also designed to cover certain health-related services which were being cost-shared under the Canada Assistance Plan. The Extended Health Care Program is designed to cover the following services: nursing home intermediate care, adult residential care, converted mental hospitals, home care, and ambulatory health care. Payments under this program are equal to \$20 per capita in 1977-78, escalated thereafter by the EPF escalator.

The legislative authority for the EPF arrangements is in Part VI of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977. This legislation provides for (a) the calculation of the amounts payable for the four EPF programs and (b) the authority for making payments under the Post-Secondary Education and Extended Health Care programs.

The authority for making payments under the Hospital Insurance and Medicare programs remains in the Hospital Insurance and Diagnostic Services Act and the Medical Care Act respectively. The original "program criteria" remain in force and the Minister of National Health and Welfare has retained authority to withhold payments from a province if the province's health insurance plan does not satisfy the federal conditions. The basic reason for splitting cash payments among the "established" programs is to provide the Minister of National Health and Welfare with an amount which may be withheld from a province.

The legislative authority for the contracting-out arrangements with Quebec is in Part VII of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977. The original contracting-out legislation, viz.; The Established Programs (Interim Arrangements) Act was repealed when the EPF arrangements were introduced.

The EPF arrangements have no expiry date but the legislation provides that the federal government may not modify the arrangements in a way which reduces a province's entitlement without that province's consent prior to March 31, 1982. As of April 1, 1982, however, it is open to the federal government to modify the arrangements in any way short of complete termination. The legislation also provides that complete termination of the arrangements requires prior notice and would take effect on March 31 of the third year after the year in which notice is given. Hence, if notice were given in 1980, for example, it would take

effect on March 31, 1983, one year after the end of the current fiscal arrangements period.

In short, the federal government can modify but cannot terminate the arrangements as of April 1, 1982.

Established Programs Financing: 1977-81

The changes described in the preceding section—whereby the health insurance and post-secondary education shared-cost programs were converted into an integrated 'block-funding' arrangement—represented a major change in fiscal and program relationships between the federal and provincial governments. What has been the result? Evidence presented to the Task Force and discussions with provincial ministers indicate that EPF has been successful in attaining its fiscal goals. Provinces have been free to pursue their own priorities, including increased efficiency in the delivery of services and tighter control of spending. The federal government, though concerned about accountability to Parliament for block-funded spending, has obtained more certainty in budgeting for its contributions to the areas in question.

In contrast, however, most of those making presentations to the Task Force, though not unhappy with block-funding in principle, argued that EPF had been unsuccessful in terms of its program objectives. It was charged that provincial spending in the areas in question had not grown as fast as federal EPF transfers, and not fast enough to maintain services. Consequently, it was argued, some of the national standards in the health field were not being honoured, and post-secondary representatives feared for the capacity of the system to continue to serve critically important Canadian purposes. Finally, questions were raised about accountability to Parliament and the adequacy of public information respecting federal contributions to the provinces for health and post-secondary education.

In order to appraise the validity of these concerns and to understand the conflicting interpretations attached to the EPF arrangements, it is necessary to look a little more deeply at the structures and consequences of the EPF formula. (Annex C to this chapter sets out a recent brief commentary from a federal perspective.) For this

purpose it is useful to divide the total transfer into its several components.

For each province this consists of two main categories or levels—a lower level (depicted in lines 6 to 10 of Table III-6) corresponding to the direct contribution to programs for health and post-secondary education, and an upper level (depicted in lines 1 to 5 of Table III-6) corresponding to the value of the additional cash (\$7.63 added to base year 'basic cash') and tax transfer (one equalized point of personal income tax) negotiated in settlement of all other issues outstanding during the 1976 negotiations, primarily the termination of the revenue guarantee already described. The lower level, which accounts for 93.3 per cent of the total transfer, will be designated the 'EPF program transfer', while the latter, corresponding to 6.7 per cent of the total transfer, will be referred to as the 'revenue guarantee'. Table III-7 shows the same information as Table III-6 but in a dollar amount.

Within each level, there are four components, as explained in the submission of the Minister of Finance: a 'basic cash' entitlement, equal to half the total; and three further elements making up the other half—the value of the tax transfer negotiated in each case (12.5 points of personal income tax and 1 point of corporate taxable income for EPF, and 1 point of personal income tax for the revenue guarantee), the equalization automatically paid on the tax transfer when it becomes part of provincial revenues and, finally, a transitional cash payment sufficient to bring the sum of the previous two up to the amount of the basic cash. The result, therefore, is that the total entitlement is twice the basic cash, but that total entitlement is deemed to be paid partly in cash and partly in the value of the tax transfer (or federal revenue reduction undertaken to permit an increase in provincial income tax revenues).

The tables illustrate that under the current arrangements, the province of Newfoundland, for example, was, by virtue of the tax transfer, able to increase its own provincial revenues by an amount equal to 20.9 per cent (the sum of lines 2 and 7) of the total fiscal transfer and—by virtue of the equalization paid on all the corresponding increases in revenues in other provinces—received associated equalization payments equal to 17.9 per cent (the sum of lines 3 and 8). Although the

equalization payments are made in cash, they are not considered part of the Social Affairs envelope, but appear as part of the general equalization payments made by the Minister of Finance. The remainder of the cash payments (the sum of lines 1, 4, 6 and 9) represents 61.2 per cent of the total transfer. This amount is allocated between the two program ministers, the Secretary of State receiving 32.1 per cent for payment in support of post-secondary education, and the Minister of National Health and Welfare receiving 67.9 per cent for hospital insurance and medical insurance. (It should thus be noted that the cash payments associated with the revenue guarantee are allocated to established programs in the same proportions as the EPF program transfer itself, even though this revenue guarantee cash formed no part of health or post-secondary education transfers prior to 1977-78.) Interpretations differ, therefore, as to whether the revenue guarantee can properly be considered a federal transfer intended for health and post-secondary education.

Interpretations also differ as to whether the value of tax transfers made in the past can legitimately be considered part of a current federal transfer intended for designated programs.

Finally, interpretations differ as to whether the internal allocation adopted by the federal government (which arbitrarily assigns 32.1 per cent of the EPF transfer to post-secondary education and 67.9 per cent to health) can be taken as dictating an allocation of these transfers on the part of the provinces to those designated purposes.

Thus it will be seen that the size of federal transfers in support of post-secondary education or health can be measured in a variety of ways. The most restrictive view would argue that only the basic EPF program cash payments should be considered a federal transfer intended for a particular program—that all of the transfer related to the revenue guarantee should be excluded (even though the cash portion is distributed by the program ministers) and that all of the tax transfer, including the transitional cash designed to bring it up to the intended level of 50 per cent of the total entitlement, should also be excluded. This interpretation would thus see only 46.6 per cent of the total EPF transfer as program-related.

Table III-6
Components of EPF as a Percentage of Total
1981-1982
(per cent)

	Nfld.	P.E.I.	N.S.	N.B.	Que.*	Ont.	Man.	Sask.	Alta.	B.C.	N.W.T.	Yukon	Total
REVENUE GUARANTEE PORTION OF EPF													
1. Basic Cash (\$14.70 per capita)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.1	3.3
2. Value of Tax [1 point Personal Income Tax (PIT)]	1.4	1.4	1.8	1.6	2.4	2.9	2.1	2.2	3.1	3.1	2.8	3.6	2.6
3. Equalization Associated with 1 PIT	1.2	1.2	.8	.9	.2	.3	.5	—	—	—	—	—	—
4. Transitional Cash [1. - (2. +3.)]	.7	.7	.6	.6	.6	—	.6	1.1	.1	.2	.4	—	.4
5. Total Revenue-Guarantee Portion of EPF	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
EPF TRANSFER MINUS REVENUE GUARANTEE													
6. Basic Cash (Total Basic Cash - 1.)	46.6	46.6	46.6	46.6	46.4	46.6	46.6	46.6	46.6	46.6	46.6	43.7	46.6
7. Value of Tax Transfer [12.5 PIT and 1.0 Corporate Income Tax point (CIT)]	19.5	18.9	24.8	22.1	32.5	39.9	29.1	30.1	46.1	41.7	39.6	49.4	36.2
8. Equalization Associated with 12.5 PIT and 1.0 CIT	16.7	17.2	11.4	14.0	3.6	—	7.0	—	—	—	—	—	2.5
9. Transitional Cash [6. - (7.+8.)]	10.4	10.4	10.4	10.4	10.4	6.7	10.4	16.4	.5	4.8	6.9	—	7.8
10. Total EPF Transfer MINUS Revenue Guarantee	93.3	93.3	93.3	93.3	93.3	93.3	93.3	93.3	93.3	93.3	93.3	93.3	93.3
Total EPF Transfer Including Revenue Guarantee but excluding Extended Health Care (5.+10.)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Quebec special (contracting out) abatement is included in Basic Cash.

NOTES: Value of tax transfer, associated equalization and transitional cash are subject to change depending on later data respecting the value of EPF Tax point transfer. Totals do not add due to rounding.

Source: Department of Finance, January 1981 Estimates.

Table III-7
Components of EPF
1981-1982
(\$ Thousands)

	Nfld.	P.E.I.	N.S.	N.B.	Que.**	Ont.	Man.	Sask.	Alta.	B.C.	N.W.T.	Yukon	TOTAL
REVENUE GUARANTEE PORTION OF EPF													
1. Basic Cash (\$14.70 per capita)	8,614	1,838	12,613	10,466	93,036	126,920	15,112	14,406	31,737	39,808	632	309	355,491
2. Value of Tax Transfer (1 Point Personal Income Tax- PIT)	3,794	791	7,053	5,265	67,985	112,628	9,805	9,522	30,233	37,007	542	365	284,990
3. Equalization Associated with 1 PIT	3,103	680	3,053	3,126	6,558	—	2,302	—	—	—	—	—	18,822
4. Transitional Cash* [1.-(2.+3.)]	1,717	367	2,507	2,075	18,493	14,292	3,005	4,884	1,504	2,801	90	—	51,735
5. Total Revenue Guarantee Portion of EPF	17,228	3,676	25,226	20,932	186,072	253,840	30,224	28,812	63,474	79,616	1,264	674	711,038
EPF TRANSFER MINUS REVENUE GUARANTEE													
6. Basic Cash (Total Basic Cash - 1.)	120,435	25,691	176,497	146,530	1,301,814	1,776,080	211,445	201,593	444,079	557,034	8,757	4,342	4,974,296
7. Value of Tax Transfer	50,381	10,437	93,810	69,606	909,383	1,519,654	132,284	130,400	438,786	498,722	7,454	4,914	3,865,832
8. Equalization Associated with 12.5 PIT and 1 CIT	43,168	9,519	43,278	44,203	101,764	—	31,951	—	—	—	—	—	273,883
9. Transitional Cash* [6.-(7.+8.)]	26,886	5,737	39,409	32,721	290,667	256,426	47,210	71,193	5,293	58,312	1,303	—	835,157
10. Total EPF Transfer Minus Revenue Guarantee	240,870	51,382	352,994	293,060	2,603,628	3,552,160	422,890	403,186	888,158	1,114,068	17,514	9,256	9,949,166
TOTAL EPF TRANSFER INCLUDING REVENUE GUARANTEE													
11. (5. + 10.)	258,098	55,058	378,220	313,992	2,789,700	3,806,000	453,114	431,998	951,632	1,193,684	18,778	9,930	10,660,205
EXTENDED HEALTH CARE													
12. (\$29.58 per capita)	17,318	3,694	25,378	21,069	187,188	255,382	30,404	28,987	63,854	80,096	1,260	624	715,255
GRAND TOTAL EPF: (11.+12.)	275,416	58,752	403,598	335,061	2,976,888	4,061,382	483,518	460,985	1,015,486	1,273,780	20,038	10,554	11,375,460

* Line 1. Does not apply for the Yukon since value of tax points exceeds basic cash; therefore totals for Canada do not add up to all-provinces totals for transitional cash.

** Québec special (contracting out) abatement is included in Basic Cash.

Notes: Value of tax transfer, associated equalization and transitional cash are subject to change depending on later data respecting the value of EPF tax point transfers.
 Totals do not add due to rounding.

Source: Department of Finance, January 1981 Estimates.

A slightly less restrictive interpretation would admit the transitional cash associated with the EPF program transfer, but exclude the equalized value of the tax transfer, and all of the transfer related to the revenue guarantee, as a completely unconditional transfer. For most provinces, this interpretation would bring the program-related federal transfer up to 57 per cent of the EPF.

Less restrictive still would be to add in the revenue guarantee cash, adding another 4 percentage points to the federal program transfer, bringing it to 61 per cent of the total EPF.

Finally, in the interpretation preferred by many in the federal administration, one would count as a federal contribution not only the revenue guarantee cash, but also the full equalized value of all the tax points transferred in 1976-77—that is, one would treat as a federal transfer in support of established programs the full value of the continuing federal revenue reduction initiated in 1967 and 1977 to enable provinces to increase their own-source revenues.

Provincial governments have leaned toward the more restrictive interpretation showing a smaller federal share of support for health and post-secondary education. Federal representatives have leaned toward the more comprehensive interpretation showing a larger federal share.

So far as the revenue guarantee component is concerned, there is some irony in this clash of interpretations. Provincial governments, which have previously denied that the revenue guarantee component could be considered anything but unconditional may now wish to associate it more tightly with program support—in response to federal representatives who formerly treated it as part of the federal transfer in support of programs, but may now see it as an element of transfers to provincial governments that could be recaptured without compromising federal support of established programs.

Many observers, including a number of witnesses who came before the Task Force, criticize provincial governments on the grounds that provincial funding of health or post-secondary institutions is inadequate relative to federal funding. In some cases, it was suggested that the figures

demonstrated that provinces were “pocketing the cash” or diverting federal funds from health or post-secondary institutions to other purposes.

It is not only the size of the federal transfer to be counted in support of established programs that is open to interpretation, however; differing perceptions as to the point of departure, and differing expectations as to the obligations of provincial governments to match federal transfers with provincial expenditures are also possible.

In assessing this question, it is helpful not to enter the discussion with too much ‘50-50 hindsight’. Contrary to popular belief, there was no precise 50-50 cost-sharing in health insurance or post-secondary education in any one province prior to 1977. Federal transfers to a province were based on national average costs in medical insurance, a mix of national average and provincial costs in hospital insurance, and either 50 per cent of the total post-secondary operating costs, or an escalated per capita grant (\$15 in 1967) for post-secondary education.* Thus, in post-secondary education, where fee income supplements provincial operating grants, the federal share of post-secondary operating costs exceeded provincial government shares long before EPF was introduced.

For example, in Newfoundland (which elected to take \$15 per capita), the federal share of funding of post-secondary education operating costs (including federal direct contributions to institutions) was 84 per cent; even in British Columbia this share was 54 per cent.** The total for Canada was almost 61 per cent, reflecting the fact that in addition to cost-shared transfers, the federal government undertook a number of direct payments to institutions and individuals in support of activities in post-secondary education.

Moreover, although the allocation formula used by the federal government for EPF (17.4 per cent for medicare, 32.1 per cent for post-secondary education, 50.5 per cent for hospital insurance) reflects the federal expenditure proportions that

* This situation is illustrated in Table III-5 (in the material quoted from Mr. MacEachen’s statement) which shows the variation from province to province in entitlements for the total transfers for health insurance and post-secondary education in 1975-76.

** See Table V-3, Chapter V.

prevailed nationally in 1975-76, these proportions did not apply to any one province. Significant disparities existed because of differences in post-secondary operating costs across provinces, and consequent disparities in federal contributions. For example, in Quebec over 35 per cent of federal contributions for the three established programs went to post-secondary education in the 1975-76 base year, while in the three Atlantic provinces who chose the \$15 per capita system, barely 25 per cent of the federal contributions were for post-secondary education.

The EPF arrangements built in some 'front end' increases through the levelling-up provisions referred to previously and the per capita grant for extended health care. But the use of the lagged GNP escalator to determine the rate of increase of federal transfers promised lower rates of increase in the future, once levelling-up payments were completed. At the same time, other unconditional federal transfers such as equalization payments and revenue guarantee payments grew less rapidly after 1977 than before. From the point of view of provincial budgets, therefore, it was neither wise nor possible to attempt to match the sharp one-time increase in the level of federal funding associated with the introduction of EPF. (The apparent increase in the federal share of post-secondary education costs was particularly exaggerated for the Atlantic provinces that had earlier selected the \$15 per capita option, because an excessive share of the federal transfer was attributed to education by the federal government's use of the 32.1 per cent ratio.) Indeed, such an induced increase in provincial spending on these established programs would have been contrary to one clear intent of the EPF arrangements themselves, namely to bring about a degree of spending restraint.

The Task Force is concerned that this background be understood, and that provincial governments not be unfairly criticized for not doing what clearly would have been irresponsible and irrelevant to attempt: namely to establish in each province targets of 50-50 matching that had earlier prevailed only for national totals, if at all.

At the same time, we are also concerned that funding levels for these programs be maintained and that adequate standards be assured. It can be

argued that some provinces took the opportunity offered by introduction of EPF to practice spending restraint with an enthusiasm that threatens the maintenance of adequate standards.

It is to redress any imbalance of this sort that the Task Force argues for a return to separate transfers for health and post-secondary education. Provincial governments must explain to their own electorates their decisions to practice expenditure restraint in relation to programs falling under EPF. But we would like to ensure that in future there is no lack of clarity as to the degree of federal support for these programs. It is for this purpose—and not to attach blame for past alleged 'errors' in provincial expenditure decisions—that the Task Force makes recommendations for modifications to the EPF arrangements.

It is to be expected, of course, that a major change like the shift to block funding would be found, five years later, to have unexpected and, in the eyes of many, undesirable results; the one constant in intergovernmental relations in Canada is the need to adjust to solve problems arising in existing arrangements and to meet new challenges flowing from the economic and political environment of the country. The question is, what adjustments should now be made in intergovernmental arrangements in light of the current situation and in light of what would seem to be appropriate for the next five years?

So far as the overall structure of the EPF financing formula is concerned, answers to this question are the subject of the next section. Before entering that discussion, it is important to note the views expressed by the four western Premiers in the communiqué issued from their 1981 conference in Thompson, Manitoba:

The western provinces believe that the upcoming discussion of the Fiscal Arrangements, and particularly the assessment of any proposals for modifications to them, should be guided by the following key principles:

1. *Stability and predictability* Stable, predictable transfers for health and post-secondary education programming were, in 1976, a primary goal of the Established Programs Financing Arrangements for both levels of government. While that goal appeared to have been achieved, the Federal government is now threatening to introduce significant payment reductions which could seriously disrupt health and post-secondary programming

as early as next year. The Premiers noted that when the E.P.F. arrangements were proposed in 1976, the Prime Minister had emphasized that a three years' notice provision would be included "...because the intention is to underline the relative permanence and stability of the arrangements." Subsequently, such a provision was built into the legislation and remains in effect.

2. *Flexibility and balance* The fiscal equalization and E.P.F. programs should continue to ensure that all provinces have adequate fiscal capacity to maintain and improve the quality of key services. The western provinces stated that they are willing to explore alternative methods of program financing which may hold promise of achieving these goals, such as expanded, adequately-equalized tax transfers.

3. *Rationalization and simplification* The Fiscal Arrangements should respect the jurisdictional responsibilities of the federal and provincial governments and should avoid further overlap and duplication. At the same time, it is recognized that continuing federal financial support is essential in a number of key program fields. In this connection, the western provinces noted with concern suggestions that the Federal Government might be considering placing greater emphasis on direct, centralized program delivery in order to assert its "presence" in such fields as post-secondary education. Such an intrusion into provincial jurisdictions and resulting overlap and duplication could be extremely disruptive and damaging to programming, and could contribute to costly inefficiencies which would add to the demands on the taxpayers of Canada.

The Premiers also noted that Ottawa apparently believes it may not be receiving satisfactory and adequate recognition for the contributions it is making toward the costs of certain programs. They stated that they had not yet received specific suggestions from the Government of Canada concerning the measures it would see as appropriate to provide the "visibility" which it seems to want.

4. *Clarity of responsibilities* Renewed Fiscal Arrangements should be entered into on the basis of a clear, unambiguous understanding on the part of both orders of government as to E.P.F. transfers. The respective obligations of both orders of government should not be open to misunderstandings or misinterpretation, thereby creating unnecessary and undesirable tension and conflict between governments.

5. *Fiscal responsibility* The western provinces believe that the Federal Government should not seek to resolve its budgetary problems by transferring substantial expenditure obligations onto provincial and local governments. They stated that the appropriate way to improve programming without excessive costs and significant added burdens for Canadian taxpayers is for Ottawa and the provinces to work closely together in develop-

ing mutually-acceptable improvements to the Fiscal Arrangements where it can be demonstrated that they are required.

6. *Co-operation and genuine federal-provincial consultation* While it is important that Parliament have a reasonable opportunity to consider and debate changes in the Fiscal Arrangements, it is also imperative that the two orders of government directly involved have adequate time for consultation and negotiation.

Established Programs Financing: 1982-87

In subsequent chapters, we consider in detail future fiscal arrangements for each of the program areas funded under the EPF. However, the Task Force has found that there are several aspects of the EPF as a whole that must be addressed before we present our views on specific programs. These issues cut across the post-secondary and health areas.

The first general problem is created by the integration of two separate and quite different policy areas into one fiscal statute. Hospital and medical care insurance have been the subject of federal legislation and conditional cost-sharing arrangements for many years. There is a country-wide acceptance of the need to maintain and, if appropriate, to enforce national standards in the delivery of services. Moreover, satisfactory hospital, medical and extended health care require management decisions, technical knowledge and service delivery that are in large part similar in all of Canada. The health system is most efficient and effective if it is partly organized on a Canada-wide basis.

Post-secondary education, on the other hand, is very different. The services provided and the role of higher education may vary from one language group to another, from province to province, and from one institution of higher learning to another. Among French-speaking Canadians, higher education is seen as critical in nurturing and developing the French language and culture. This is true for all French language institutions but has found, and continues to find, its strongest expression in Quebec where a succession of provincial governments has maintained a constant vigil against the possibility of outside interference. Quebec does not, of course, stand completely alone among the provinces in this determination to control education services.

Although the post-secondary sector must serve broad Canadian purposes, the federal government's influence in this regard can only be indirect and complementary to the responsibility of the provinces. In this connection, *the Task Force believes that any federal attempt to legislate national standards for post-secondary education would be acceptable.*

Clearly, the federal role in higher education demands an approach very different from that employed in many other areas of federal-provincial concern. Similarly, the maintenance and development of Canada's public health care system demands a federal role that may not be appropriate to other areas. The flexibility to develop fiscal arrangements reflecting each program area's particular requirements will, however, be substantially limited if health and higher education programs remain tied together. *The Task Force therefore recommends that*

the post-secondary and health portions of the Established Programs Financing Arrangements be separated into individual programs to become effective April 1, 1982.

Separating the health and post-secondary components of EPF means that each component of the funding must be clearly and visibly allocated to each of the program areas. It will then be much more evident if a provincial government does not carry its share of financing for health or post-secondary education after 1982. But as discussed earlier in this chapter, the notional allocation established in 1977 (32.1 per cent for post-secondary, 67.9 per cent for medicare and hospital insurance, plus a cash grant for extended health) may require some adjustment in light of changing levels of demand in each of the sectors. *The Task Force recommends that*

the division of the EPF program transfer (that is, the total EPF transfer excluding that portion associated with termination of the revenue guarantee) be allocated to the health and post-secondary components in the proportions established in 1977.

The second issue with respect to the EPF package is the treatment of the transfer associated with the termination of the former revenue guarantee. Table III-6 shows that the value of that transfer is 6.7 per cent of the total EPF transfer. As discussed

earlier in this chapter, the revenue guarantee may be treated as a general fiscal transfer unrelated to the programs financed under EPF, as has sometimes been advocated by provincial governments. On the other hand, it may be argued that the revenue guarantee is now effectively part of EPF program funding, whatever its original derivation.

The Task Force concludes that, by virtue of the internal allocation established by the federal government, fiscal transfers associated with the revenue guarantee must now be considered part of the health care package and/or post-secondary education transfers and should therefore be allocated, in the renewed EPF arrangements, to health and/or post-secondary education, in proportions to be negotiated. The Task Force recommends that

once allocated, federal EPF financing be considered earmarked for each program area and not meant for other purposes.

Although earmarking of federal transfers cannot be binding on the provinces, in the sense of requiring the provinces to provide a specific percentage of financing, the process of negotiation of EPF arrangements will at least emphasize an expectation that provinces will keep their side of the funding bargain.

The third general issue relates to the treatment of the tax transfer portion of the federal transfer. This is the amount of tax room that the federal government gave to provinces in the EPF arrangements. On this question, there are at least two possibilities:

1. to continue the present arrangement with the tax transfer presented as part of the federal contribution to provinces for health and post-secondary education, or
2. to delete the tax transfer from any accounting of the EPF arrangements, showing the federal support of health and post-secondary education on a cash-only basis.

There are two aspects to this question. The first is merely computational. The value of tax points is necessary to determine the transitional cash payments. In the new arrangements it will therefore be necessary to continue to calculate the value of tax points transferred as part of the federal transfer to determine the amount of transitional cash to be paid.

The second aspect is one of presentation involving the size of the provincial funding commitment. The question here is whether the value of the taxes transferred to provincial revenue should continue to be shown as a 'transfer' from the federal government to provincial governments, at least for the purposes of earmarking contributions devoted to each program area.

The federal government has argued that the tax transfer was part of the 1977 deal and that its value substitutes for cash that would otherwise have been paid. Therefore, the tax transfer should be counted as part of the federal government's assistance to provinces for hospitalization, medicare and post-secondary education.

Provinces, on the other hand, contend that since the tax transfer is now incorporated into provincial tax structures—with provincial governments paying the political price—it is unreasonable to include its value as part of the federal contribution to provincial health and post-secondary education.

The majority of the Task Force believes that the EPF tax transfers should be seen as part of the agreed contributions devoted to health and post-secondary programs in the 1977-82 arrangements. The majority therefore recommends that

the 1982-87 arrangements continue to calculate the equalized value of the taxes transferred, and that these amounts be earmarked for the program areas. The tax transfers would be notionally allocated in the same proportion as the cash transfer allocation between health and post-secondary education.

A minority of the Task Force members favoured excluding display of the tax transfers in a new arrangement for support to health and post-secondary education. It was a fiction, it was argued, to continue to count their value as a federal program contribution because they were fully integrated into provincial tax systems several years ago. They also argued that the respective tax shares of the federal and provincial governments are now back to where they were prior to World War II. In short, the fiscal history of Canada has been a constant ebb and flow of tax points between the two orders of government depending on the situation facing the nation. To attempt to record forever the 1979 tax transfer, they argued, was to fly in the face of this history.

With the tax transfer allocated to each program, it will be possible to simplify the existing EPF arrangements considerably. For post-secondary education and for the health package separately, there will be an equal per capita entitlement in each province. *The Task Force recommends that*

per capita entitlements for the proposed health package for 1982-83 be established as 67.9 per cent of the 1981-82 EPF program transfers plus the escalated (1981-82) value of the original \$20 transfer for Extended Health Care, plus the agreed portion of the fiscal transfer associated with termination of the revenue guarantee, the total to be escalated as in the existing arrangements by the EPF escalator from 1981-82 to 1982-83;

and that

per capita entitlements for federal general support to post-secondary education for 1982-83 be established as 32.1 per cent of the 1981-82 EPF program transfer, plus the agreed portion of the fiscal transfer associated with termination of the revenue guarantee, the total to be escalated as in the existing arrangements by the EPF escalator from 1981-82 to 1982-83;

and that

the total entitlement for each province or territory for each of the two separate established programs be computed simply as the product of the per capita entitlement and provincial population estimates adjusted, if so recommended by the Chief Statistician, for census under-enumeration, the total to be escalated from year to year as the current arrangements.

There will also be a value for the equalized tax transfer made to each province. *The Task Force recommends that*

the cash transfer paid to each province under EPF be equal simply to the total entitlement less the value of the tax transfer, including equalization paid on the tax transfer.

This arrangement eliminates the need for a distinction between basic cash and transitional payments. It is slightly more equitable in that 'nega-

tive transitional payments' are automatically absorbed. In the 1977-82 arrangements, if the value of the tax transfer to a province exceeded the minimum guarantee (that transitional cash plus the equalized tax transfer would at least equal the value of the EPF basic cash transfer) the province would simply keep the extra. Under the arrangement we propose, the cash would be reduced to ensure that an equal per capita entitlement is maintained for all provinces. Moreover, it is simpler to describe. There would be equal per capita entitlements across all provinces for each of the two transfers—health and post-secondary education. Federal payments would be made partly automatically, by virtue of the equalized value of the federal revenue reduction already negotiated, with the balance paid in an earmarked cash payment.

As an aside, one technical feature of the fiscal arrangements is of interest in the context of the government's policy and expenditure management system. Authority to make the cash payments is given to the Minister of National Health and Welfare for health and to the Secretary of State for post-secondary education. In the expenditure management system, both payments are included in the Social Affairs envelope.

It was suggested by some witnesses that the EPF cash payment associated with post-secondary education, as well as expenditures for manpower training programs, belong in the Economic Development envelope rather than the Social Affairs envelope. The Task Force notes that this proposition is fully consistent with federal government interests in post-secondary education as enunciated by both the Minister of Finance and the Secretary of State. The Task Force proposal to separate health and post-secondary education programs enables this switch to be readily accomplished. *The Task Force therefore recommends that*

federal expenditures associated with post-secondary education be transferred from the Social Affairs envelope to the Economic Development envelope.

This will clarify the nature of federal interest in post-secondary education and identify more precisely the kinds of results the federal government

might look for as a consequence of these expenditures. To the extent that these expenditures might in the future be appraised according to economic development criteria rather than social criteria, this would represent a redirection of new education-related expenditures to economic goals. At the same time, it would mean that social expenditures would not have to compete for priority with education financing within the Social Affairs envelope.

A final technical issue is the selection of population estimates used for purposes of calculating provincial entitlements under the EPF (and for equalization purposes as well). The EPF uses census population estimates to calculate entitlements but, as many provincial governments have noted, these are generally acknowledged to underestimate population in some provinces. Annex B to this chapter contains an exchange of correspondence on this topic and an excerpt from a draft report on this issue by the Chief Statistician of Canada. The Chief Statistician's advice is to continue using the census estimates as at present until a more reliable estimation procedure is available, and the Task Force accepts this advice. As suggested in Chapter VII, if further work demonstrates the desirability of an adjustment for census under-enumeration, the Task Force believes such adjustments should be made in line with the recommendation of the Chief Statistician. *The Task Force recommends that*

if the results of the reverse record check of the 1981 census indicate a pattern of under-enumeration similar to that observed for the 1976 census, the federal government use population data adjusted for census under-enumeration for purposes of computing EPF transfer payments. (In such a case, corresponding adjustments will be necessary to correct base year per capita entitlements.)

Of course, as an essential part of any such adjustment for census under-enumeration, it will be necessary to make corresponding adjustments in base year per capita entitlements to ensure that the total EPF transfer remains unaffected by these revisions to population estimates. ^X financing, the process of negotiation of EPF arrangements will at least emphasize an expectation that provinces will keep their side of the funding bargain.

Annex III-A

Federal-Provincial Agreements Categorized According to Type of Program or Activity

1. THE FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS AND ESTABLISHED PROGRAMS FINANCING ACT, 1977
 - Fiscal Equalization Payments
 - Fiscal Stabilization Payments
 - Tax Collection Agreements
 - Provincial Personal Income Tax Revenue Guarantee Payments
 - Transfer Payments With Respect To Tax On 1971 Undistributed Income On Hand
 - Established Programs Financing
 - Contracting Out Arrangements
 - Reciprocal Taxation
 - Hospital Insurance Program
 - Medical Care Program
 - Post-Secondary Education Financing Program
 2. UNCONDITIONAL PAYMENTS TO THE PROVINCES AND MUNICIPALITIES
 - Grants In Lieu Of Real Estate Taxes on Consular and Diplomatic Properties
 - Statutory Subsidies
 - Public Utilities Income Tax Transfer
 - Municipal Grants Program
 - Water Transportation Assistance Program
 3. CONDITIONAL GRANTS AND PAYMENTS IN RESPECT OF SHARED-COST PROGRAMS AND ACTIVITIES
 - a) Federal Payments to the Provinces or Municipalities
- (Agriculture)*
- Crop Insurance
 - 4-H Clubs Assistance
 - Freight Assistance to the Royal Winter Fair
 - Rabies Indemnification Program
- (Employment and Immigration)*
- Canada Manpower Industrial Training Program
 - Federal-Provincial Agricultural Employment Development Agreements
 - Handicapped Refugee Scheme
 - Hospital Agreements for Indigent Immigrants
 - Co-operative Education Program
- (Energy, Mines and Resources)*
- Canada — Saskatchewan Heavy Oil Program
 - Canada — British Columbia Subsidiary Agreement to Evaluate Northeast Coal and Related Developments
 - Mineral Development Programs
- (Environment)*
- Agreements for Water Planning and Management
 - Cooperative Water Quantity Survey Data Gathering Program
 - Lake of the Woods Control Board
 - Agreements with Provinces and Municipalities for Historic Sites
 - Replacement of Highway Bridges over Canals under Parks Canada Jurisdiction

(External Affairs)

Agency for Cultural and Technical
Co-operation

Conferences of Education Ministers and of
Youth and Sports Ministers of French Speaking
Countries

(Finance)

Disaster Assistance Plan

(Health and Welfare)

Family Planning Grants Program

Health Resources Fund

National Welfare Grants

Provincial Management and Information
Systems Development

Manitoba Basic Annual Income Experiment

Blind Persons Allowances

Canada Assistance Plan

Disabled Persons Allowances

Young Offenders Agreements

Vocational Rehabilitation of Disabled Persons

(Indian Affairs and Northern Development)

Natural Resources Development Agreement
with Ontario

Newfoundland Agreement

Policing Agreements

Road Construction Agreement with
Saskatchewan

Agreement with Ontario respecting Welfare
Programs for Indians

Financial Agreement with the Northwest
Territories

Financial Agreement with the Yukon Territory

Canada — Northwest Territories General
Development Agreement

Canada — Yukon General Development
Agreement

Canada — Yukon Subsidiary Agreement on
Renewable Resource Development

Canada — Northwest Territories Subsidiary
Agreement on Community Economic
Development

(Industry, Trade and Commerce)

Group and Individual Familiarization Tours

Special Markets — Special Projects

Visit Canada Program — News Media

(Justice)

Assistance to Provinces for the Provision of
Compensation to Victims of Violent Crimes

Assistance to Provinces for the Provision of
Legal Aid in Matters relating to the Criminal
Law

Native Courtworker Programme

(Labour)

Survey of Salaries and Wages, Working
Conditions and Fringe Benefits—Saskatchewan

(National Defence)

Capital Assistance in Construction Projects

Emergency Planning

(Public Works)

Shore Protection and Remedial Works

Water Level Control

(Regional Economic Expansion)

Canada — Newfoundland General
Development Agreement

Canada — Prince Edward Island
Comprehensive Development Plan

Canada — Nova Scotia General Development
Agreement

Canada — New Brunswick General
Development Agreement

Canada — Quebec General Development
Agreement

Canada — Ontario General Development
Agreement

Canada — Manitoba General Development
Agreement

Canada — Saskatchewan General Development Agreement

Canada — Alberta General Development Agreement

Canada — British Columbia General Development Agreement

Canada — Yukon Territory General Development Agreement

Canada — Northwest Territories General Development Agreement

Agricultural and Rural Development Act

Canada — Council of Maritime Premiers Land Registration and Information Service Agreement

Physical Distribution Advisory Service Agreement

Canada — Atlantic Provinces Management Training Agreement

Federal-Provincial Land Assembly Program

New Communities Program

(Secretary of State)

Technical Assistance to the Non-Federal Public Sector

Official Languages in Education at Elementary and Secondary Levels

Official Languages in Education at the Post-Secondary Level

Official Languages in Education — Special Projects

Assistance to Provinces for Special Celebrations

Citizenship and Language Instruction Agreements

Language Textbook Agreements

(Solicitor General)

Consultation Centre Activities

Research Division Activities

Exchange of Correctional Services between Federal and Provincial Governments

Canadian Police Information Centre

(Transport)

Financial Assistance to the Construction and Operation of Municipal and other Airports

Construction of New Air Terminal Buildings and Surface Facilities at Grande Prairie and Lethbridge, Alberta

Water Transportation Assistance Program

Western Northlands (Highway) Program

Atlantic Provinces Primary Highway Strengthening/Improvement Program

Bus Portion of Atlantic Provinces Transportation Program

Railway Relocation and Crossing Act

Urban Transportation Assistance Program

Agreement for the Maintenance of the Beauharnois Canal and Associated Works

Welland Canal Crossings

Railway Grade Crossing Fund

b) Provincial or Municipal Payments to the Federal Government
Energy Conservation and Renewable Energy Programs

Co-operative Water Quantity Survey Data Gathering Program

Lake of the Woods Control Board

Transportation Facilities

Police Services Under Contract

4. PAYMENTS FOR GOODS OR SERVICES

a) Federal Payments to the Provinces or Municipalities

University Research Program

Canada Manpower Industrial Training Program

Canada Manpower Training Program

Federal-Provincial Aeromagnetic Survey Program

Federal-Provincial Uranium Reconnaissance Program

Canada-Manitoba Non-Renewable Resource Evaluation Program

Alberta/Canada Energy Resources Research Fund

Canada-Nova Scotia Agreement on Oil Substitution and Conservation

Nuclear Research and Development

Canada/British Columbia Sturgeon Bank Management

Agreements with Provinces and Municipalities for the Provision of Forest or Municipal Fire Protection

Extended Health Care Services Program

Young Offenders Agreements

Forest Fire Agreements

Agreements with School Boards or Departments of Education

Agreement with Ontario Respecting Welfare Programs for Indians

Agreement with Manitoba Respecting Child Welfare Services for Certain Indian Communities

Agreement with Nova Scotia Respecting Child Welfare Services for Indian Communities

Employment Injury Benefits Program

Occupational Safety and Health Program

Purchase or Sale of Utilities and Municipal Services

Exchange of Psychiatric Services

Agreements for Community Assessments and Parole and Temporary Absence Supervision Services

Transportation Research Project

Agreements to Compensate for Local Services and Utilities affected by St. Lawrence Seaway Authority Works

Vital Statistics Program

b) Provincial or Municipal Payments to the Federal Government

Intraprovincial Meat Inspection

Research Station Buildings

Quebec Immigration Officers Abroad (Cullen-Couture Agreement)

Atmospheric Environment Service

Provincial Visits Abroad

Aid of the Civil Power

Purchase or Sale of Utilities and Municipal Services

Provision of Services to Non Defence Agencies

Police Services Under Contract

Bulk Purchasing of Drugs and Vaccines

Federal-Provincial Cooperative Supply

5. PAYMENTS RELATING TO THE TRANSFER OF LAND, IMPROVEMENTS OR OTHER PHYSICAL ASSETS

Agreements with Provinces and Municipalities for the Establishment of National Parks

Assistance for Small Craft Harbours

Capital Assistance in Construction Projects

Intergovernmental Agreements for Joint Projects signed by the National Capital Commission and Programs of Assistance to Municipalities

Railway Relocation and Crossing Act

Urban Transportation Assistance Program

Financial Assistance for Harbour Improvement

Hospital Transfer Program

6. LOANS TO PROVINCES OR MUNICIPALITIES

a) Loans with Forgiveness Provisions

New Communities Program

b) Loans without Forgiveness Provisions

Crop Insurance

Nova Scotia-New Brunswick Interconnection

Manitoba-Nelson River Transmission System

Nuclear Research and Development

Canada Pension Plan Investment Fund Loans

Manitoba Indian Agricultural Program Inc.

Loans for the Construction of Wharves

Loan-Assisted Land Assembly Program

Non-Profit Cooperative Housing Program
Public Housing Programs
Student Housing

**7. JOINT ACTIVITIES WHERE EACH
LEVEL OF GOVERNMENT
INDEPENDENTLY FINANCES ITS
SHARE OF THE RESPONSIBILITIES**

Capital Assistance to Veterinary Colleges
Feed Freight Assistance Adjustment Fund
Dairy Support Program
Hermes Program (Communications Technology Satellite)
Symphonie Satellite Program
Anik-B Communications Program
Anik-B Program Delivery Pilot Project
Local Employment Assistance Program (LEAP)
Outreach Program
Handicapped Refugee Scheme
Joint Settlement Arrangements
Atmospheric Environment Service
Canada/Quebec Agreement for Ecological Studies Program in Basse Côte Nord Region
Water Quality Monitoring Program
Canada/Northwest Territories Wildlife Research
National Air Pollution Surveillance Network
National Alerting and Reporting Network
National Analyses of Trends in Emergencies Systems (Nates)
National Survey of the Generation of Hazardous Wastes
Prince Edward Island Cooperative Shellfish Program
Technology Development and Research under Canada/Ontario Agreement on Great Lakes Water Quality
Agreements with Provinces for the Establishment of Cooperative Heritage Areas

Educational Advisor in Abidjan
Voluntary Agricultural Development Aid Program (VADA)
Special Development Program
Assistance for Small Craft Harbours
Fishing Vessel Assistance Program
National Health Research and Development Program
Health Protection Cooperative Activities
Indian Economic Development Fund
Mackenzie River Basin Study
Flood Damage and Flood Mapping in Northwest Territories
Special Markets — Meetings & Incentive Travel
Unified Family Court Pilot Projects Program
Collective Bargaining Settlements and Negotiations in Ontario
The Northwest Highway System
Special ARDA Agreements
Community Services Contribution Program
Public Housing Programs
Residential Rehabilitation Assistance Program
Rural and Native Housing Program
Canada Games
Consultation Centre Activities
Canadian Police Services
Cooperative Data Gathering and Information Sharing

**8. SUPPORT OF INTERGOVERNMENTAL
LIAISON AND JOINT ADMINISTRATIVE
BODIES**

Federal-Provincial Boundary Commissions
Agreements for Water Planning and Management
Lake of the Woods Control Board
Creston Valley Wildlife Management Authority

Forestry Programs
Sulphur Development Institute of Canada
Canadian Food Products Development Centre
Industrial Technology Centre
Health Industry Development Centre
Special Markets — Awareness and Attitude
Newfoundland and Labrador Development Corporation Limited
Federal-Provincial Committee of Officials Responsible for Human Rights
Statistics Division Activities
Financial Assistance for Harbour Improvement

9. MISCELLANEOUS

Canada Works Program
Economic Growth Component of Canada Works (EGC)
Young Canada Works Program (YCW)

Youth Job Corps Program 1979-80
Conseil africain et malgache pour l'enseignement supérieur
National Fish Inspection Program
Newfoundland Bait Service
Canada Health Survey
Saskatchewan Indian Agriculture Program Inc.
Canadian Travel Film Program
Subsidy for Dry Docks
Prairie Farm Rehabilitation Act
Non-Profit Housing Program
Collection by Customs of Provincial Fees on Excess Importations of Liquor
Canada Student Loans Plan
Human Resources Branch Activities
Enforcement of Federal Statutes and Executive Orders
"At and East" Rates on Grain and Flour
Atlantic Region Freight Assistance Program

Annex III-B

Exchange of Correspondence Between the Chairman of the Task Force on Federal-Provincial Fiscal Arrangements and the Chief Statistician of Canada and a Note on Census Under-enumeration

Dr. Martin Wilk
Chief Statistician of Canada
R. H. Coats Building
Tunney's Pasture
Ottawa, Ontario
K1A 0T6

Dear Dr. Wilk:

In discussions with some provincial governments, and in some briefs submitted to us, the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements has encountered the suggestion that the legislation governing fiscal transfers should provide in some way for adjustment of provincial population estimates to reflect problems of census underenumeration.

I understand that this matter is actively under consideration by you and your colleagues in Statistics Canada. This letter is to invite you to submit to the Task Force your advice on the best way in which to handle this technical problem. I recognize, of course, that a final, formal position may not be established by your agency for some time yet, possibly after the Task Force must complete its work. Nevertheless, it would be very helpful to have your suggestions, even if in preliminary form, as to what considerations the Task Force itself should take into account, and what you consider might be the most helpful recommendation for it to offer on this issue. Any advice you can give us before July 6 will be most welcome.

Thank you very much for your help.

Yours sincerely,

Herb Breau, M.P.
Chairman

Mr. Herb Breau, M.P.
Chairman
Parliamentary Task Force on
Federal-Provincial Fiscal Arrangements
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Breau:

This is in response to your recent letter regarding the possible adjustment of provincial population estimates for census underenumeration.

Canadian censuses, like those of all other countries, fail to enumerate a small proportion of people. People who are missed by the census necessarily tend to be those who are the most difficult to locate or identify. As a consequence, the estimation of the number of such people is a particularly difficult task. Nevertheless, since 1961 Statistics Canada has been in the forefront to develop a methodology to attempt just that. The methodology is known as the Reverse Record Check (RRC) and it is based on some intensive efforts being applied to a relatively small sample. Its objective is to evaluate the accuracy of the census count by estimating, under reasonable assumptions, the number of people missed by the census. This evaluation is designed to provide some guidance to users of census data of the likely magnitude of this source of error and to assist us to learn more about the types of people missed by the census and, by inference, how we might improve our census taking techniques.

Since the results of the Reverse Record Check estimates have been placed in the public domain after every census since 1961, the question has naturally arisen as to whether the census counts adjusted for the estimated number of missed persons might not provide "better" estimates of provincial populations or of the distribution of provincial populations.

The question is relatively straightforward, but it has no definitive answer in the present state of the art.

The following paragraphs summarize the salient facts regarding the 1981 census counts, the Reverse Record Check and my current position on the question of adjusting census counts for the estimated undercount.

1. Statistics Canada will execute the RRC to assess the quality of the 1981 census, and those results will include *estimates* for each province of the fraction underenumerated in the census. Those RRC estimates will be available by end-1982.
2. Our processes and methods of analysis of the 1981 RRC are fully specified and would in no way be affected by any reference to contemplated use, or otherwise, of the findings of that study. Of course, prior to the full execution of that study, there is no assured way of anticipating its results as to the absolute or comparative levels of estimates of provincial census underenumeration.
3. The RRC results cannot be employed in a statistically defensible mode to estimate census underenumeration for any subprovincial entities.

4. In view of factors outlined below, and after extensive consultation with a wide spectrum of professional colleagues, I conclude that it would not be wise for the Chief Statistician to employ the (as yet unknown) results of the 1981 RRC formally to adjust the direct 1981 census provincial population estimates. (This view is strengthened by current unprecedented levels of census returns we are enjoying—providing plausible grounds for confidence that we will also achieve a very high quality census count.)
5. The conclusion of paragraph 4 is predicated on the assumption that the Chief Statistician would be required to certify a *single* set of census-based provincial population estimate *under legal provisions similar to those provided by the present Fiscal Arrangements Act*. Since, however, both the unadjusted census counts and the RRC results will assuredly be placed in the public domain, you could incorporate reference to both of those results in legislation modifications you are contemplating, should you perceive any social or political advantages in retaining flexibility on this issue.

The major considerations which led me to the position outlined in paragraphs 4 and 5 above are summarized below.

1. While it is *likely* that the use of 1981 RRC results would lead to improved provincial population estimates for some provinces, it may also lead to poorer estimates for other provinces. No method of removing this uncertainty exists at this time.
2. The adjustment of census counts, if implemented, might well remove some of the errors of the census counts. This is accomplished, however, at the price of accepting *all* of the errors inherent in the RRC estimates. These estimates are subject not only to sampling errors, which can be estimated, but also to biases which are not evaluable. It is well to keep in mind that the RRC was designed to estimate the prevalence of a phenomenon inherently extraordinarily difficult to assess: people missed by the census. To assess the errors inherent in the RRC estimates is an undertaking more difficult by an order of magnitude.
3. The RRC is designed to measure undercount. It does not measure overcount—nor do we have a vehicle designed to do so. The design of such a vehicle could not be accomplished in time for the 1981 census and at any rate would be very expensive (order of magnitude of \$10 million). Various considerations indicate that overcount is substantially less than undercount, but we have no direct statistical demonstration of this.
4. The RRC is quite inadequate statistically to effect scientifically defensible adjustments for subprovincial entities. (Any reasonable expansion of the RRC would not remedy this deficiency.) Thus the unadjusted population estimates for subprovincial entities would not add up to the adjusted provincial estimates.
5. Since we have no professionally justified method for adjusting estimates for subprovincial entities, but the latter are required for other (including other legally mandated) applications of the census, the use of adjusted provincial population estimates would involve using “inconsistent” population estimates in different applications.

6. While the RRC methodology has been applied in each of the 1961, 1966, 1971 and 1976 censuses, the 1976 design was much larger than its predecessors. Consequently, the likely stability and statistical behaviour of the 1976 results cannot be fully gauged by comparisons with the earlier years. The 1981 RRC design *is* comparable and its results can be evaluated by statistical comparison with those for 1976. Such an evaluation, however, is unlikely to be available before late 1983.
7. Under plausible assumptions, the application of the RRC adjustment estimates would decrease the bias of a provincial estimate due to the census undercount but would increase its sampling variance due to the sample-based estimates derived from the RRC. If the actual undercoverage measured in the 1981 RRC turned out to be significantly smaller than that measured in the 1976 RRC, then the balance might be unfavourable to adjustment—unlikely, but not impossible. We will not have the 1981 RRC estimates of provincial census undercoverage until end-1982.
8. The U.S. 1980 census experience is that nationally they census-counted about 2½% *more* people than they expected to find before the census results became available. This percentage is roughly equal to what they anticipated as their total undercoverage. The plausible reasons for this unexpected U.S. happening—illegal aliens, truly intensive public relations work with large bodies of “alienated” minorities—might not all be applicable in Canada. Yet, one cannot entirely foreclose the possibility that our 1981 census results may have some unexpected attributes relative to the 1976 pattern. The current position of the U.S. Bureau of the Census, in the face of litigation, is that *for their 1980 census results* they know of no statistically defensible way of effecting an adjustment.
9. The census results represent standards developed over a period of 110 years *which are broadly and publicly acceptable*. They are most definitely not perfect—in fact Statistics Canada is internationally in the forefront in its efforts to research and elucidate errors in the census. In the presence of indisputable evidence regarding the superiority of alternative estimates, the “standard” could well be replaced, but such *indisputable* evidence does not exist at the present time.

I hope these notes are responsive to your letter. Naturally, I will be pleased to provide help or additional information in any way I can.

Sincerely,

Martin B. Wilk

Under-Enumeration In Canadian Censuses and Its Ramifications: An Examination Of Selected Aspects*

Summary of Issues

Although census under-enumeration can be considered to be a fairly universal phenomenon, in recent years it has become a contentious issue between different levels of government, particularly when the census counts and other statistics which have been derived from them are utilized for legislated purposes such as the calculation of fiscal transfers. Canada has not been exempted from such disputes. For example, the Government of Manitoba disputed the accuracy of the 1971 population data as the basis for calculating its entitlement to federal funds under the terms of the Medical Care Act and the Hospital Insurance and Diagnostic Services Act. Similarly the Government of New Brunswick questioned the validity of the migration components of its population estimates. More recently the Finance Minister of the Governments of Quebec and New Brunswick exchanged letters with their counterpart in the federal government arguing that the census data should be adjusted for under-enumeration prior to using them for purposes of calculating equalization entitlements. In order to enable senior government officials to make a decision on this issue, it was agreed in an exchange of letters between the Chief Statistician and the Deputy Minister of Finance that Statistics Canada would explore the possibilities of adjusting its population figures for census under-enumeration.

There is a strong possibility that similar and more vociferous disputes may arise concerning the use of the 1981 Census data in such programs. In order to enable Statistics Canada to provide these key users of population data with more concrete information on census under-enumeration and its impact on selected programs, a collection of papers was prepared by the Demography Division and the Census and Household Surveys Methodology Division. The collection is intended to cast light on the

principal issues that should be considered if Statistics Canada were to adjust the census population count for the estimated under-enumeration. The papers demonstrate the possible impact that census under-enumeration has on various programs such as fiscal transfers from the federal to provincial governments, electoral representation by province in the House of Commons and population projections. Some of the major findings of the papers are summarized below:

1. One important type of error in the Canadian census arises as a result of the inadvertent omission of dwellings, households and persons that are part of the target population. This type of error is referred to as under-enumeration or undercoverage, and it results in a downward bias in the census counts.
2. The census counts are used as a base for preparing Statistics Canada's population estimates and population projections for years other than census years. These population estimates are used by Statistics Canada to produce a wide range of rates (unemployment, birth, death, etc.). Errors due to census under-enumeration are carried over into the population estimates and projections for non-census years, and thus can affect the various rate that are produced by using the population estimates as a base.
3. The Reverse Record Check (RRC) is the only source of data on census under-enumeration. The RRC estimates of under-enumeration are not considered to be sufficiently reliable to be of any practical use at subprovincial levels. Even at the provincial level the estimates have a high sampling variability for certain age-sex groups, but the RRC produces acceptable estimates of total under-enumeration by province.
4. The RRC provides no information on under-enumeration in Yukon and the Northwest Territories and no program

*Provided by the Chief Statistician of Canada.

exists for providing estimates of net under-enumeration. The technique itself cannot be adapted to provided such estimates for the North.

5. The question of whether or not to adjust for census under-enumeration does not have a single, unequivocal answer.
6. In general, adjusting for under-enumeration would provide a more reliable basis for the allocation of funds for both per capita and fixed total types for allocation.
7. The foregoing statement (6) is supported by one paper in the collection which deals with the issue at a more general statistical level, and also by a second paper which addresses itself specifically to selected major revenue allocation programs (Equalization, Established Programs and Extended Health Care). In the case of per capita grants (Extended Health Care) the under-payments are directly proportional to the under-enumeration rate of each province. In the equalization type of distribution, based on a fixed amount, a province's entitlement is proportionally less or more depending on whether the undercoverage of its population exceeds or falls short of the national average of undercoverage. Finally, in the case of Established Programs, the relationship between undercoverage and the allocation formula is more complex as this formula involves the components of both a fixed amount of revenue-sharing and per capita grants. However, the analysis has established that all these programs are very sensitive to the undercoverage.

The following figures give some idea of the importance of the funds which are allocated under the above mentioned programs: over \$26 billion under Established Programs, about \$15 billion for Fiscal Equalization, and nearly \$3 billion for Extended Health Care. These figures are estimates for the five year cycle of the current legislation, 1977/78 to 1981/82. The impact of adjustment on the provincial share of revenues under various acts is explicitly calculated. Further, should the distribution of funds be based on adjusted counts, the cost to the federal government for these programs would increase by \$270 million during this period.

8. The total number of seats in the House of Commons and their distribution by provinces varies slightly, depending on whether the calculations are made by using unadjusted census counts or census data adjusted for under-enumeration.
9. Adjusted age-sex distributions should yield more accurate population projections by age and sex, even if the base total population size is not adjusted for under-enumeration.
10. The estimates for the employed were significantly higher at the Canada level and for selected provinces when adjusted data were used in the estimation process of the Labour Force Survey in place of unadjusted data. However, the estimates for the unemployed were not significantly different at the Canada level and across provinces when adjusted data were used, nor were the adjusted rates (unemployment and participation) significantly different from the unadjusted rates.
11. The issue of adjusting or not adjusting the population figures for census undercoverage is a technical one. It is incumbent upon [Statistics Canada] to reach a decision regarding this issue that will be based on the ultimate criteria of providing population estimates of the highest possible quality. However, in view of the wider ranging implications of this decision, it is imperative that the issue be thoroughly and publicly explored with our most important users. It will be necessary to consult with the Finance department and other concerned federal departments (Health and Welfare, National Revenue and Secretary of State) and with provincial officials regarding the implications of the adjustment.
12. Similar technical consultations will be carried out with the Office of the Chief Electoral Officer and the Privy Council concerning the implications of adjustment for undercoverage on electoral representation.
13. It is important than an agreement as to the adjustment for undercoverage and the procedures to be followed be reached before the 1981 census results become available so as to assure the objectivity of the approach which is to be adopted for purposes of making any adjustments to the data for selected purposes.

Annex III-C

Established Programs Financing and its Consequences*

Expenditure Trends

The introduction of Established Programs Financing substantially increased the size of the federal contribution from what the provinces were receiving under the cost-sharing arrangements for hospital insurance, medical care, post-secondary education and certain health components of the Canada Assistance Plan. In the first year (1977-78), federal contributions under EPF increased by some 20% or \$1,218 million over the previous year. Provincial expenditure on these established programs increased between 6% and 7% in that year depending on how one defines expenditures attributable to health and post-secondary education (PSE). Since this latter figure takes no account of inflation, provincial governments' contributions from own sources actually fell in real terms. In the next two years, 1978-79 and 1979-80, federal contributions again increased at a greater rate than provincial expenditures. We estimate that while costs of health and PSE went up by 10 to 11% in 1977-78 and 9.5 to 10.1% in 1978-79, federal contributions went up by 13.7 to 14.3% and 13.1 to 13.5% in each of those years.

As a consequence of these trends, federal contributions (tax and cash) have increased from 42% of *total* provincial expenditures on health and *total* operating costs of post-secondary education in 1976-77 to 50% in 1979-80. Total expenditures include administrative costs of Provincial Departments of Health and Education and social service expenditures related in any way to health programs—it thus reduces the size of the federal contribution compared with what it would have

been under pre-1977 definitions. If one accepts the admittedly contentious assumptions we are making then the provinces received from EPF approximately \$1.5 billion more in 1979-80 than they would have received if the previous cost-sharing arrangements had still been in place and expenditure patterns had remained the same. Even with the removal of the value of the 2 personal income tax points given to provinces as compensation for termination of the revenue guarantee, the federal share of health and post-secondary expenditures rose from 42% in 1976-77 to 47% in 1979-80.

On a constant (1971) dollar per capita basis federal funding for health and post-secondary education rose 24% in the first three years of EPF. Funding from other sources including health insurance premiums, university tuitions, endowments and municipalities maintained their value while the constant dollar contribution from the provinces fell by between 14% and 23% depending on the definitions used. In effect then, virtually all real increases in these sectors since EPF began have been financed from federal transfers with, in some cases, a surplus being available to provinces for other uses.

An examination of the individual components of EPF expenditures reveals that these effects extend to all the program components. Nominal federal contributions deemed for post-secondary education increased from a national average of 45% of total operating expenses in 1975-76 to 57% in 1979-80 (federal contributions for PSE as a percent of total operating expenses ranged from a high of 108% in one province to a low of 50% in another). The federal contribution for health services increased in a similar fashion as the aggregate federal contribution rose from 39% of provincial health expenditure in 1975-76 to 47% in 1980-81. We

*Extracted from M. Gunther and R. Van Loon, "Federal Contributions to Post-Secondary Education: Trends and Issues", in David M. Nowlan and Richard Bellaire, eds., *Financing Canadian Universities: For Whom and By Whom* (Toronto: OISE Press, forthcoming, 1981).

would stress again that our using the combined tax point and cash contributions is bound to be disputed.

All the provinces, to a greater or lesser extent, have used increased federal funding under EPF to "substitute" for provincial own source contributions. Generally, the poorer provinces used new EPF monies primarily to substitute for provincial funding, thus treating EPF more like a fiscal transfer than a program directed transfer. In the richer provinces (with one exception) the additional federal monies were, to a greater or lesser extent, used for new expenditures in health and post-secondary education. However, our preliminary estimate is that even in these provinces a significant portion (about 25%) was used as a substitute for provincial revenues.

Turning now, briefly, to *cash transfers only*, the aggregate data show that in 1980-81, all of the established financing programs, health insurance, medicare, extended health care, and post-secondary education will amount to about \$5.2 billion. In 1982-83 that cash transfer will rise to \$6.15 billion.

The deemed post-secondary education portion of that is 32.1 per cent, and in 1980-81 that would be about \$1.7 billion, rising to \$2.0 billion in 1982-83.

We have preferred not to say much about the post-secondary education *per se* because of the difficulties of attribution mentioned earlier. However, a few comments are warranted.

The first is that as a result of the new arrangements the nominal federal contribution for post-secondary education has gone from 45 per cent of total operating expenditures in 1975-76 to 57 per cent in 1979-80. Those figures fluctuate somewhat from year to year, but the overall trend is clear; it is a very large increase in deemed federal contributions.

In 1982-83 the EPF formula will provide approximately \$600 million more in federal support than would the previous cost-sharing arrangement. Peter Leslie has noted that the history of the

federal role in higher education since World War II is one of rising expenditures coupled with diminishing visibility and diminishing impact. The increasing proportion of the federal cash payments to provinces (approximately \$1.7 billion in 1980-81) relative to the value of the tax transfer (\$1.4 billion) is of some particular concern. This has occurred because the growth of the tax yield has not kept pace, as had originally been anticipated, with the escalation in cash payments in accordance with population and GNP growth, thus necessitating continuing "transitional" adjustment payments. These are currently projected to be in the order of \$873 million for 1982-83, increasing to \$1.271 billion by 1986-87.

The Original Intentions of EPF

How does this pattern of expenditures accord with the original intentions of EPF? The federal government has certainly continued to pay a substantial share of program costs as was promised; indeed, it might be argued that the levels of funding, as a proportion of total spending on the sector, have gone somewhat beyond what was intended at the time. As agreed in 1977, federal payments have continued to be calculated independently of provincial program expenditures. This has certainly given the provinces more autonomy in these spending areas. However, it does seem reasonable, from the federal perspective, to re-examine the commitment to unconditional grants. Although cost saving was anticipated in 1977 and has in fact occurred, it is still legitimate to ask whether replacement of provincial contributions to the extent shown was anticipated and even if anticipated whether it is the most effective and desirable way of utilizing scarce federal finances.

In one sense the arrangements for the major programs were placed on a more permanent footing by the new federal funding formula. However, it is less clear whether they have permitted the actual institutions delivering health and post-secondary services to plan their activities on a more secure and stable basis. There is some evidence that the institutions still face variable year by year expenditure approvals which create considerable uncertainties.

The new arrangements also increased, substantially, the flexibility available to provinces with

* The definition of expenditures used here is extremely broad; it includes health related social expenditures so as to give the maximum benefit of interpretation to the provinces.

regard to program decisions and they certainly simplified administrative procedures. The contributions that the federal government made to provinces under the previous post-secondary arrangements varied from \$49 per capita in Newfoundland in the last year of the old arrangements, to \$85 in Quebec. Since then all the provinces have received the same level of contribution for post-secondary education. A province which received a relatively low level of contributions under the old arrangement, for example New Brunswick, now receives a larger level of deemed post-secondary education contributions. That presumably should have the beneficial effect of allowing provinces, if they wish, in terms of their own priorities, to provide a higher level of expenditure funding for the post-secondary sector. But perhaps it is now necessary to consider whether this flexibility has begun to result in such a degree of diversity that it is becoming very difficult to ensure the maintenance of basic equality of standards and services to which the federal government is also committed.

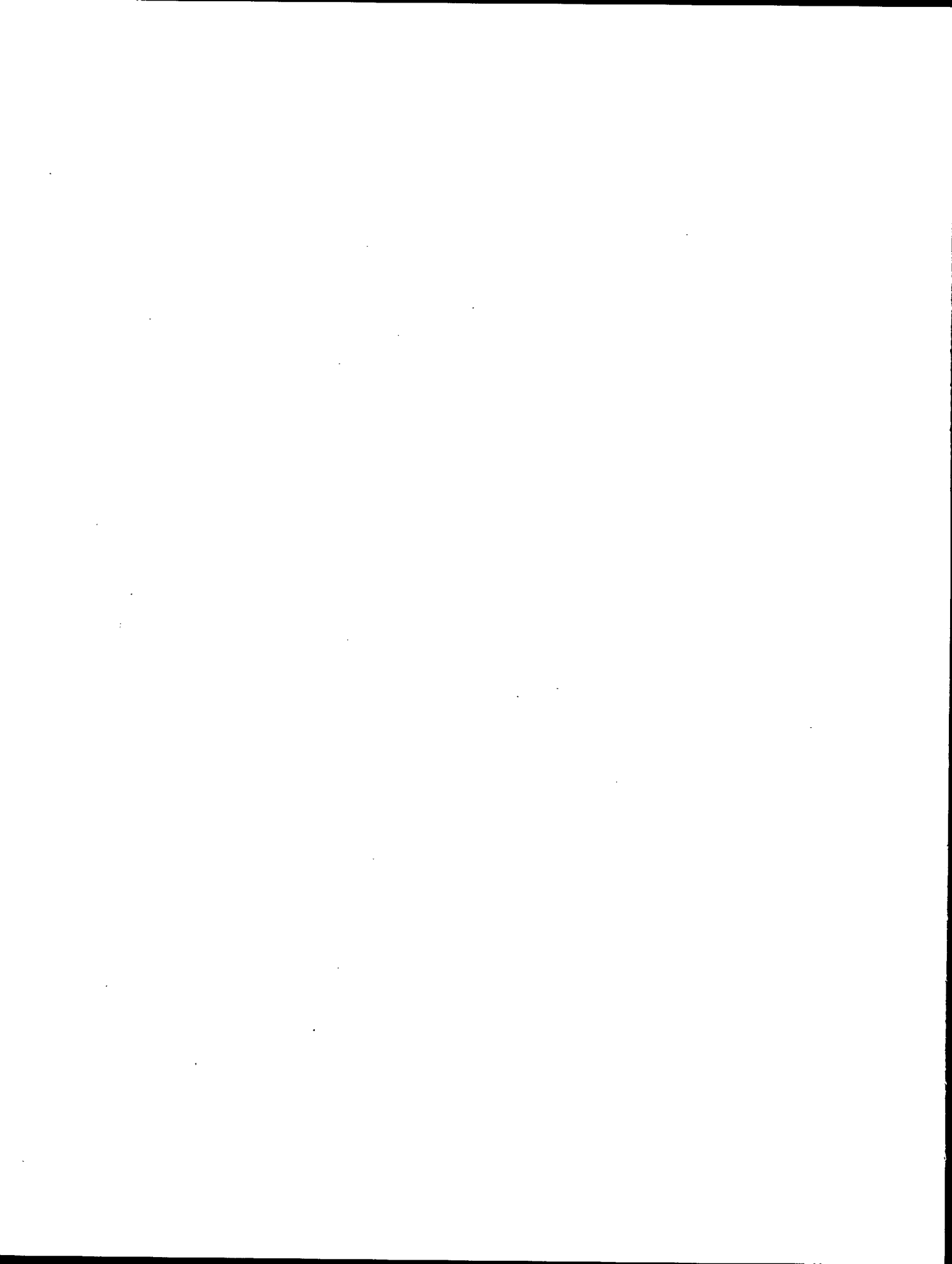
While the federal government promised in 1977 that any savings that could be generated by reducing services would accrue totally to the provinces, it must be emphasized that there was at no time a commitment to accept any and all such savings uncritically. Given the strong statements made at the same time by the federal government on its commitment to preserving national standards, it is clear that the federal government cannot possibly find acceptable savings which might threaten the maintenance of basic standards of service and reduce possibilities for their improvement.

It was promised in 1977 that the new formula would yield more resources to the provinces than the previous arrangements and this too has come about. The federal contribution for the three programs has certainly been adequate. We noted previously that had the earlier matched grant cost-sharing operated in 1979-80, the federal contribution to the sector would have been between \$1.5 and \$1.8 billion less than it in fact was. Yet the health and PSE sectors in Canada have not seen any major expansion. In fact, the reverse has occurred; as real federal financing increased, real provincial contributions declined resulting in the substitution effect mentioned above. This has meant that provinces were able to use funds

intended for health and post-secondary education for non-sector purposes for which they would otherwise either have had to raise their own taxes or reduce non-sector expenditures. There is also evidence that in some provinces there is underfunding of aspects of the health and education systems to the degree that national standards are being seriously eroded.

The argument can be made that EPF must simply be considered a success in that the rate of cost increases for services delivery has been consistently low between 1977-81. Perhaps it could then not be gainsaid that all Canadian taxpayers, as represented by the federal government, also benefit from the success. In order to do so the most effective means might be a formula which ensured that the federal contributions for health and post-secondary revert to historical levels. To the degree that problems of underfunding exist, these could be offset by a more selective, targeted use of some of the funds saved by this return to traditional levels of funding.

It is not our intention to comment in detail on the formula used to calculate EPF payments. It should be noted, however, that the formula has not resulted in quite the effects anticipated in 1977. The original estimates were that the tax component would provide the bulk of the monies available to the provinces while the cash transfers would be substantially less, increasing each year by a stable rate. The crucial importance of these cash transfers to the federal government is the effect they have on the level of discretionary funding available to the federal government. Instead, we see that the generally poor level of recent economic performance which automatically affects federal tax yields, particularly personal income tax and corporation income tax, has meant that the federal government has had to increase its cash outlays in order to top up the lower-than-anticipated tax transfers to the provinces. This, to repeat, has not only decreased the discretionary funds available for other federal purposes but, given the fact that these cash outlays are drawn from a relatively shrunken tax base, means that the fiscal consequences of the formula are even further exacerbated. Larger-than-expected cash payments drawn from a smaller-than-anticipated tax base is one of the consequences of the EPF formula during a period of economic downturn.



Chapter IV

THE HEALTH SYSTEM

Introduction

Following so quickly upon the release of Justice Emmett Hall's report, *Canada's National-Provincial Health Program for the 80s*,¹ it is inevitable that this chapter should touch upon many of the same issues. That report, hereafter referred to as the *Health Services Review*, is taken as the basic reference document. The Task Force has not attempted any comparable statistical or analytical summary of the state of the health system, but has focused instead on questions more closely related to its own mandate.

The problems that currently dominate health sector discussions are dealt with below under headings representing three broad areas of concern:

1. the delivery system—health care programs and possible imbalances between methods of delivery within the system;
2. program conditions—possible erosion of health insurance principles and failure to satisfy program conditions; and
3. the national commitment to health care—including, particularly, possible underfunding of the sector.

These areas are interconnected, of course. The question of 'underfunding' is linked to the supply of physicians and physicians' incomes, that in turn to the problem of extra-billing (and the question of inefficient utilization of health resources), and that again to concerns for erosion of program conditions, particularly those of accessibility and universality. Nevertheless, it is useful to organize the analysis of the evidence presented to the Task Force from the standpoint of these three topics.

The issue that elicited the largest volume of comment is directly related to the health care

delivery system, its problems and shortfalls. The picture that emerged from the evidence is that of a health care system in which two critical sets of decisions may now be working at cross-purposes. The first set is political and bureaucratic decisions on the creation and location of facilities and services of all types. The second is the decisions of physicians—the gatekeepers of the system—on utilization.

Witnesses referred frequently to imbalances in the health care delivery system:

- in the use of acute care facilities for long-term chronic patients because of a lack of more appropriate services;
- in an over-emphasis on treatment—particularly capital-intensive, high technology facilities—relative to preventive care and community services;
- in an over-reliance on highly-trained physicians rather than on expanded use of nurse-practitioners or other health service professionals; and
- in the geographical distribution of manpower, services and facilities.

These imbalances, it was argued, are intimately related to an oversupply (with a geographic maldistribution) of physicians, without the opportunity for declining relative incomes to restore a balance.

Health care delivery issues fall mainly within provincial jurisdiction, so the first problem confronting the Task Force was the extent to which the questions outlined above are legitimate concerns of the federal government. On this question, as discussed further in this chapter, *the Task Force concludes that there is an overriding national interest in the operation of health insurance*

plans and in the effectiveness of health care delivery. The question that follows is what actions the federal government may take to serve the national interest without itself becoming directly involved in health care delivery. *The Task Force concludes that the proper role for the federal government is the formulation, monitoring and enforcement of conditions on its financial support of provincial programs.*

Before dealing with the specific problems raised by witnesses, we wish to note how good the health care system is. Without doubt, its essential strength derives from the dedication and high calibre of Canadian medical, nursing and allied health workers that testify to the quality of our educational institutions and teaching hospitals as well as to the ideals and personal commitment of those serving in the field. It is clear that Canadians in general believe that the health care system is working well. Justice Hall recognized this in the *Health Services Review*: "I found no one, not any government or individual, not the medical profession nor any organization, not in favor of Medicare".² The Task Force received similar assessments from numerous groups. The Ontario Health Coalition reflected this feeling: "Medicare is uncontestedly one of this country's greatest social achievements. Public health insurance has freed Canadians from all walks of life from the financial burden of illness".³ The Minister of National Health and Welfare echoed similar views and provincial governments also took pride in the important achievements of the Canadian health care system. Finally, the Canadian Medical Association (CMA), whose members have not always enthusiastically supported public medicare, observed in its submission "The reluctant partnership of federal and provincial governments and providers of health care services has not always been harmonious, but it has produced an almost unparalleled success story in the provision of an essential social service on a national basis".⁴

The Task Force did not hear evidence that Canadians were not generally satisfied with their publicly-funded health insurance system, or that the health care system in Canada is not fundamentally sound and working to the general satisfaction of Canadians. Thus, for all the present concerns expressed with respect to the system, it seems clear that Canadian generally would endorse the view that the publicly-funded health care system we

now enjoy is one of the great achievements of Canadian society and a tribute to those who fought for it.

The Delivery System

Many briefs alleged that there were shortfalls in the health care delivery system, in the allocation of resources, and in the efficacy of the system in meeting the health care needs of Canadians. Five areas of particular concern are discussed in this section. The first is the further development of extended health care resources to permit chronically ill patients to move from acute care into more suitable facilities or services. The second is the need to develop alternate health care services and to counteract the tendency of the present system to emphasize an 'illness-care' or 'treatment-oriented' approach. Geographical imbalance in the distribution of medical manpower, facilities and services is a third area of concern. The problem is the availability of adequate health care to Canadians wherever they reside in Canada. A fourth issue is the under-utilization of non-physician, medically-trained manpower, a question that is closely related to the problem of the alleged oversupply of physicians. A fifth issue is more effective co-ordination among all those concerned with health care in Canada.

With the advent of Established Programs Financing (EPF), provinces achieved greater flexibility in the allocation of resources according to provincial needs and priorities. Many witnesses contended that the EPF arrangements do not provide sufficient incentive or resources to provincial governments to ensure that they will resolve problems of imbalance in the provision and use of facilities and manpower. Consequently, they argued for more federal leadership in the allocation of resources to and within the health care system to meet the needs of a comprehensive national program directed to effective prevention as well as treatment of illness. These concerns underlie some of the recommendations in the five sections that follow.

Extended Health Care An initial reminder of the growth and change in use of acute care resources in the health sector may be helpful. The quantitative indices are impressive, both on the hospital

and on the medical side. As one witness, Professor J. M. Horne, stated: "Figures contained in Mr. Justice Hall's report generate the clear image of a 'well-bedded, well-doctored' country".⁵

As regards hospital facilities, substantial growth is evident. With the introduction of the Hospital Construction Grant in 1948 (which augmented provincial, municipal and voluntary funds) 46,000 beds were constructed in a five-year period. Spurred on by the introduction of universal hospital insurance in the fifties, the acute care hospital system developed rapidly. With the benefit of hindsight, it now appears that this component may have been over-built, to the neglect of lower-cost, more appropriate facilities and services.

The data in Table IV-1 illustrate this rapid build-up as well as the extent to which the system in recent years has begun to curb the rise in acute hospital beds and to supplement those resources with facilities for long-term patients. Indeed the *Health Services Review* suggests that if enough facilities for less acute care—like nursing homes or non-institutional care—were made available, present hospital facilities would likely be sufficient until the mid-1990s.

Trends in hospital utilization are shown in Table IV-2. These reveal an extraordinary range of differences among the provinces.

Despite progress to date, it is argued that a shortage of long-term care facilities remains a problem: some patients are denied access to such facilities altogether or encounter long waiting lists or are placed in acute care facilities, thus contributing to shortages and delays there.

With the 1977 EPF agreement, the federal government broadened the base of its coverage of health by incorporating a per capita grant for extended health care, designed to cover nursing homes, intermediate care, adult residential care, converted mental hospitals, home care and ambulatory health care. The flexibility in the EPF formula was intended to allow provinces to develop these services in anticipation of growing needs associated with the 'aging society' in Canada.

Under EPF there has been a shift in spending in favour of extended health care. The *Health Services Review* observed, with approval, that block-

funding reinforced the efforts of provinces to reduce the growth of spending on medical and hospital care and to increase spending on preventive and health promotion programs on the one hand, and on support services, aided by the new extended health care grants, on the other.

Given the problems in making major changes in direction of this nature, it is encouraging to note the progress that provinces have made in this respect. Statistics supplied by Health and Welfare Canada indicate that of all provincial health expenditures, the share allocated to expenditures on extended health care has risen from 11.7 per cent in 1976-77 to 13.7 per cent in 1980-81, and on other health services from 16.2 per cent to 17.4 per cent over the same period. Despite this trend, a number of witnesses complained that EPF provides neither the resources nor the incentives necessary to ensure adequate extended health care facilities and services.

One of the major concerns expressed was the need for more nursing home places and the expansion of home care programs to free up active treatment beds. The Task Force was impressed by the CMA's testimony regarding delayed admissions of acutely-ill patients because of long-term patients inappropriately remaining in acute care beds:

Practically every community in the country suffers from a serious, on-going shortage of extended or long-term services ... chronic care hospitals, nursing home beds and home care programs.⁶

Furthermore, it appears that the Atlantic provinces in general lag behind in meeting these needs. The special report of the Ministers of Health of those provinces, commenting on the shift to EPF funding of extended health care, contends that the per capita grant was set at a level well below the real cost of the programming it was meant to cover, with the result that they have not been able to develop these services in line with their needs. The province of New Brunswick submission also stressed that even though major advances have been made in the extended health care field, it still requires considerable development (particularly community and in-home services) as an alternative to costly institutional care.⁷ Comparisons between EPF payments for extended health care and what would have been paid under the Canada Assistance Plan for these services indicate that EPF has

Table IV-1
Hospital Beds¹
and Allied Special Hospitals Reporting, by Province and Canada

Province	1955			1960			1965			1970			1975			1978-79		
	Short-term beds	Long-term beds	Total	Short-term beds	Long-term beds	Total	Short-term beds	Long-term beds	Total	Short-term beds	Long-term beds	Total	Short-term beds	Long-term beds	Total	Short-term beds	Long-term beds	Total
Nfld	1 657	204	1 856	1 737	231	1 968	2 545	322	2 867	2 787	162	2 949	3 052	219	3 271	3 043	189	3 232
per 1,000 pop.	4.1	0.5	4.6	3.9	0.5	4.4	5.2	0.7	5.9	5.4	0.3	5.7	5.6	0.4	6.0	5.3	0.3	5.6
P.E.I.	620	—	620	608	41	649	578	51	629	634	44	678	642	44	686	634	111	745
per 1,000 pop.	6.2	—	6.2	5.9	0.4	6.3	5.3	0.5	5.8	5.8	0.4	6.2	5.4	0.4	5.8	5.2	0.9	6.1
N.S.	3 943	426	4 369	4 074	296	4 370	4 473	276	4 749	4 917	295	5 212	4 965	250	5 215	5 197	217	5 414
per 1,000 pop.	5.8	0.6	6.4	5.6	0.4	6.0	5.9	0.4	6.3	6.3	0.4	6.7	6.0	0.3	6.3	6.1	0.3	6.4
N.B.	3 017	141	3 158	3 353	260	3 613	3 759	290	4 049	4 095	354	4 449	4 117	305	4 422	3 967	335	4 302
per 1,000 pop.	5.5	0.3	5.8	5.7	0.4	6.1	6.1	0.5	6.6	6.5	0.6	7.1	6.1	0.5	6.6	5.7	0.5	6.1
Quebec	21 445	4 537	25 982	24 785	7 079	31 864	28 530	7 332	35 862	29 097	10 043	39 140	28 917	12 536	41 453	26 761	25 841 ²	57 602
per 1,000 pop.	4.8	1.0	5.8	4.8	1.4	6.2	5.0	1.3	6.3	4.8	1.7	6.5	4.7	2.0	6.7	4.3	4.1	8.4
Ont.	27 439	5 929	33 368	31 299	7 427	38 726	37 164	9 577	46 741	40 464	10 861	51 325	40 630	10 941	51 571	37 951	11 522	49 478
per 1,000 pop.	5.2	1.1	6.3	5.1	1.2	6.3	5.5	1.4	6.9	5.4	1.4	6.8	5.0	1.3	6.3	4.5	1.3	5.8
Man.	5 016	773	5 789	5 507	1 029	6 536	5 846	1 138	7 004	5 738	1 314	7 052	5 617	1 350	6 967	5 384	1 303	6 687
per 1,000 pop.	6.0	0.9	6.9	6.1	1.1	7.2	6.1	1.2	7.3	5.9	1.3	7.2	5.5	1.3	6.8	5.2	1.3	6.5
Sask.	6 790	238	7 028	6 776	709	7 485	7 221	708	7 929	7 098	663	7 761	6 826	892	7 718	6 542	1 241	7 783
per 1,000 pop.	7.7	0.3	8.0	7.4	0.8	8.2	7.6	0.7	8.3	7.5	0.7	8.2	7.4	1.0	8.4	6.9	1.3	8.2
Alberta	8 438	768	9 206	8 393	1 179	9 572	9 259	2 814	12 073	11 614	3 185	14 799	11 648	3 342	14 990	11 293	3 848	15 141
per 1,000 pop.	7.7	0.7	8.4	6.5	0.9	7.4	6.4	1.9	8.3	7.3	2.0	9.3	6.6	1.9	8.5	5.7	2.0	7.7
B.C.	8 957	909	9 866	9 373	967	10 340	10 463	1 618	12 081	11 386	2 683	14 069	11 823	4 929	16 752	11 611	6 298	17 909
per 1,000 pop.	6.7	0.7	7.4	5.5	0.6	6.5	5.8	0.9	6.7	5.3	1.3	6.6	4.8	2.0	6.8	4.5	2.5	7.0
Yukon	40	15	55	157	—	157	152	8	160	152	9	161	140	4	144	142	4	146
per 1,000 pop.	3.6	1.4	5.0	11.2	—	11.2	10.8	0.6	11.4	9.0	0.5	9.5	6.7	0.2	6.9	6.5	0.2	6.7
N.W.T.	193	—	193	244	—	244	417	58	475	432	28	460	304	22	326	259	31	290
per 1,000 pop.	10.7	—	10.7	11.1	—	11.1	15.4	2.2	17.6	13.1	0.8	13.9	8.0	0.6	8.6	6.0	0.7	6.7
Canada	87 550	13 940	101 490	96 306	19 218	115 524	110 407	24 212	134 619	118 414	29 641	148 055	118 681	34 834	153 515	112 784	50 945	163 279
per 1,000 pop.	5.6	0.9	6.5	5.4	1.1	6.5	5.6	1.3	6.9	5.6	1.4	7.0	5.2	1.5	6.7	4.8	2.2	7.0

¹ Excludes mental hospitals and tuberculosis sanatoria in all years. Data for 1955 and 1960 were adjusted to include estimates for non-reporting facilities. Data for 1965 onward exclude non-reporting hospitals which were primarily in the Northwest Territories and small nursing stations in other provinces.

² Includes certain Quebec mental hospitals in 1978-79 earlier converted for the provision of extended care.

Source: Health and Welfare Canada and Statistics Canada.

Table IV-2
Total Number of Admissions (Adults and Children) in All General and Allied Special Hospitals Reporting¹

Province	1955		1960		1965		1970		1975		1978-79	
	Adm.	Per M. Pop.	Adm.	Per M. Pop.	Adm.	Per M. Pop.	Adm.	Per M. Pop.	Adm.	Per M. Pop.	Adm.	Per M. Pop.
Nfld.	34 548	85.1	48 091	107.3	64 716	132.6	78 791	152.7	92 400	168.3	92 402	161.9
P.E.I.	13 503	135.0	16 010	155.4	17 704	162.4	21 445	195.0	24 549	206.3	26 051	212.8
N.S.	96 838	141.8	113 469	156.1	114 723	151.8	131 490	168.1	135 288	164.6	146 872	174.0
N.B.	81 367	148.8	102 804	174.5	108 629	176.6	115 652	184.5	121 477	180.0	120 909	173.4
Que.	495 185	109.6	648 562	126.1	797 342	140.3	769 663	128.0	784 714	126.8	778 705 ²	124.2
Ont.	760 573	144.4	928 279	151.9	1 050 890	154.8	1 269 985	168.2	1 439 541	175.0	1 325 675	156.6
Man.	129 610	154.5	164 523	181.6	171 497	177.7	184 636	187.8	175 524	172.3	166 131	161.0
Sask.	180 637	205.7	198 109	216.5	211 814	223.0	214 712	228.2	203 852	222.1	205 819	216.2
Alta.	216 701	198.6	261 700	202.7	287 319	198.2	353 132	221.4	369 141	208.8	378 570	191.6
B.C.	239 001	178.1	276 912	172.9	316 517	176.1	381 762	179.4	413 751	168.4	412 691	162.1
Yukon	620	56.4	3 333	238.1	2 813	200.9	3 886	228.6	4 004	190.7	3 894	179.0
N.W.T.	2 959	164.4	2 892	131.5	6 561	243.0	8 184	248.0	7 227	190.2	3 489	80.0
Canada	2 251 542	143.4	2 764 684	154.7	3 150 525	160.4	3 533 518	165.9	3 771 468	165.4	3 661 208	155.5

¹ Excludes mental hospitals and tuberculosis sanatoria in all years. Data for 1955 and 1960 were adjusted to include estimates for non-reporting facilities. Data for 1965 onward exclude non-reporting hospitals which were primarily in the Northwest Territories and small nursing stations in other provinces.

² Includes certain Quebec mental hospitals in 1978-79 earlier converted for the provision of extended care.

Source: Health and Welfare Canada and Statistics Canada.

provided more funds to eight of the ten provinces. Only Prince Edward Island and Newfoundland received less than they would have received under the previous CAP funding arrangements. Further discussion of this subject is provided in Annex A to this chapter.

Another extended health care issue is that of program conditions. Other than a basic condition relating to the provision of statistical data, there are no national program conditions for extended health care. Residency requirements and user charges are applied in all provinces, with no apparent uniformity between provinces.

As part of our proposals for a federal transfer program whose goal is a comprehensive health system, *the Task Force recommends that*

federal and provincial governments work together to develop appropriate criteria and conditions to ensure that transfers for the purpose of extended health care are effective in achieving the objective of adequate extended health care services.

Alternate Health Care Services A complaint raised by consumer advocacy groups was that Canada has developed an illness-care system, not a truly comprehensive health care system. Many referred to the paper *A New Perspective on the Health Care of Canadians*,⁸ issued in 1974 by the Hon. Marc Lalonde, Minister of National Health and Welfare, in arguing the need for more resources for preventive care and activities to promote health. The paper stressed that improved health of Canadians in the future must, for the most part, come from measures to attack the fundamental causes of morbidity and mortality, namely the lifestyles of Canadians and their environment (including the work place). The five strategies expounded include health promotion, regulatory measures, research, health care delivery efficiency and goal-setting. To look at health care primarily in terms of present hospital and medical care is a narrow perspective, it was argued, and

* This report recommended the community health centre concept as an innovative approach to health care, as well as a strategy to contain the rapidly-rising costs of the existing system.

has led to the development of a very expensive physician/institution illness-oriented care system. The Canadian Health Coalition recommends that the next fiscal arrangements provide incentives to move beyond the status quo in this respect.

Along with the suggestion for redirecting resources toward illness prevention rather than illness cure, a number of witnesses argued for a more effective and less costly alternative to the present delivery system based on physicians and hospitals. The whole philosophy of community services should be part of the health care system, involving the concept of community health centres where salaried personnel (including doctors) carry on preventive and promotional activities as well as the practice of curative care. More resources are needed for development of community health centres and such services as home care, nursing and transportation to ensure better care of patients in the community whenever possible. These approaches were recommended in the Hastings Report⁹ of 1972, commissioned by Health and Welfare Canada.*

The sources of the problem, according to witnesses concerned with alternate health care services, are the present hospital and medical care acts and the fee-for-service concept of physicians, both of which promote a health care model based on illness treatment rather than on prevention, health promotion and rehabilitation. This has led to charges that "we are probably wasting 30 to 40 per cent of our medical resources because they [governments] didn't change the structure of the industry when they introduced medicare".¹⁰

According to the groups advocating the broad 'health field concept', introduced in the Lalonde paper, and the community-based health care philosophy, the leadership role must come from the federal government. This does not necessarily or exclusively imply an increase in financial commitment, but rather an influence in the direction of a reallocation of resources. *The Task Force endorses this emphasis on the broad 'health field concept' and the community-based health care philosophy, and recommends that:*

federal and provincial governments work to identify more precisely the program conditions or criteria that would lead to better implementation of this philosophy.

The position of the government of Saskatchewan warrants particular mention in this connection, given the role the people of Saskatchewan have played in the development of public health insurance in Canada: "The Saskatchewan government considers it essential to expand our national health system to include community health programs with preventive and promotion mandates".¹¹ The brief from the government of Saskatchewan suggests that the federal and provincial governments enter into a new cost-sharing partnership to expand the scope of health protection to include a community, preventive and promotional health package. The brief goes on to state:

The Canadian health system does not have explicit objectives, although several are implied... If national goals and priorities are specified, prevention and promotion will no longer be seen as peripheral to our health system. They will be tied directly to national health objectives.¹²

Geographical Imbalances Interprovincial and intraprovincial differences in health care services are problems recognized in several briefs. At issue is the extent to which Canadians in more isolated areas have access to comprehensive health care services. A further question is the capacity of the 'have-not' provinces to achieve national standards in health care.

Within provinces, the issue is adequate health services for the dispersed population of remote regions. Both the medical and nurses' associations underscored the concentration of medically-trained personnel in urban areas and the obvious shortages — particularly of specialists — in outlying regions.

For example, in New Brunswick, the ratio of physicians to population is still 40 per cent below the national average (see Table IV-3). The New

Table IV-3
Population per Active Civilian Physician

	Including Interns and Residents				
	1961	1965	1970	1975	1980
Newfoundland	1,991	—	1,114	758	674
Prince Edward Island	1,149	—	1,144	983	816
Nova Scotia	1,044	—	761	595	539
New Brunswick	1,314	—	1,109	909	902
Quebec	853	—	681	573	520
Ontario	776	—	646	544	516
Manitoba	823	—	702	588	547
Saskatchewan	973	—	805	702	677
Alberta	982	—	716	663	627
British Columbia	758	—	625	568	510
Yukon	—	—	900	948	768
Northwest Territories	—	—	1,619	1,410	1,070
Canada	857	779	689	585	544
	Excluding Interns and Residents				
Newfoundland	—	—	1,301	939	853
Prince Edward Island	—	—	1,168	1,000	844
Nova Scotia	—	—	898	762	673
New Brunswick	—	—	1,235	987	958
Quebec	—	—	882	710	619
Ontario	—	—	781	659	626
Manitoba	—	—	868	713	660
Saskatchewan	—	—	931	809	780
Alberta	—	—	850	785	765
British Columbia	—	—	702	626	558
Yukon	—	—	900	948	768
Northwest Territories	—	—	1,619	1,410	1,097
Canada	988	955	837	703	646

Source: Health Information Division, Health and Welfare Canada.

Brunswick Medical Society estimates that the physician-to-population ratio is thus 1:913.¹³ However, when regional ratios are examined, there are wide differences; physicians are concentrated in three centres. For instance, in Health Region 6 (north-east New Brunswick), the ratio rises to 1:1493, compared with the current physician/population ratio for Canada estimated at 1:558 by the CMA.¹⁴

There is general recognition, supported by the *Health Services Review* and the report of the Health Ministers of the Atlantic Provinces, that this region lags far behind average Canadian health care standards.¹⁵ There seems to be general agreement that some form of additional funding is required to redress this persisting imbalance. It was argued that the Atlantic provinces entered the national programs far behind the other provinces and neither equalization, cost-sharing nor block-funding has provided adequate resources to allow them to catch up.

An opposing view suggests that fiscal equalization payments are specifically intended to correct any differences in fiscal capacity for the have-not provinces. Furthermore, both the previous cost-sharing and particularly the present block-funding have provided financial resources to facilitate the attainment of national program standards and to improve the quality of health care in these provinces. (Of course, if costs or 'needs' in the have-not provinces are greater than elsewhere, then the funds provided through the existing equalization formula may not have been sufficient. This argument was included in the report of the Ministers of Health of the Atlantic Provinces. A major problem remains unsolved, that of determining the extent of such additional needs if they do exist.)

Under-Utilization of Support Professionals Potential over-emphasis on treatment rather than prevention, and geographical imbalance in service are both related to under-utilization of nurses and other health service professionals. The Registered Nurses' Association of Canada, in particular, argued that primary care and practising nurses not only can, but are frequently expected to offer basic health care services in certain circumstances. However, neither the law nor fee scheduling, which encourages physicians to treat patients directly, helps to promote this approach.

The advantages of greater use of non-physicians in the delivery of services are recognized by the Minister of National Health and Welfare. She cautioned, however, that the increased use of medically-trained manpower other than physicians was a difficult and delicate problem involving both medical society practices and legislative provisions. In addition, witnesses from the academic community argued that unless some solution to the physician oversupply problem is found, it is unlikely that more use of other health service professionals will reduce health care costs. In the absence of other changes, physicians will still determine the frequency of visits and types of treatment given patients. Some evidence on this latter point is found in the British Columbia Medical Association brief: "To compound the doctor's distress (especially that of the family physician), it has been necessary for him to increase the volume of patients through his office, and decrease the time that he spends with them in order to maintain his net income against the ravages of inflation".¹⁶

Co-ordination Many of the briefs dealing with problems in the allocation of resources in the health services delivery system had a common thread, namely the need for more co-ordinated efforts on the part of governments and the providers and consumers of health services. In many instances, the need for a comprehensive national health policy was stressed. But more frequently, these groups argued for the creation of a 'national health council' to act as a co-ordinating body for defining, planning and implementing a health policy for Canada. In the eyes of some, this body could also serve as a monitoring agency to ensure that national health program conditions are being met. The most well-developed recommendation to this effect was a statement by the Canadian Hospital Association:

Neither health care providers nor government are well equipped for the major difficulties of this task of formulating health policy. There is consensus on this among hospital/health associations, governments, educators and those who think seriously about the need for health policy making. Information, methodology and appropriate measurement tools are lacking. An independent body of expertise is needed.

Proper goals must be established to assure that the health care delivery system employs its resources more appropriately. Measurement tools must be developed, information must be available, and alternative modes of health care delivery

must be identified and appraised. Without these steps the system will evolve through expedient solutions, and actions may be taken before any clear picture of the problem is obtained.

The Canadian Hospital Association proposes an independent health council to review health policy and provide the foundation for decision-making.¹⁷

The Task Force notes that this proposal was also reported in the *Health Services Review* and considers it worth pursuing.

Program Conditions

The legal conditions to be met by provinces to qualify for federal transfers for health insurance purposes are contained in the Hospital Insurance and Diagnostic Services (HIDS) Act of 1957 and the Medical Care Act of 1966. Passage of the Established Programs Financing (EPF) Act changed the manner in which the federal transfer is determined, but did not alter those conditions. They remain the law of the land. They are:

1. *Universality of coverage*: that insured services be made available to all residents upon uniform terms and conditions (for medical care, this criterion is satisfied when 95 per cent of insurable residents are covered);
2. *Comprehensiveness of insured services*: that all provincial services specified in the respective hospital and medical acts be provided to all entitled residents as required;
3. *Accessibility*: that insured services be provided in a manner that does not impede or preclude, either directly or indirectly, by charges or otherwise, reasonable access by entitled persons;
4. *Portability*: that a province make payments due in respect of costs of insured services rendered to its entitled residents while outside the province; and
5. *Public administration*: that the plan be administered and operated on a non-profit basis by a public authority appointed or designated by the provincial government.

These conditions must be met by the provinces to ensure continued federal financial contributions under the federal legislation. Under the previous

cost-shared arrangements, the matching requirement and the penalty for user charges for hospital services provided an incentive mechanism to encourage compliance with program conditions. Under EPF, it has been argued, much of this incentive disappeared in favour of greater provincial flexibility and autonomy. One of the consequences was further fiscal restraint by the provinces, with possible erosion of national program conditions, and the discovery that these conditions were neither well-defined nor appropriately monitored, and therefore required further clarification. The Task Force received numerous complaints with respect to the erosion of certain program conditions.

There is no need to reiterate the discussion in the *Health Services Review*. Instead, a brief summary of the concerns expressed directly to the Task Force is set out here, followed by recommendations on two key issues. The five conditions are covered in order, except for the critical question of accessibility, which is reviewed last to allow for more extended discussion. Finally, a brief discussion of monitoring and enforcement of program conditions concludes this section.

Universality Universality is related to two factors: the number of residents of a province covered by the insurance plan and conditions restricting the services covered. Three provinces (Ontario, Alberta and British Columbia) and Yukon apply medical or hospital insurance premiums in a manner that might compromise satisfaction of the condition of universality. But the evidence is not conclusive.

Ontario is the only province in which both hospital and medical coverage are linked to premiums. In British Columbia, premiums are applied only to medical care insurance, while entitlement does not depend on payment of premiums at all in Alberta and Yukon. Although the British Columbia plan is completely voluntary, and the Ontario plan is semi-voluntary (in that payment of premiums is mandatory only for employees in establishments of 15 or more employees), the only evidence presented to the Task Force on the potential erosion of universality came from a survey in Ontario that concluded that between 20 and 25 per cent of the patients using the services of community health centres had potential problems with coverage.¹⁸ A select committee of the Ontario legislature con-

cluded in 1978 that "only 25% of those eligible for premium assistance had found their way through the administrative red tape of the various programs".

All three provinces that now apply premiums have stated that they do not intend to abandon them for some other form of financing. Premiums offer one way, they say, to make the citizen aware of the cost of health care services. Furthermore, some provinces contend that residents should participate more directly in the financing of these services, as a matter of principle.

The Task Force recognizes that premiums historically have been an integral part of health insurance in Canada. Furthermore, they are essentially a form of direct taxation, and the choice of methods for financing provincial public services is a provincial responsibility. Although the 1964 Royal Commission on Health Services accepted premiums as a method of financing health insurance, the 1980 *Health Services Review* expressed concern that such financing may compromise the goal of universality (while acknowledging that the extent of the problem was largely unknown). *The Task Force concludes that hospital and medical care premiums constitute a regressive form of taxation and that their use for financing a service as basic as health care is regrettable. The Task Force recommends that*

a clearer definition and measurement of universality of coverage be developed to ensure that the principle is respected.

The three provinces that apply premiums also provide exemptions for aged and low income people. This practice is not perceived as a violation of the 'uniform terms and conditions' portion of the universality condition. Either through lack of knowledge, unwillingness to apply, or the difficulty in obtaining assistance, however, lower income groups often are not adequately covered. *The Task Force recognizes the right of those provincial governments that levy premiums to recover the costs of health services rendered to uninsured residents who are not eligible for premium assistance, and who have elected not to pay applicable premiums. Nevertheless, the Task Force agrees that prior payment of premiums should not be a precondition of entitlement to treatment.*

Comprehensiveness With respect to comprehensiveness as it applies to the services insured under the law (HIDS and Medical Care Acts), the Task Force received no evidence of problems, although the Canadian Hospital Association cautioned that continued fiscal restraint might in future compromise the goal of comprehensiveness in hospital services.

In the case of medical care, the *Health Service Review* concluded that extra-billing (discussed below) has led to the erosion of comprehensiveness and accessibility by limiting the availability of certain specialized services. Given that extra-billing appears to be most prevalent among specialists, and that the number of specialists in any one field is generally limited in most areas of the country, extra-billing by a few physicians may imply serious limitations on the availability of insured services in some areas.

A number of special interest groups (e.g., mental health care, vision care, pharmaceutical services, dental care, chiropractic care, the handicapped) argued that Canadians do not enjoy equal or adequate coverage of such services. Although existing services fall short of the coverage urged in the agenda of the 1964 Royal Commission on Health Services, it cannot be argued that these limitations constitute a failure to meet existing national program criteria—rather, they involve benefits beyond those envisaged in present legislation. The provision of these services therefore reflects provincial discretion and provincial priorities; the federal government has agreed not to expand the range of insured services without a provincial consensus. *The Task Force recommends that*

the Minister of National Health and Welfare, as part of the general review of health programs recommended in this report, initiate discussion with provincial governments to review and bring up to date the lists of basic insured health services identified in the existing legislation for purposes of defining comprehensiveness.

The Task Force also took note of concerns about the gap between levels of service available in some provinces—more particularly the Atlantic provinces—and national norms. The need for some additional funding to alleviate this problem was

stressed in many submissions, as well as by provincial governments. This need was recognized by the Minister of National Health and Welfare. In her view, expenditure restraint precluded additional funding at this time.

Portability Portability of benefits relates to the continued protection of the residents of one province when they require hospital and medical care services outside their province or when they move to another province.

The Task Force heard no complaints with respect to the latter situation. However, some concern was expressed by physicians about their inability to recover fees for the treatment of out-of-province visitors. Consumer groups also stressed difficulties with respect to out-of-province coverage. The latter complaints result from the inconveniences and embarrassments attributable mainly to interprovincial differences in fee schedules and hospital charges and the administrative and bureaucratic problems related to reimbursement. An agreement now exists between all provinces except British Columbia with respect to eligibility and portability of insured benefits for hospital care, but not for medical care. As well, the provincial and federal governments financially support a Health Insurance Supplementary Fund to reimburse Canadians who are unable to obtain full coverage through no fault of their own. But these measures do not resolve the problems raised in the briefs.

More specifically, the issue of portability must be explored in several respects. So far as legal entitlement to services is concerned, there should be no problem in principle—uniform legal definitions apply across provinces, ensuring coverage for residents travelling or moving from one province to another. Administrative problems relating to determination of resident status, or to coverage in provinces having premiums, were mentioned as possible qualifications to this general proposition.

Similarly, differences in the range or values of insured services may lead to difficulties in settlement or recovery between provinces, and hence to requirements for direct payment or prepayment by out-of-province patients. Such practices may lead to embarrassment for some patients, or indeed to effective barriers to full coverage of insured ser-

vices. Delays in reimbursement of patients obviously contribute to the severity of this problem.

The Task Force therefore recommends that

a central health insurance clearing mechanism be set up to ensure that the residents of any province have ready access to services in other provinces without administrative barriers or embarrassment to the insured person.

The problem of patients seeking or being referred for services in other provinces is potentially difficult. Some provincial plans require that prior approval be given before a patient can seek insured medical treatment outside the province. Where a patient, for religious, personal or ethnic reasons has a preference for referral to a particular province, there exist at present no provisions for any appeal from the referral decision of the physician, or from a decision by provincial authorities not to reimburse the patient for services rendered outside the province without prior approval.

In recommending development of a more effective clearing or settlement mechanism, the Task Force has in mind that it should provide automatically for coverage of all services normally insured in a patient's home province, but at the payment level normally prevailing in the province where the services are rendered. On referral by a qualified practitioner, the scheme should also provide for full payment of services insured but not available in the home province. In addition, where special ethnic or language considerations are significant, the settlement scheme might provide an administrative mechanism for review, at a patient's request, of referrals for out-of-province treatment.¹⁹

Public Administration On the question of public administration of health care insurance, the Task Force found no evidence and heard no complaints about failure to meet this condition. It was noted, however, that any extension of this condition to extended health care must, in view of the many individual private operators now in the field, be gradual and cautious, regardless of the differing views as to the appropriate role of proprietary operators in extended health care.

Accessibility The greatest concern over program conditions arose with respect to accessibility. In the area of hospital services, this concern was associated with user charges or deterrent fees. In the case of medical services, opting-out and extra-billing were cited as causes of erosion of accessibility.

The Hospital Insurance and Diagnostic Services Act imposes on the provinces as a condition for funding that they must ensure "the provision for insured services in a manner that does not impede or preclude, either directly or indirectly, whether by charges or otherwise, reasonable access to insured services by persons entitled thereto and eligible therefor". Prior to EPF, any amounts collected provincially through authorized hospital charges were deducted from the federal contribution. Under block-funding, this provision has disappeared, and the disincentive to apply authorized charges has been removed.

Three provinces apply some form of user charges for hospital acute care. In Newfoundland, ward charges exist, while in Alberta there is a small charge for admission to general hospitals. British Columbia applies accommodation charges for hospital services, as well as small user charges for out-patient, emergency and minor and day-care surgical services. In all these instances, the charges are small. The Task Force did not hear any evidence that they constitute a barrier to accessibility, given the exemptions provided in these provinces. The Task Force nevertheless endorses the view of the *Health Services Review* that appeal to the 'user pay' concept is contrary to the principle and spirit of the National Health Program advocated by the 1964 Royal Commission, which stressed the principle of prepayment as opposed to user charges.

A number of studies have suggested that the application of effective user charges leads to an immediate reduction in the utilization of services by patients, that the impact selectively affects more adversely the economically disadvantaged, and that there is no evidence that it contributes to a reduction in 'abuse' of the right to services.

Thus there is a practical paradox that accompanies the principle: user charges that are high enough to serve as deterrent fees deter the wrong

people (the old and the poor, for the most part), while user charges that are low enough to be acceptable on distributional grounds are too low to be worth collecting—administrative costs more than match any revenue gains. *For reasons of both principle and practicality, the Task Force therefore agrees that user charges (for hospital services) should be discouraged.* The Task Force regards this issue as separate from the debate on 'hotel' charges for long-term care in extended care wings of general hospitals.

Perhaps the major issue that the Task Force faced during its hearings is the alleged erosion of access to medical care due to the practice of extra-billing. The *Health Services Review* took the position that extra-billing constitutes a barrier to accessibility. This view is supported by the Minister of National Health and Welfare. A large number of briefs argued for outlawing extra-billing, as is now done in Quebec.

Most of the evidence favouring extra-billing came from the medical societies. A number of reasons were listed in support of such practices, among them the following:

- it is said to promote the "economic and fiscal responsibility" of the user;
- it increases the private financing of the system (thus reducing the burden on the general taxpayer); and
- it enhances the patient-physician relationship.

In addition it was argued that the principle of public medical care insurance is designed to cover only a portion of the cost of services. Finally, extra-billing was described as a barometer of physician discontent and a safety valve for physicians who feel alienated and undercompensated. In these briefs, opting-out and extra-billing were seen as an acceptable alternative to withdrawal of services on the part of physicians who consider the schedule of fees payable by the insurance plan unsatisfactory. (Since doctors appearing before the Task Force did not generally find withdrawal of services an acceptable strategy for bargaining purposes, and did not accept binding arbitration as a means of resolving deadlocked negotiations, the practice of extra-billing was seen as the only responsible counter to an unsatisfactory fee schedule.) As a matter of principle, it was asserted

that "physicians have the right, as self-employed professionals, to establish a value for their services".

A number of arguments have also been advanced in opposition to extra-billing, which is said to threaten the essential character of the medicare system because:

- all or almost all of the members of a specialty group may be opted out—as is frequently the case with such specialists as obstetricians or ophthalmologists, for example;
- all or almost all general practitioners in a given area may be extra-billing, so that choice is seriously limited for many people;
- in its actual application, extra-billing is not, as claimed, a means by which a mediocre income is raised to a moderately acceptable one. In fact, most of the revenues collected from extra-billing flow to high-income physicians; and
- although physicians claim not to extra-bill low income patients, there are some documented cases of pensioners and those on unemployment insurance being billed, and indeed of those bills being placed in the hands of collection agencies.

The *Health Services Review* takes a strong position on this point:

If extra-billing is permitted as a right and practised by physicians at their sole discretion, it will, over the years, destroy the system, creating in that downward path a two-tier system incompatible with the societal level which Canadians have attained.

In that same document, the basic point is put more generally:

Canadians understand the full meaning of the Hospital Insurance and Medical Care Acts. They said, through these two acts, that we, as a society, are aware that the trauma of illness, the pain of surgery, the slow decline to death, are burdens enough for the human being to bear without the added burden of medical or hospital bills penalizing the patient at the moment of vulnerability. The Canadian people determined that they should band together to pay medical bills and hospital bills when they were well and income earning. Health services were no longer items to be bought off the shelf and paid for at the checkout stand. Nor was their price to be bargained for at the time they are sought. They were a fundamental need, like education, which Canadians could meet collectively and pay for through taxes.

The Task Force observes that the issue of extra-billing is particularly complex due to the unique history of the medical profession and the impact of medicare. Prior to medicare, doctors provided medical services to people and charged fees for whatever services were rendered. In practice, the poor were frequently charged less than the rich. Out of their fees, doctors provided their own offices, equipment and staff. As well, they provided for their own pension plans. Under this system doctors were independent self-employed professionals who worked long hours to serve the public. In exchange they saw themselves as having a special relationship with each patient and a special status in the community; in addition they often had above-average incomes. Under medicare, many doctors feel that they have lost something in their relationship with patients as a result of having to deal collectively with provincial governments with respect to fees.

The belief that something in the doctor-patient relationship has been lost is difficult to pin down precisely, but it seems to be related to problems that go beyond medicare to a general societal concern for increasingly de-personalized relationships in many aspects of professional and personal life. Scrutiny and questioning of individual professional judgements by an outside collective administrative apparatus undoubtedly contribute to low morale and reduced commitment. Moreover, improvements in medical technology require most critical care to be provided by specialists in hospitals, rather than by family doctors in the home.

Under the new system, doctors feel that they have become 'civil servants', but many still retain the burden of having to provide office space, staff, equipment—though they do have at their disposal the full infrastructure of the hospital system—and pension contributions. (This situation is, of course, a consequence of the fact that medicare is an ideological compromise that stops short of full 'state medicine' in which all doctors would today be salaried professionals.) Many doctors say that under this system they work longer hours than ever before and see more patients per hour. In addition, peripheral duties such as completing forms and reports for hospital committees and provincial agencies have increased enormously. At the same time they note that their average net incomes in recent years have been eroded in real terms

(although it must be noted that they remain, in relative terms, considerably higher than they were prior to the introduction of medicare).

The Task Force believes that doctors are a critical part of the health delivery system and should be well paid for their professional work and fully compensated for the expenses of their practices. However, the Task Force feels that the legitimate interests of doctors must give way to the broad public perception that uncontrolled billing of patients beyond the levels of provincial medical insurance plan schedules will ultimately destroy medicare. *The majority of the Task Force recommends that*

doctors who either bill a provincial medical plan directly, or whose patients are reimbursed by the plan, not be allowed to charge fees in excess of those permitted under the plan's approved fee schedule.

This would mean (as is the case in Quebec) that no payment may be made from the plan to any doctor or any patients of a doctor who charges more than the plan's approved fee schedule.

However, consistent with the need to ensure fair remuneration for doctors, the majority believes that this proposed ban on extra-billing should be combined with a fair negotiation process followed, if necessary, by binding arbitration to set the plan's schedule of fees. *Therefore, the majority of the Task Force concurs with the recommendations of Justice Hall that*

"The Medical Care Act should be revised to provide:

- 1. That extra-billing by physicians inhibits reasonable access to services and is contrary to the intent and purposes of the act.*
- 2. That the Provinces should develop a mechanism to ensure reasonable compensation to physicians."*

Hall sees a mechanism to ensure fair compensation as follows:

My conclusion and recommendation is that when negotiations fail and an impasse occurs, the issues

in dispute must be sent to binding arbitration, to an arbitration board consisting of three persons, with an independent chairperson to be named by the Chief Justice of the relevant province and one nominee from the profession and one from the government.

All members of the Task Force agree that a provincial plan with the above features meets fully the accessibility conditions of medicare. *The majority of the Task Force recommends that*

following federal-provincial negotiations, any plan that does not meet fully all the accessibility criteria be ineligible for full federal financial support under Established Programs Financing.

A minority of the Task Force believes that if individual doctors opt out of medical insurance plans, they must opt out entirely, for all patients. They would not then receive any payment from the plan while they are opted out. In other words, if the plan is billed, it must be accepted as payment in full for a service. The minority thus recommends that the practice of billing both patient and plan, sometimes known as balance-billing or double-billing, be considered a violation of the conditions for federal financing of these plans. Second, the minority recommends that provincial medical plans should not allow doctors to bill the plan for some patients while billing other patients directly, even if each bill is accepted as payment in full.

The minority of the Task Force is not prepared to impose, as a condition of federal funding, that patients of doctors who bill beyond the approved fee schedule may not be covered at all by public medical plans. Under these circumstances, opted-out doctors would remain free to set their own fees, and their patients would be reimbursed by their health plan the lesser of the plan's approved fee or the doctor's actual charge. This arrangement, the Task Force understands, is essentially what prevails currently in Ontario, Manitoba and British Columbia.

Monitoring and Enforcement of Program Conditions One of the most consistent complaints by consumer advocacy groups related to the lack of a clear definition of program conditions, the absence of appropriate monitoring of provincial performance and the most complete absence of a control

mechanism under EPF, especially where extended health care is concerned. The Ministers of both Finance and National Health and Welfare suggested the need for more clearly defined and enforceable conditions. As the Hon. Monique Bégin stated: "I concur with the remarks of my colleague, the Hon. Allan MacEachen, who stated that 'block funding' arrangements with suitable and enforceable conditions, are an appropriate mechanism for harmonizing programs in the health field".²⁰ This issue will be treated later in this chapter, in the section dealing with the funding formula.

The federal government and consumer advocacy groups have both expressed the opinion that the EPF funding approach has weakened the federal government's ability to enforce national standards. In his submission, the Minister of Finance stated:

One issue which has arisen recently is whether or not the flexibility which the provinces have under block-funding is compatible with the maintenance of national standards. I suggest that important policy objectives of the federal government in the field of health care might be to confirm explicit acceptance by provinces of the national standards embodied in existing or new federal legislation, and to develop an effective mechanism to ensure that they are complied with.²¹

Provinces, on the other hand, have rejected the argument that program conditions have not been met. The positions of two provincial governments deserve special mention, as they make explicit recommendations. The government of Prince Edward Island suggested that:

If the federal government now wishes to have more say in how provincial programs are delivered, it should accept more of the responsibility and liability for the programs. An increase in federal influence over program delivery implies a more direct link between program costs and federal contributions.²²

The Saskatchewan government, on the other hand, suggests that:

The federal government not only *can* but is *obliged to enforce* the conditions specified in the national Medical Care and Hospital Insurance Acts. If accountability is a problem, then either the federal government is not carrying out its obligations, or the conditions specified in the Acts do not clearly 'spell out' the respective responsibilities of the federal and provincial governments.²³

The federal government has expressed concern that its ability to monitor and enforce national program conditions has been weakened and that consequently its accountability to Parliament and the citizens of Canada has been eroded. Although the federal government, through the Minister of Finance as well as the Minister of National Health and Welfare, has expressed satisfaction and a desire to continue with the block-funding approach, it nevertheless served notice of the need "to develop an effective mechanism to ensure that they [national program conditions] are complied with". *The Task Force endorses this concern and concludes that retention of the present block-funding arrangement, with stricter conditions, monitoring and enforcement mechanisms, would provide an effective mechanism to ensure compliance with national program conditions. For this purpose, it will be necessary to establish operational program criteria, perhaps monitored by a parliamentary committee or a national health council, with federal payments conditional on compliance with program criteria, but conditional in a flexible manner—that is, with a graduated holdback of the federal transfer related to the extent of achievement of program conditions.*

An interesting proposal with respect to a more operational definition of conditions was advanced by Professors W. LeTouzé, C. M. Lay and P. Manga in their brief to the Task Force:

- a) *Universality* should limit itself to population coverage only and should be made complete (100%) or virtually so (99.5%). Conditions of availability should be a separate item.
- b) *Reasonable access* on uniform terms and conditions should imply no discrimination, deductibles are forbidden, user fees either forbidden or if allowed have a forfeiture penalty, and premiums should allow for full or partial exemption on the basis of income only or age only.
- c) *Comprehensiveness* of insured services would amalgamate hospital and medical services, and be supplemented by a definition of extended health care services.
- d) *Portability* should be defined in terms of ensuring immediate coverage when Canadians move from one province to another, by shifting both the administrative responsibilities

ty and risk-bearing to provincial authorities from patients and providers and by having the federal government guarantee payment for any balances resulting from inter-provincial transactions.²⁴

There is also a practical concern with how to make users of health services aware of the true costs of the services rendered to them. In order that patients know not only the value of services they receive, but are aware of the charges billed by practitioners to insurance plans, *the Task Force recommends that*

to the extent consistent with provisions respecting confidentiality and privacy, provincial hospital and medical information systems provide for periodic statements to recipients of service to indicate both the value of services rendered and the amounts billed to provincial insurance plans by the suppliers of services.

The National Commitment to Health Care

The final issue is whether Canadians are committing a sufficient proportion of national resources to meet their essential health care needs.

A frequent charge—supported most forcefully by the Canadian Medical Association²⁵—is that the 'system' is being 'underfunded'. The evidence put forward by the CMA has three strands. First, it was argued that Canada's share of resources allocated to health care is inadequate compared with other countries and has been falling behind since the early 1970s. The appropriate level of resources, according to the CMA, should be around 8.2 per cent and not the 7.3 per cent of GNP at which health spending in Canada has levelled off. Second, the general underfunding manifests itself in numerous specific ways in the hospital services sector: delay in treatment of acute care patients, long waiting lists for elective surgery, reduction of personnel, closing of facilities, lack of extended care alternatives, outdated equipment, overburdened facilities and so on. User charges introduced by hospitals are also related to underfunding to the extent that they have been used, in part, to attempt to deter over-use. Third,

underfunding has resulted in inadequate compensation for physicians and is thus a factor in increased extra-billing or balance-billing by physicians.

This question should be put in historical perspective. In the last 25 years, the proportion of total economic activity in Canada—the Gross National Product—allocated to health services almost doubled from under 4 per cent to 7.3 per cent. In the last 10 years the increase has been from \$7.1 billion in 1971 to \$20.9 billion in 1980. Correcting for inflation, *per capita* spending has increased by over 19 per cent, or almost one-fifth, in a decade.

Even this rate of increase has not matched those of a number of other industrialized countries, as Table IV-4 indicates. However, as discussed below, this evidence is not sufficient to demonstrate that the system is underfunded.

Table IV-4

Health Spending: International Comparisons
Total Health Expenditures as a Percentage of
Gross National Product

Nation	1971*	1975*	1979*
	(%)	(%)	(%)
Australia	6.0	7.5	8.0
CANADA	7.5	7.4	7.1
Germany	5.5	7.8	9.0
France	5.6	6.7	7.3
New Zealand	4.4	5.5	7.0
Sweden	7.9	8.4	8.0
United Kingdom	4.8	5.7	5.6
United States	7.7	8.5	9.0

*or nearest year

Source: Health and Welfare Canada.

Four considerations were advanced in the evidence to counter suggestions that the system is underfunded: first, international comparisons measure only input, not results; second, cost controls are more effective in Canada than elsewhere; third, the inference of underfunding is incorrectly drawn because the real problem relates to downward pressure on the relative incomes of physicians; and finally, the scale of past investments in the treatment system has now brought facilities to the point where further advances must come from other directions. These four points can be elaborated briefly.

As health economists appearing before the Task Force emphasized, international comparisons are of questionable significance. They tell us only what nations spend; they tell us little, if anything, about what they spend it on—the mix of services, possible duplication of facilities, doctor/population ratios, health needs, inefficiencies in the system. There is no evidence that Americans, for example, are healthier because they allocate a higher share of GNP to health care.

Indeed, at least 10 per cent of spending on the US medical and hospital insurance systems is accounted for by administrative costs, which are much higher than in Canada. In fact, the *Health Services Review* pointed out, the administrative overhead costs of the *voluntary* system in the United States average 12.5 per cent, whereas in Canada the administrative costs are under 3 per cent, a net saving, in 1981, of approximately one billion dollars, or .3 per cent of GNP. Furthermore, there are important savings in hospital administrative costs because there is no need to price and itemize on the patient's bill every service, bandage and pill. The savings in accounting and nurse-station time and paperwork are large. Moreover, there are savings in the more rational distribution of high technology—CAT scanners, open-heart surgical units, etc.—which hospitals in the USA acquire for competitive reasons and then frequently underutilize. The difference is in our philosophy: Canadians are endeavouring to develop a health care system directed to health needs—not a competitive system to serve an illness market.

Another factor explaining higher US expenditures is that no one is responsible for containing health care costs. Insurance companies and Blue Cross/Blue Shield Plans simply pass on higher physicians' fees and hospital charges through higher premiums. By contrast, as Professor Robert Evans emphasized in his submission to the Task Force, Canada has the advantage of 'sole source funding'.²⁶ That is, a process of 'top-down' budgeting, in which the provincial government bears direct responsibility for the overall allocation and co-ordination of resources to the health services sector, avoids the fragmentation of decisions and wasteful competition for resources that might come from a proliferation of independent non-profit or fee-for-services providers of health care

seeking financing from a variety of private and public sources. Arguments for the private infusion of funds through user charges and extra-billing, he suggests, risk eroding the very trait that provides for a control of costs from the top.

Underfunding, it is further argued, is not a general problem related to the levelling off of spending by governments, but is rather an issue related specifically to the supply and compensation of physicians on the one hand, and the over-use of facilities associated with the wrong mix of services on the other. According to this argument, Canada has an over-supply of physicians, and indications are that the physician/population ratio is continuing to increase (see Table IV-3). Physicians' attempts to maintain relative incomes where provincial expenditure restraints lead to downward pressures on incomes* thus results in mistaken perceptions of underfunding.

In examining the 1960 ratio of physicians to population (1:860) and the impending advent of medicare, the Royal Commission on Health Services (1964) recommended the creation of new medical schools. This conclusion was reinforced by the low annual immigration of physicians during the 1950s—approximately the equivalent of the graduating class of one of our larger medical schools.

Acting on that recommendation, the federal government created the Health Resources Fund in 1966. Existing medical schools were expanded and five new schools were built, increasing the annual output of medical students from 770 graduates in 1960 to 2,000 in 1975. What happened simultaneously, however, was wholly unanticipated: immigration jumped from 520 in 1960 to 1,200 in 1973. What is also remarkable is the small fraction of doctors now emigrating from Canada. In 1978 and 1979 much publicity was generated about doctors

* As Annex IV-B indicates, it is not clear that physicians' incomes have in fact deteriorated as much as the perceptions of the last decade might suggest. In common with most other professional groups, physicians' incomes have indeed failed to keep pace with inflation. Moreover, since 1971 they have declined somewhat with respect to the incomes of the next highest professions. But they remain higher than those of other professions, and relatively much higher than they were at the time of the introduction of medicare. The classical adjustment mechanisms designed to ease problems of oversupply would require relative incomes of physicians to decline more than they have done to date.

emigrating to the USA. But emigration totals were 730 in 1978, compared with 260 in 1960, or roughly the same proportion of total physicians in 1978 as in 1960.

It was also said that underfunding of hospital services is in turn partly a problem of over-use of facilities by physicians, who may sometimes adopt techniques whose efficacy is open to question. Moreover, physician oversupply precludes the use of less costly alternatives such as non-physician services and alternate health care services. If this analysis is correct, the underfunding issue can best be resolved by dealing more directly with the oversupply of physicians, the appropriate compensation for medical services and the matter of inefficient use of medical manpower and facilities.

Given the mobility factor, the fact that much of the training is funded federally, and that evaluation of treatment can best be achieved on a national scale, it follows that these problems, which are national in scope, can only be efficiently tackled by the federal and provincial governments acting in concert.

Provincial determination to contain cost growth in the health care system is strengthened by the argument that added investment in the acute care system will yield low marginal improvements in health. Small improvements at large costs is likely to remain the rule until some new breakthroughs appear, for example, in the treatment of cancer and heart disease. It now seems that the next great advances must be made through better nutrition, more healthful life styles, cleaning up the environment, greater safety in the workplace and measures to reduce automobile accidents.

At the same time, the Task Force was much impressed by the CMA's account of problems of bed shortages, resulting from too many long-term patients awaiting transfer to chronic hospitals, to nursing homes or to home care services. The 'crisis of the aged' is not about to happen; it is here now and has been for some time. Its impact on the health system is substantial. This was recognized through the Extended Health Care grant of 1977. But it is not certain that the results have been what was anticipated. They are unconditional grants, and it is not known whether all provinces have used them for their intended purpose. Indeed, it is not clear that the results would have been

sufficient to meet the need even if all the grants had been directed to the provision of extended care services.

From the preceding discussion, it is evident that the question of how much Canadians should allocate to health care is extremely complex; the Task Force has examined the evidence carefully and discussed it at length. We remain much impressed by the evidence in *New Perspectives on the Health of Canadians*, and by the enhanced efforts of provincial health departments to expand their preventive, health promotion and support programs. Because a treatment system of such size and quality has been built up, we do not believe that the system needs to be expanded significantly, except in some areas where there are demonstrable shortages.

Every dollar added to the health care system must be found elsewhere, either in government budgets or, if taxes are increased, in personal budgets. Given recent increased resource demands arising from higher energy costs, transportation needs, and environmental controls, and having rejected the general argument that the health system is underfunded, the Task Force finds it impossible to recommend that increased expenditures be allocated at this time to the treatment system. *The Task Force therefore concludes that in aggregate, and in present circumstances, federal government funding for health care services in Canada appears to be generally adequate.* Despite this conclusion, there may remain specific areas of the health care system—for example, preventive care—that require expansion.

Conclusions and Recommendations

The Task Force believes that achievement of comprehensive, publicly-funded hospital, medical and extended health care is a major accomplishment of Canadian society, one that represents the end of a long struggle for the realization of an ideal espoused and defended by many Canadian citizens and political leaders.

The Task Force believes that this achievement could be jeopardized by reductions in current aggregate levels of federal support, because such

reductions would be likely to lead to increased reliance on private funding and ultimately to higher health care costs and erosion of the program principles. Instead, we recommend action that will strengthen the health care system and that will consolidate and clarify the federal role in it, thus achieving a more precise identification of the degree and purposes of federal support.

The Task Force heard considerable evidence expressing concern that the basic conditions contained in the Health Insurance and Diagnostic Services Act and the Medical Care Act are in danger, if they are not now being violated, of being very seriously eroded. We believe that concrete action to counter this threat is necessary.

The Task Force concludes that there is an overriding national interest in the operation of the health insurance system and in the effectiveness of the health care delivery system, and that the appropriate role for the federal government, in consultation with provincial governments, is the formulation, monitoring, and enforcement of appropriate conditions on federal financial support of provincial programs. Recommendations to this effect have been set out in this chapter. More specifically, the Task Force sees this system as based essentially on public funding, and considers it vital to preserve this central feature of the system.

Although we recognize provincial jurisdiction and responsibility for management of the health care system and delivery of health care services, the Task Force sees a significant federal role in assuring the integrity of the overall system of health care for Canadians. We consider that to ensure that key national goals are met by the system, federal transfers to provincial governments in support of health care must be conditional on programs meeting specified criteria.

For this purpose, we recommended in Chapter III a separation of federal transfers for health and post-secondary education, with an identifiable comprehensive federal transfer embracing hospital, medical and extended health care, conditional on realization of clear, operationally meaningful conditions. *More specifically, the Task Force recommends that*

the present provisions of the Federal-Provincial Fiscal Arrangements and Established

Programs Financing Act, 1977, respecting the health system be renewed essentially in their present form, with a requirement for three years' notice before termination or unilateral amendment, and with no notice possible before April 1, 1984.

The Task Force also recommends that

the Minister of National Health and Welfare report to Parliament annually on the extent to which program conditions have been met and the amount, if any, to be withheld from the federal transfer to provincial governments if it is found that program conditions have not been fully met, and that this report be referred to a parliamentary committee.

Further, the Task Force recommends that

after consultation with provincial governments, the Minister of National Health and Welfare undertake a consolidation of the existing legislation—the Hospital Insurance and Diagnostic Services Act, the Medical Care Act and the relevant sections of the Fiscal Arrangements and Established Programs Financing Act covering extended health care—in order to establish clear program conditions supported by explicit criteria against which satisfaction of those program conditions can be monitored.

Thus, the Task Force envisages a two-stage procedure allowing adequate time for discussion and negotiation. In the first stage, the present Fiscal Arrangements Act need simply be renewed, with provision for monitoring of conditions and review by the House of Commons. A first report to Parliament by the Minister of National Health and Welfare under this provision might be brought forward in 1983. In the second stage, intergovernmental consultations, which might be initiated right away, would be directed toward developing clear statements of program conditions and measurement criteria that would be incorporated in consolidated federal legislation setting out the federal role in a comprehensive health care system.

All members of the Task Force also agree on the need for some system of graduated withholding of

federal transfers in cases where a provincial plan fails to comply with the conditions set out in the Hospital Insurance and Diagnostic Services Act or the Medical Care Act. *Thus, in case federal-provincial negotiations fail to achieve agreement on program conditions, the Task Force would expect provisions for some withholding of federal financial support to provincial plans that do not meet fully those conditions as interpreted in this report.*

By these means, with the interpretation of program conditions already set out in the recommendations contained in this chapter, the Task Force believes that the essential federal responsibilities in a comprehensive system of health insurance can be fulfilled in a co-operative partnership with provincial governments, without intrusion into areas of provincial jurisdiction.

Notes (Chapter IV)

¹ Health and Welfare Canada, *Canada's National-Provincial Health Program for the 1980s: A Commitment for Renewal* (Ottawa, 1980).

² *Ibid.*, p. 2.

³ Ontario Health Coalition, *Statement to the Health Services Review* (Toronto, 1980), p. 3.

⁴ Canadian Medical Association (CMA), *Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements* (the Task Force), (Ottawa, 12 May 1981), p. 3.

⁵ Dr. J. M. Horne, *Submission to the Task Force*, (Winnipeg, 19 May 1981), p. 1.

⁶ CMA, *op. cit.*, p. 9.

⁷ New Brunswick Medical Society, *Brief to the Task Force* (Fredericton, May 1981), p. 6.

⁸ Health and Welfare Canada, *A New Perspective on the Health of Canadians: A Working Document* (Ottawa, 1974).

⁹ Dr. John Hastings, *Community Health Centres in Canada* (Ottawa: Health and Welfare Canada, 1972).

¹⁰ *Toronto Star*, November 11, 1975, p. B-3. (Quoted in Co-operative Health Centre (Prime Rebut, Sask.), *Brief to the Task Force*, 11 May 1981, p. 2.)

¹¹ Government of Saskatchewan, *Brief to the Task Force* (21 May 1981), p. 14.

¹² *Ibid.*, p. 23.

¹³ Province of New Brunswick, *Brief to the Task Force* (27 May 1981), p. 14.

¹⁴ CMA, *op. cit.*, p. 9.

¹⁵ Ministers of Health of the Atlantic Provinces, *Special Consideration for Health in the Atlantic Provinces* (December 1980).

¹⁶ British Columbia Medical Association, *Brief to the Task Force* (Victoria, 3 June 1981), p. 7.

¹⁷ Canadian Hospital Association, *Brief to the Task Force* (April 1981), p. 47.

¹⁸ Ontario Health Coalition, *Response to the Hall Commission* (15 October 1980), p. 2.

¹⁹ Two such studies are: Robin F. Badgley and David R. Smith, *User Charges for Health Services* (Toronto: Ontario Council of Health, 1979) and M. L. Barer et al., *Controlling Health Care Costs by Direct Charges to Patients: Snare or Delusion?* (Toronto: Ontario Economic Council, 1979).

²⁰ Hon. Monique Bégin, Minister of National Health and Welfare, *Notes for a Submission to the Task Force* (11 June 1981), p. 16.

²¹ Hon. Allan J. MacEachen, Minister of Finance, *Federal-Provincial Fiscal Arrangements in the Eighties* (submission to the Task Force), (23 April 1981), p. 18.

²² Government of Prince Edward Island, *A Presentation to the Task Force* (5 May 1981), p. 15.

²³ Government of Saskatchewan, *op. cit.*, p. 5.

²⁴ D. LeTouzé, C. M. Lay and P. Manga, *A Proposal Regarding Federal Financing of Hospital Care, Medical Care and Extended Health Care* (submission to the Task Force), (15 May 1981).

²⁵ CMA, *op. cit.*, p. 9.

²⁶ Robert G. Evans, *Testimony to the Task Force* (Vancouver, 3 June 1981).

Annex IV-A

The Canada Assistance Plan/Extended Health Care Interface

During discussions between the Task Force and the government of Nova Scotia, questions were raised about the interface between the Canada Assistance Plan (CAP) and the Extended Health Care Provisions of the Established Programs Financing (EPF) Act. Prior to the introduction of EPF introduction on April 1, 1977, expenditures on behalf of persons 'in need' for health care not cost-shared under the medical and hospital insurance programs, were cost-shareable under the CAP. For example, if 80 per cent of residents in Newfoundland's intermediate care nursing homes were in need, then Canada would pay 50 per cent of those resident's cost thus, effectively paying for 40 per cent of Newfoundland's total nursing home intermediate care services.

The EPF extended care payments were considered by the federal government to cover nursing home intermediate care service, adult residential care service, converted mental hospitals, home care service and ambulatory health care service. After April 1, 1977, none of the costs incurred by the provinces in these areas were cost-shareable under the CAP.

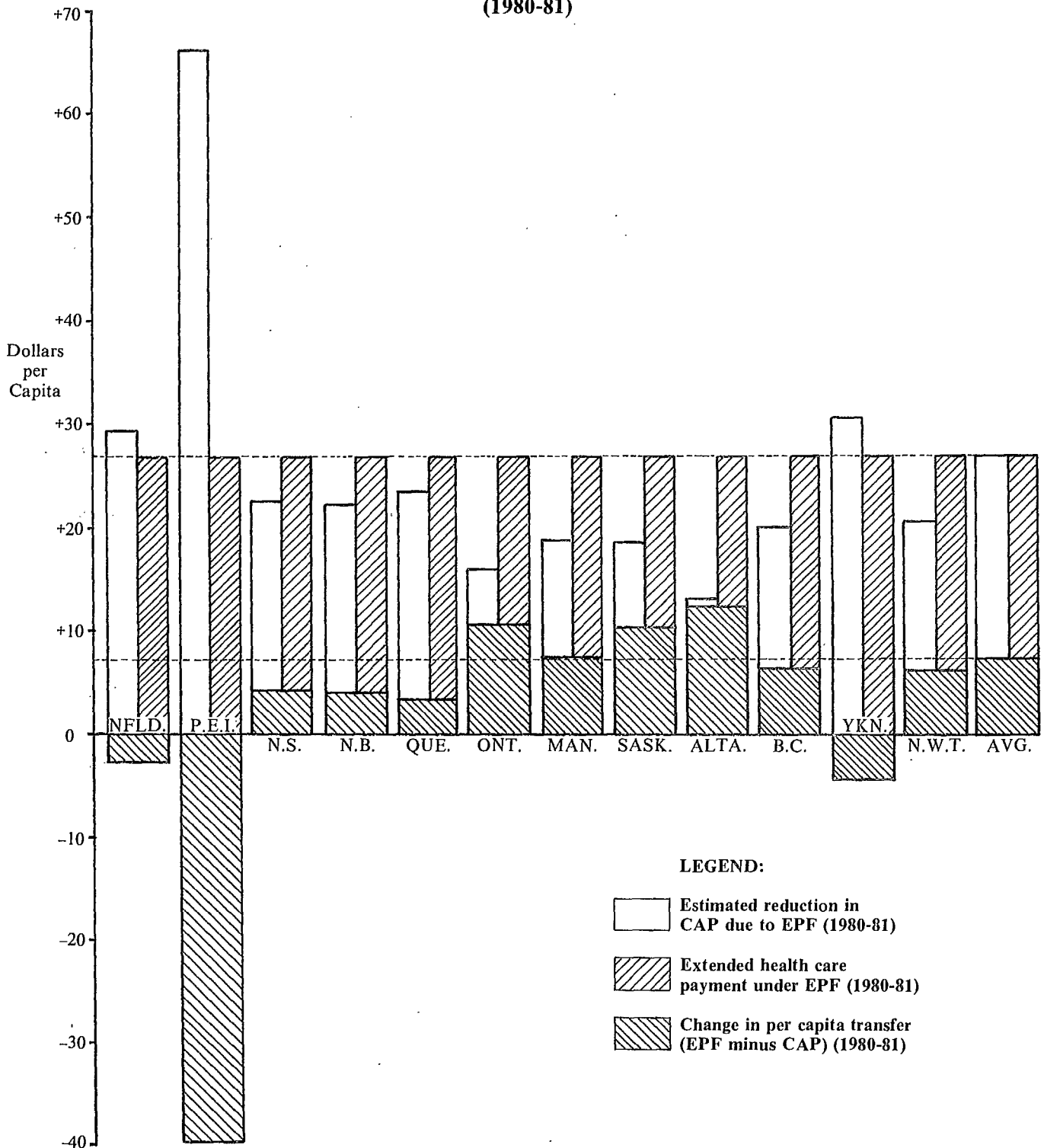
Figure IV-A-1 demonstrates that two provinces, Newfoundland and Prince Edward Island, and Yukon have actually lost in absolute terms as a result of the change from CAP to EPF. The distribution effect over the provinces was certainly perverse in relative terms: Ontario and the western provinces gained much more than did Quebec and

the Atlantic provinces. This occurs for two reasons. First, the extended health care covered by EPF was for services that were relatively well developed in the east as well as the west (indeed, this is why they were considered well enough established to be included under the EPF). Second, a higher proportion of those using the service were 'in need' in the east than in the west.

Whatever the historical causes, the Task Force acknowledges that it is legitimate to be concerned about this outcome in Quebec and the Atlantic provinces. This acknowledgement must be tempered with the caution that the CAP may also be seen to have provided Quebec and the Atlantic provinces with a kind of extra 'catch-up' in the past, based on their having more persons in need. The EPF now equalizes the treatment of the provinces, but because the eastern provinces previously enjoyed favoured treatment, they gain little or actually lose from the change. This is the unavoidable result of moving from special treatment to equal treatment under any program.

Nevertheless, the Task Force notes that the eastern provinces and Quebec did not receive as much of a 'bonus' from the extended health provisions of EPF as did western provinces. This adds some strength to the arguments for providing an additional amount for the east and Quebec, either through CAP, equalization or health-related programs (as recommended in the Hall Report).

FIGURE IV-A-1
Comparison of Per Capita Transfers for Extended
Health Care
(1980-81)



Source: Data supplied by Health and Welfare Canada.

Annex IV-B

Physicians' Income

The following table and chart, based on data from Revenue Canada, Taxation, indicate that over the entire period for which comparable data are available, physicians' incomes (along with industrial wages and incomes of other professionals) stayed well ahead of inflation and have kept

pace with other occupational groups. A period of relatively rapid growth to 1971 was followed by a period of slower growth to the mid-1970s. Since then, increases in the incomes of physicians appear again to have exceeded the changes in the earnings of other self-employed professionals.

Table IV-B-1
Professional and Other Income
Selected Historical Comparisons, Canada

	A	B	C	D
	Net Incomes of Physicians	Net Incomes of Lawyers, Dentists, etc.	Weekly Wages and Salaries, × 52	Consumer Price Index
Average Amount (\$)				
1951	9,975	8,650	2,602	66.0
1961	17,006	13,749	4,068	74.9
1971	39,555	24,533	7,157	100.0
1975	46,661	40,286	10,574	138.5
1979	58,263 ¹	45,890 ¹	14,989	191.2
Average Annual Rate of Change (%)				
1951 to 1961	5.5	4.7	4.6	1.3
1961 to 1971	8.8	6.0	5.8	2.9
1971 to 1975	4.2	13.2	10.2	8.5
1975 to 1979	5.7	3.3	9.1	8.4
1951 to 1979	6.5	6.1	6.5	3.9
Index (Physicians' Net Incomes = 100.0)				
1951	100.0	86.7	26.1	...
1961	100.0	80.8	23.9	...
1971	100.0	62.0	18.1	...
1975	100.0	86.3	22.7	...
1979	100.0	78.8	25.7	...

... Not applicable.

¹ Preliminary.

A Average Net Incomes from All Sources of Self-Employed Taxable Physicians.

B Weighted Average Net Incomes from All Sources of Self-Employed Taxable Dentists, Lawyers, Accountants, Engineers, and Architects.

C Average Weekly Wages and Salaries (Industrial Composite), × 52.

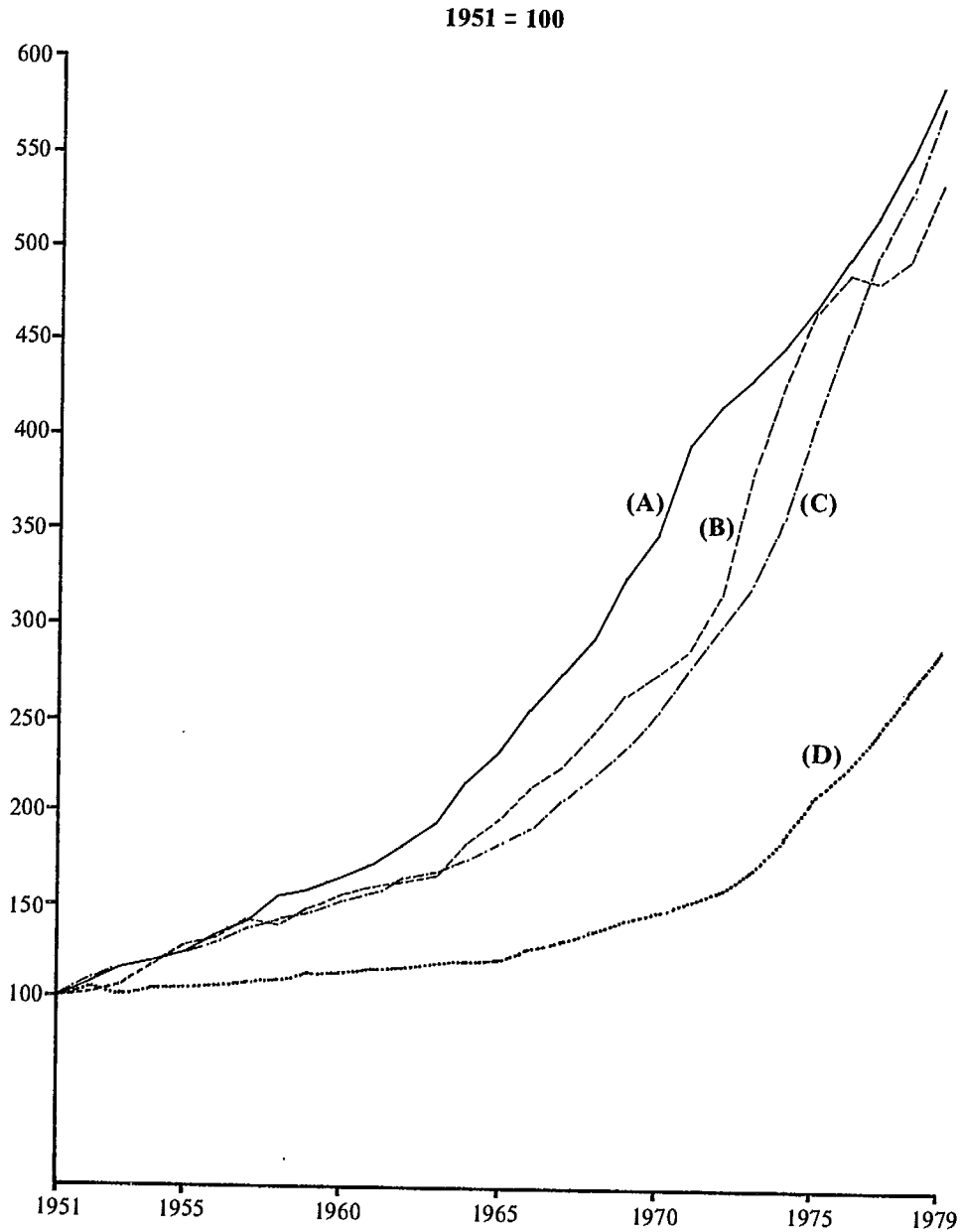
D Consumer Price Index (1971 = 100.0) (All Items).

Source: *Taxation Statistics*, Revenue Canada Taxation, for items (A) and (B) and the years to 1975 inclusive. *Preliminary Taxation Statistics*, Revenue Canada Taxation, for the year 1979. Statistics Canada, selected publications, for items (C) and (D). (Table compiled by Health and Welfare Canada.)

FIGURE IV-B-2

Indices of

- (A) Average net earnings from all sources of self-employed Canadian Physicians;
- (B) Weighted average net earnings from all sources of self-employed Lawyers, Dentists, Accountants, Engineers and Architects;
- (C) Average weekly wages and salaries (Industrial composite);
- (D) Consumer price index, all items.



Note: 1979 Data for items (A) and (B) are preliminary

Source: Health and Welfare Canada.

Chapter V

THE POST-SECONDARY EDUCATION TRANSFER

Introduction

As discussed in Chapter III, the post-secondary education* component of the Established Programs Financing (EPF) arrangements provides large unconditional transfers to the provinces for the general support of post-secondary education; neither the federal government nor the Parliament of Canada receives an accounting for these transfers. In this respect the post-secondary part of EPF starkly reflects the singular approach to education in the Canadian federation. The BNA Act and Canadian history have given the provinces virtually full control of education policy, programs and institutions. Consequently, the national system—in reality a dual system based on the two major languages—mainly consists of 10 provincial approaches. At the post-secondary level there is even more diversity, reflecting the autonomy of some 55 degree-granting institutions across Canada. The whole is co-ordinated, to a degree, through the Council of Ministers of Education, Canada and through a variety of associations concerned with educational matters. The federal government ostensibly has no role to play. In fact, however, it is heavily involved through spending by many agencies in such areas of federal responsibility as skilled manpower supply and scientific research and development (see Annex II-D), as well as in general (EPF) support for higher education. Table V-1 provides details on these expenditures and transfers. It shows estimated direct federal expenditures on education at all levels totalling some \$2 billion and further transfers to provinces totalling

\$3.6 billion in 1981-82. Total spending on education in Canada for the same year is forecast at \$25.6 billion.

It is clear to the Task Force that the Canadian post-secondary education sector is in a period of difficult adjustment. Furthermore, much of the evidence we heard suggests that this painful process of accommodation to rapid change will be protracted. We therefore see our role as suggesting how the two orders of government might co-operate more closely to facilitate provincial and institutional responses to change. A co-ordinated response would help to ensure a post-secondary sector adequate to the needs of a vast, regionally-diverse country in a highly competitive economic environment, and adequate also to serve the intellectual and spiritual aspirations of individuals in a bilingual and multicultural society.

Post-secondary institutions—not just universities, but also colleges, research institutes, libraries, archives and the like—are part of the intellectual and cultural fabric of any society. The enduring strength of a society ultimately rests more on these institutions than on economic, industrial or military power. They are avenues along which people pursue knowledge of themselves, their values, their goals as individuals, their reasons for existence. The extent to which these institutions successfully achieve their purposes and enable individual members of society to realize and expand their potential as human beings is not something that can accurately be measured statistically, nor can it be ensured simply through financial support.

In this chapter we deal at some length with problems of federal support of post-secondary institutions, largely through financial transfers to provincial governments. In particular, we empha-

* See Annex B to this chapter for the definition of post-secondary education applied from 1967-68 through 1976-77 for purposes of the original 'cost-sharing' post-secondary transfer program.

Table V-1
Federal Expenditures and Transfers Related to Education from 1977-78 to 1981-82

	1977-78 (actual)	1978-79 (actual)	1979-80 (actual)	1980-81 (budgeted)	1981-82 (budgeted)
A. Expenditures:	(\$ millions)				
<i>Elementary-Secondary education:</i>					
Indian and Eskimo education	200.4	224.1	223.3	248.1	281.1
DND	44.6	50.3	50.2	56.1	62.6
CIDA	41.5	39.6	38.6	40.5	42.5
Filmstrips, school broadcasting	2.2	3.3	4.2	5.7	4.8
Canadian correctional services (federal penitentiaries, academic training)	3.7	3.9	4.7	5.3	7.2
Other various ministries	32.0	22.7	32.3	27.8	18.7
<i>Sub-total</i>	324.4	343.9	353.3	383.5	416.9
<i>Post-secondary education:</i>					
Nova Scotia coast guard college	4.1	3.8	4.2	4.5	4.7
Registered nurses' education in hospitals	21.4	21.3	23.3	25.6	28.4
Other operating grants	1.0	1.0	3.0	2.1	2.2
Capital grant (Nova Scotia coast guard college)	.9	.1	.3	.4	3.6
Scholarship, student aid ¹	4.4	3.4	2.6	4.9	5.9
Cost of loans to students	20.9	23.2	24.6	32.1	33.2
Other ministerial expenditures	1.0	1.0	.7	.9	1.7
<i>Sub-total</i>	53.7	53.8	58.7	70.5	79.7
<i>University education:</i>					
<i>Operating grants:</i>					
Military colleges	27.8	32.9	35.1	38.4	42.7
Other ministries: operating grants	11.6	17.1	16.3	17.8	18.7
<i>Grants for sponsored research:</i>					
DND to military colleges	.7	.7	.7	.8	1.2
Canada Council	8.5	—	—	—	—
National Health and Welfare	11.1	11.6	9.2	1.3	1.2
Environment	3.2	3.4	.8	.8	.9
Natural Sciences and Engineering Research Council	84.1	38.2	104.0	137.1	145.5
Social Sciences and Humanities Research Council	51.0	11.4	14.6	17.4	19.2
Medical Research Council	51.0	52.1	58.7	72.4	78.1
Research grants from other ministries	39.5	49.3	46.6	42.5	37.1
Capital grants	2.4	.9	.9	1.0	1.1
Scholarship, student aid ¹	56.7	66.2	56.1	74.7	89.1
Cost of loans to students	36.1	48.9	47.1	63.0	64.7
CIDA	21.8	23.5	21.9	23.0	24.1
Other ministerial expenditures	40.6	8.4	16.4	7.8	12.6
<i>Sub-total</i>	395.1	414.6	428.9	498.0	536.2
<i>Vocational training:</i>					
Manpower training	618.3	655.4	689.7	797.9	850.7
Nursing assistants' training in hospitals	2.4	1.0	1.0	1.1	1.2
Language training	92.6	89.9	71.2	73.6	91.5
Canadian correctional services (vocational training in federal penitentiaries)	4.1	4.7	5.7	6.4	8.0
Operating capital	5.6	14.8	12.3	12.9	14.8
Other federal training institutions	21.9	16.9	4.6	4.9	3.5
Other ministerial expenditures: ² staff training, etc.	46.3	36.6	43.6	41.1	46.0
CIDA		5.7	6.4	6.7	7.0
<i>Sub-total</i>	791.3	825.0	834.5	944.6	1,022.7
<i>Total expenditures on all levels</i>	1,564.5	1,637.3	1,675.4	1,896.6	2,055.5
B. Transfers to provinces for:					
Post-secondary education ³	2,136.4	2,443.1	2,775.5	3,074.8	3,424.5
Minority language programs	152.7	174.3	189.7	205.1	217.3
<i>Total transfers</i>	2,289.1	2,617.4	2,965.2	3,279.9	3,641.3
C. Grand Total (A+B)	3,853.6	4,254.7	4,640.6	5,176.5	5,697.3

¹Scholarships, bursaries, awards, student aid from many federal ministries and agencies.

²Includes staff training, central administration, and other direct expenditures of federal ministries and agencies on behalf of vocational and occupational training.

³Includes total of cash and value of related tax transfers.

Source: Statistics Canada.

size concerns relating to research and manpower training as key factors in national economic development, because this is where federal responsibilities are most immediately linked with post-secondary education. But because the emphasis of this chapter could be taken to imply a narrow view of the role of a university, the Task Force considers it important to make clear its perspective on the post-secondary sector generally, as distinct from the limited role to be played by the federal government.

The Task Force sees the significant role played by universities and associated institutions in teaching, research and reflective scholarship—in addition to the provision of commercial, scientific or professional skills—as critical to national well-being. We also see the role played by community colleges and technical institutes as vital in broadening individual experience and opening up cultural or recreational opportunities to those without access to university programs—in addition to providing technical and vocational training to meet needs for skilled labour.

These goals can only be achieved by autonomous institutions, free to innovate, to pursue reason wherever it leads, to develop critical faculties not only within their own walls, but also in society at large. There is no need to repeat the well-known arguments suggesting that a society is safe from repression only when its institutions and its citizens are free to criticize and question the very apparatus that supports those institutions and sustains that freedom. It is sufficient to note simply that we take for granted the need for strong, independent, autonomous institutions free of direct government influence. *The Task Force therefore recognizes the need for general base funding for the post-secondary sector, to permit adults of all ages—not just the traditional 18-24 age group—to pursue spiritual and intellectual goals, to polish their critical faculties and to expand their general base of knowledge on which more specific skills may be built.*

But within this global funding responsibility, the federal government also has more specific roles and responsibilities, not for reflective scholarship, but for mission-oriented enquiry, not for curiosity-oriented research, but for applied research and development, not for general knowledge, but for skills in demand in the economy. Education is a

provincial responsibility. But for many reasons explored below, there are specific federal concerns as well, and it is these we examine here. To emphasize the particular aspects of the sector that impinge on direct federal responsibilities is not to suggest, however, that we attach less importance to other aspects of post-secondary education or that we are unaware of the need for arrangements that leave institutions free of undue influence from governments. It is merely to concentrate on the particular problems relevant to present fiscal arrangements, in light of existing constitutional divisions of responsibility.

Summary of Evidence

Most of the organizations and individuals submitting briefs to or appearing before the Task Force were from the university sector of the post-secondary education field. They tended to express many of the same broad concerns about post-secondary education and about the need for continuing federal financial support. Virtually all submissions emphasized the vital role played by post-secondary education in providing the intellectual and scientific resources, as well as the trained people, that are essential to the attainment of the economic, social, cultural and language goals of individual Canadians, of the country as a whole, and of its provinces or regions. Other witnesses, both individual experts and representatives of groups, placed more emphasis on the need to adapt the system to serve more equitably and efficiently the current and future needs of Canadian society.

The following quotations from some of the submissions to the Task Force are representative of widely-held views about the importance and broader purposes of higher education in Canada:

- Nous connaissons tous le rôle très important que jouent les universités au Canada...les universités sont...à la base du progrès économique et du développement...social. Ceci se démontre...dans les efforts déployés par les universités dans les domaines de la recherche et du développement; dans leur contribution à la formation de spécialistes capables d'adopter leurs spécialités au besoin...de la société...¹
- The importance of the universities to the research and development objectives of the provinces and of the country cannot be overstated....

Canadian society must continue to put a high priority on the right of all...citizens to a university education. The risk of balkanizing the...system must be avoided. The [Association of Universities and Colleges of Canada] fears that a major reduction...of federal support will...lead to the erection of barriers to interprovincial mobility.²

- The [community] colleges...represent an essential component of Canada's post-secondary educational resources.... It is the colleges which play the leading role in responding to the needs for skill training to meet Canadian industrial development and retooling in the immediate future....³
- Governments have a strong...interest in maintaining equality of opportunity, accessibility to higher education and interprovincial mobility of students and staff...in developing an adequate pool of highly qualified manpower; in building a strong research base...and adequate support for Canadian culture, including that of both our founding peoples.⁴
- A nation which seeks to compete must get its national and fiscal priorities right... We find ourselves at a time... when new knowledge... is going to determine the future of nations. This will place strong pressure on Canadian universities to produce graduates who can keep Canada competitive... It is clear that, if Canada is to achieve its goal of R & D expenditures... it will be necessary to increase substantially the... rate of production of highly qualified manpower... Canada needs an estimated additional 1500 researchers by 1985 to meet the federal target of 1.5% of GNP to be spent on R & D by the mid-1980's. Canada needs... 8,000... foresters over the next decade, or twice the number now graduated in Canada. Canada needs... 740 Ph.D.s in agricultural science between 1980 and 1986, but... is only turning out 49 graduates per year... Canadian universities have about 300 openings for business professors and yet... 15 to 20 Ph.D.s will be graduated annually. This shortage... will prevent students from studying in Faculties of Commerce...⁵
- With regard to post-secondary education, the Government of New Brunswick believes a continued strong federal participation is essential for a number of reasons:

- i) the mobility of students and graduates;
- ii) universal accessibility and varying provincial funding capabilities;
- iii) the importance of highly qualified manpower to the economic well-being of Canada;
- iv) the universities as national resources;
- v) the role of universities in the international community;⁶

- The University Students' Council believes that education is a national concern, and there is a basic need for co-ordination between the provinces and the federal government... We believe there are several areas of post-secondary education that the federal government should have direct responsibility and commitment to:

International Relations...

Research and Development...

Mobility...

Information, i.e., the collection and publication of statistical and research information...

National Interests... such as: telecommunications, transportation, energy development/conservation, northern affairs, oceans and river systems...⁷

(In response to a question from the Chairman of the Task Force about the negotiation of a federal-provincial agreement on objectives related to post-secondary education:)

- ...if it were about only objectives and the number of people going to universities, and things like this, or in some other fields, probably we would agree. I think the interest of our group of university professors is to increase the number of people, at least in Quebec, going to university... Si l'accord Ottawa-Québec prévoyait cet accroissement avec certains objectifs, par exemple, si on va accroître l'enseignement supérieur en physique nucléaire ou si on a certains objectifs quant aux champs dans lesquels on va accroître la fréquentation de l'université, nous serions parfaitement d'accord... je pense que l'entente devrait être assez générale, comme vous le soulignez, pour viser des taux de fréquentation.⁸

- Major universities have never been provincial in scope, despite what the Fathers of Confederation may have thought. Universities such as Harvard, Paris, London or Stanford could never have achieved their present world stature and influence if they had been seen as creatures of a particular city, province or state.⁹

Many witnesses argued that because post-secondary education plays a role in attaining national goals, and because the federal government already supports areas of post-secondary education through widespread general and specific programs, closer co-operation and co-ordination among all those involved is required, that is between the two orders of government and the post-secondary community.

Several university, faculty and student associations expressed grave concern about the absence of a co-ordinated national approach and called for a public enquiry or royal commission on the role, objectives and financing of post-secondary education in Canada. They also noted the failure to effect the 1976 First Ministers' commitment to the establishment of an effective intergovernmental forum for discussion of higher education issues of concern to both orders of government.

One witness proposed that in the absence of provincial willingness to involve the federal government in matters of higher education policy, the federal government should withdraw its general (EPF) support over a three-year period and devote these resources to areas of more direct federal responsibility.¹⁰

Finally, as regards mechanisms, a number of witnesses and briefs stressed the importance of better co-ordination *within* the federal government respecting its direct or indirect involvement in matters affecting post-secondary education.

In general, it was argued that post-secondary education is seriously underfunded in most parts of Canada, and that the abandonment of the shared-cost approach in favour of block-funding of federal general support for advanced education, beginning in 1977-78, had contributed to this situation. Indeed, some submissions contended that since EPF was introduced, provincial post-secondary support has grown at a slower rate than federal transfers for this purpose. It was also noted that in

almost all provinces, the total of the EPF allocated to the post-secondary transfer, including the value of the related tax transfer, now exceeds provincial support of the post-secondary sector. (For reasons that have already been set out in Chapter III, however, the Task Force considers some of these perceptions to be based, to some extent, on a misinterpretation of the structure and intent of the EPF arrangements.)

Although there was little or no criticism of the size of current federal support, underfunding of the sector itself was still cited as the major issue, and apprehension was expressed about the consequences of any reduction in federal assistance to provinces for post-secondary education. If provinces were to pass on such reductions, grave consequences could ensue for the institutions, for their students and, in the longer run, for the country as a whole. In particular, the capacity of the system to serve the country's goals respecting highly-qualified manpower, scientific research and development, and economic growth and international competitiveness could be seriously impaired. The major problem was said to be the long-term nature of the professional and institutional commitment in scholarship, in academic programs and in capital facilities for such programs. Consequently, drastic reductions in funding intended to induce change could not be absorbed in a few years.

Concerns were also expressed about the impact that further provincial restraint could have on equality of access and mobility for students throughout the country, in the absence of enriched programs of aid for needy students. Another equity argument made by representative groups from a number of regions was the need for special funding in the Atlantic area. This was to ensure comparable post-secondary education and research capability and hence more equality in educational opportunities in that region in comparison with the rest of Canada. Similar points were made about the obligation of the country to provide increased higher education opportunities for women and such other groups as Native peoples and official language minorities. For the latter, ensuring the development and maintenance of minority language institutions was said to be very important.

Although witnesses urged that present levels of federal financial assistance for higher education be maintained and indeed, some argued that it should

be increased, few suggested that EPF support should flow to provinces on a conditional basis affecting academic programs. In fact, there were representations opposing such federal influence. There was broadly based and strong support, however, for more accountability and for the provision of more information to Parliament and to the public respecting provincial use of the federal government's transfers to them for higher education. In this connection, most representatives from the university sector urged that future federal post-secondary transfers be publicly earmarked for higher education. In addition, proposals were advanced for a return to a modified cost-sharing approach based on periodic adjustments of federal grants to a specified percentage of provincial or institutional post-secondary expenditures.

Several briefs explored the advantages and disadvantages of greater reliance on increased student fees as a source of financing for post-secondary institutions, coupled with increased federal assistance to students to ensure that barriers to entry were not thereby aggravated. Various alternatives for student aid were also discussed, including repayment of loans, if required, on a basis similar to that now in use under the Canada Student Loan program, or through the federal income tax system.

Not all witnesses agreed with the underfunding arguments outlined above, nor was there unanimity about avoiding substantial changes in the current post-secondary arrangements. Some witnesses suggested directing support to areas of particular federal concern, for example, specific needs for highly-skilled labour or for research, with federal support to include provision for meeting overhead costs of research. A paper tabled by one witness set out this issue as follows:

Governments and universities will find it increasingly difficult to be detached from the manpower development aspects of university education as highly qualified labour becomes an increasingly important factor in Canadian productivity growth and international competitiveness.¹¹

Far-reaching changes in the orientation of the whole post-secondary education system were advocated in the brief from the Canadian Association for Adult Education, and changes in the federal approach to higher education support were suggested. Their objective is to permit, indeed

encourage, returning periodically to training or education throughout one's adult life.

Except for the suggestion of outright federal withdrawal from general transfers for post-secondary education, virtually all witnesses appearing before the Task Force, including those advocating substantial changes, urged strongly that the issues in question be studied and discussed in some form of public inquiry, 'higher education council' or federal-provincial forum before action is taken. In addition, great emphasis was placed on the need to avoid precipitous changes in financial arrangements for the sector.

The New Brunswick, Manitoba and British Columbia governments' statements referred to the country-wide purposes served by the post-secondary sector and the need for intergovernmental consultation and co-operation respecting federal involvement in the area. Provincial ministers did not, of course, comment extensively on the adequacy of funding of the post-secondary sector. However, the statements released by the governments of Newfoundland and New Brunswick referred to the increased funding that would be required to bring services in their areas closer to a national standard.

The Hon. Allan MacEachen, federal Minister of Finance, and the Hon. Francis Fox, Secretary of State, discussed federal involvement in post-secondary education when they appeared before the Task Force. Said the former in his statement:

The post-secondary...transfer...to the extent it serves federal policy...is mainly related to long-term economic development. The existence of a large number of highly qualified managers, professionals and technicians is essential for future development. It is also in the university atmosphere that a good deal of the research which generates scientific advance, invention and industrial innovation takes place. However, the program as it now exists provides no link between these obvious federal policy interests and provincial outlays financed by these transfers.¹²

The Secretary of State's brief proposed a rationale for a federal role in post-secondary education, suggested a list of objectives to guide federal programming in this area and outlined a possible federal approach for the future. The rationale is rooted in the country's requirements in such

areas as economic growth, manpower training, accessibility, mobility, research and technological advancement, official languages, Canadian studies, the education of native Canadians, military studies and international relations. The list of objectives for post-secondary education closely parallels many of those presented by other witnesses. Those that appear to be most in tune with the suggestions of spokesmen for the post-secondary sector and for a number of provincial governments, are set out in the following quotations from the Secretary of State's testimony:

General support of the post-secondary system objective: to assist in maintaining and strengthening a general knowledge, learning and critical capacity in the post-secondary system...which provides the infra-structure..to meet more specific objectives...with particular emphasis on pan-Canadian concerns.

Manpower objectives: to promote adequate levels of training...particularly for occupations requiring highly skilled nationally and internationally mobile manpower.

Mobility objective: to minimize barriers to inter-provincial mobility of students and teachers...and of graduates wishing to work in other provinces.

Research and economic growth objectives: to support research and development...in order to promote economic growth and to support graduate training for the nation's overall research and development needs.

Citizenship, language and cultural identity objective: to promote...a sense of Canadian citizenship and identity, with particular emphasis on the nation's bilingual nature and to increase access by members of official language minorities to a full range of educational opportunities in their own language.

Accessibility objective: to support equality of opportunity in [student] access to the...system, by reducing geographic, socio-economic and other constraints on participation.

International Relations objective: to promote Canada's international interests in matters relating to education...¹³

The Secretary of State noted that programs in support of these objectives are found in many departments and agencies. He also assessed the effectiveness of the current post-secondary arrangements in attaining the five objectives set out in 1976 when the Prime Minister introduced the EPF proposals. In summary these objectives were to:

- maintain standards of service...in the provincial programs;
- put the federal transfers on a more stable footing;
- give the provinces more flexibility in programming;
- bring about greater equality [in federal support] among the provinces; [and]
- provide for continuing joint policy discussions relating to the health and post-secondary education fields.

The Secretary of State concluded that the financial objectives have been met. However, "...the joint consultation objectives have not been achieved and there is some question about ...success...in the maintenance of standards".¹⁴

The Secretary of State suggested that the current review should consider the appropriateness of a more active approach in the achievement of the country's objectives. He went on to say that visibility, accountability and fiscal imbalances are matters of concern, but more importantly, "...EPF must be examined in the light of the changing needs of the post-secondary institutions. While there would be argument about the extent of an alleged deterioration of post-secondary capacity...there would be little disagreement that the...system will change profoundly over the next...decades as a result of ...adult participation and...projected declines...in the size of the 18 to 24 year old population".¹⁵

In concluding, the Secretary of State noted the need for a co-ordinated federal approach to post-secondary education that would be realistic in the light of a policy of fiscal restraint and consistent with the principles of accountability and visibility. Such a strategy, he said, might include:

1. moving to a more equitable sharing of post-secondary financing among...governments;
2. increasing the percentage of federal expenditures related to specific...objectives and/or to direct federal support of the post-secondary infrastructure, while still maintaining a significant level of indirect infrastructure support via the provinces; [and]

3. creating stronger mechanisms for co-ordination and policy development...both within the federal government and among the federal and provincial governments and the post-secondary institutions.¹⁶

Options: Analysis and Conclusions

A variety of proposals arose from the arguments just outlined and the following, which are not always mutually compatible, received most attention from representatives of post-secondary institutions, teachers, students and from some individual witnesses:

1. Mechanisms for Review and Co-ordination

- *a public inquiry*, perhaps a royal commission, on the future role of higher education in Canada, and how it should be financed
- *a continuing Canadian forum*, perhaps a 'Council on Higher Education', made up of provincial and federal government representatives (and involving the academic community in some way), to discuss provincial and Canada-wide objectives and how to co-operate and develop concerted action to achieve those objectives
- *a focal point within the federal government* that would have a strong mandate to co-ordinate federal concerns and involvement in post-secondary matters

2. Level and Form of Federal Support

- *continuation of federal general support* to post-secondary education, through block-funding or modified block-funding to provinces, along the lines of the EPF formula
- *shifting some EPF support* to more clearly identifiable areas of federal responsibility, for example, to research and development and related university overhead costs, or to critical shortages of highly qualified manpower
- *shifting a portion of EPF support* indirectly to institutions through significant increases in student grants or loans, thereby permitting institutions to finance a higher proportion of their expenditures through substantially increased student fees

3. Student Assistance

- *increasing student aid* for needy students, making realistic adjustment to current assistance programs to take account of increased living costs and reduced opportunities for summer employment

4. Accountability to Parliament

- *increased accountability* to Parliament (and to the public) respecting general transfers in support of higher education, for example, by publicly 'earmarking' transfers for spending on post-secondary education, or by re-establishing some relationship—perhaps only periodically—between the size of the federal transfers and related institutional or provincial government costs, and by obtaining reports from provinces on the uses of federal funds transferred to them for general support of higher education

In assessing the significance and validity of the evidence, the Task Force has been acutely conscious of two basic constraints. First, although the federal government must look to post-secondary education to satisfy some of the country's important objectives, and although institutions of higher learning are essential elements in a society's life, culture and national character, the federal approach must respect the primary responsibility of the provinces in this area. Second, it is quite apparent that serious problems are being encountered in most provinces respecting the capacity of the higher education system to serve society's needs. We believe, however, that in this complex area, it would be unwise for us to attempt to arrive at specific and far-reaching proposals on how the federal government might respond to complement provincial efforts to meet this challenge.

As regards problems in post-secondary education, the complexity and difficulties of the current situation in Canada are outlined—for the university sector—in 'Canadian Universities 1980 and Beyond', a recent study by Professor Peter M. Leslie:

In this report it will accordingly be argued that universities must have a large measure of institutional autonomy as well as a dependable income which is adequate to society's expectations of them. But not too dependable! University reve-

nues ought not be so fixed as to be unaffected by levels of performance. An attempt must be made to reconcile financial security with the provision of rewards for excellence. On the one hand it must be recognized that universities have large needs and that penury will drive universities to mediocrity or worse. On the other hand, it is well to remember that money alone will not ensure excellence. Universities are not immune to shoddiness, any more than other institutions are; and it is salutary for them to have a financial stake in enhancing their reputations. When high standards in teaching and research cannot ease financial strangulation and when lagging performance will incur no financial penalty, the university becomes prey to fatalism, declining morale, and the tolerance of inanition in its professional staff.

These dangers are particularly acute in the existing conjuncture of events in Canada. Canadian universities, as they move into the 1980s will find it increasingly difficult to think in terms of anything but survival. This is partly because in most provinces their incomes, if discounted for inflation, have been dropping for some years and may well continue to do so. But the reasons will be by no means uniquely financial. They will pertain also to falling student numbers and the attendant incapacity to hire new staff. It will be increasingly difficult for them to obtain an infusion of talent, ambition and idealism. Universities face a lengthy period of retrenchment or contraction; and it is important that the design of new funding arrangements should not exacerbate the problems and dangers which are equally the legacy of rapid growth during the 1960s and the anticipated result of no-growth or shrinkage in the next two decades or so. Changes in funding practices for Canadian universities must take account of the difficulties faced by and within the universities at this juncture in their history. Financial arrangements must be such as to encourage internal change and self-renewal, and constant adaptability to the needs of scholarship as well as to the needs of the society which sustains them and which they serve.¹⁷

Although Professor Leslie's comments relate to universities, the Task Force believes that other post-secondary institutions are facing difficulties of the same order. This seems likely to be particularly true for community colleges in their attempts to respond to Canada's immediate and future requirements for skilled technicians in a rapidly changing high technology economy.

Mechanisms for Review and Co-ordination Several groups from the post-secondary sector proposed a public inquiry or royal commission on higher education in Canada. We appreciate the concerns that underlie this proposal—concerns about the

absence of a national approach to post-secondary education and of sufficiently concerted efforts by governments and others involved. However, we believe that the higher education issues facing the country are more likely to be handled satisfactorily through the political process, where solutions can emerge in the context of the realities of the current economic situation, Canada's needs for highly skilled manpower and provincial responsibility for education and post-secondary institutions.

There is widespread agreement that for the rest of the 1980s, the Canadian post-secondary education system will face very difficult problems of adjustment to enrolment changes and shifting demands for the intellectual resources and highly-qualified people to serve the needs of Canadian society. In addition, the country as a whole has interests and purposes that can only be satisfied through vibrant, intellectually active and concerned institutions, their faculties and students. *The Task Force appreciates fully, however, that because education is under provincial jurisdiction, responsibility for coping with change and effectively serving broad Canadian interests must rest with the provinces and their institutions. Therefore, we believe that there should be an effective consultation mechanism to ensure concerted efforts by all concerned to establish and attain the goals that are of mutual interest to both orders of government.*

This necessity was accepted at the conclusion of the 1976 First Ministers' Conference, where it was agreed that the Council of Ministers of Education, Canada (CMEC) and the Secretary of State would meet regularly to discuss questions of mutual interest. It is apparent that this arrangement has not become fully operational, and failure to achieve this goal has tended to undermine the rationale for the commitment of the federal government to continue to provide general support to the provinces for higher education.

It is our hope that this forum can still be made to serve the purpose foreseen for it in 1976, and we urge both orders of government to make a determined effort in this regard. The provincial and federal ministers involved should be able to make a valuable contribution by defining national objectives and by ensuring the harmonization of related activities by both orders of government. *The Task Force therefore recommends that*

in line with the 1976 First Ministers' commitment, the responsible federal minister or ministers proceed on an urgent basis to consult with the Council of Ministers of Education, Canada on matters of concern to both orders of government in the field of higher education.

In pressing for a forum for discussion of post-secondary matters, many representatives of higher education institutions, faculty and students also argued strongly for their involvement in intergovernmental discussions affecting them. It seems unlikely that they could be included in meetings between the CMEC and the Secretary of State. However, we believe that the expertise of these groups could be used to advantage. One approach might be for provincial and federal ministers to commission studies and research to be carried out by individuals or associations from the post-secondary sector. An interesting suggestion on the role of universities in support of intergovernmental discussion emerges from Peter Leslie's study. He believes

... it would be salutary if the universities of Canada formulated and endorsed a statement of what they consider to be Canadian purposes in higher education, distinct from but complementary to the purposes of each province. Where appropriate, they should express their support for federal action to realize these purposes. It should be emphasized that in some cases, interprovincial co-operation may be simpler and more effective than federal action in responding to needs that transcend the borders of particular provinces... If they [the universities] have made it clear what they consider to be the provincial government's prerogatives in the field, a call for federal action to complement and assist provincial policies should provide a valuable basis for discussion among universities and governments, both federal and provincial.¹⁸

We suggest that early attention should be given to the definition of purposes in post-secondary education that are of concern to all governments. In this connection, we would see priority consideration being given to the need for more highly-qualified manpower in the 1980s, and the confirmation of existing commitments to student mobility and equality of access to post-secondary education for Canadians. Similarly, it is desirable, in our view, to ensure reasonable access to Canadian higher education for foreign students.

The extent of student mobility today is illustrated by Table V-2 which displays the 'home residence' of out-of-province university students in 1979-80. For most provinces the percentage of non-resident Canadian students ranges around seven to eight per cent of full-time university enrolment. The provinces carrying the heavy loads in this regard are Nova Scotia and New Brunswick, at approximately 25 per cent.

We wish to emphasize that we have been impressed by the extent to which the objectives of mobility and equality of access are now being met in Canadian post-secondary education. Our concern is the negative consequences that could flow from continuing financial constraint in the years ahead.

Higher fees for foreign students recently have been instituted in a number of provinces. We are concerned that such a practice could have an adverse effect on Canada's international objectives, such as assisting developing countries through providing education and training for their citizens. It is also in the interests of long-term Canadian economic, political and social development, both at home and abroad, to ensure that foreign students continue to be welcomed in Canada for educational purposes. This federal objective could be of sufficient importance to warrant additional support for foreign students under certain circumstances.

As noted above, a number of witnesses argued for better internal co-ordination of federal activities affecting post-secondary education. As indicated in Table V-1, several federal agencies have large expenditure programs involving post-secondary institutions. The main examples are the sponsored research programs of the granting councils and a few large departments, and manpower training purchases by the Canada Employment and Immigration Commission. It seems reasonable that such activities should be conducted within a framework of an overall view of the Canadian purposes to be served by higher education. Moreover, if the consultations with the CMEC proposed above become an ongoing reality, it will be essential to ensure an internally consistent approach from the federal side. *The Task Force therefore recommends that*

Table V-2
Full-time Graduate and Undergraduate University Students in Canada
(Origin and Province of Attendance)
1979-1980

From:	To:	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	TOTAL
Newfoundland		5,835	5	437	127	51	232	1	9	27	21	6,745
Prince Edward Island		15	1,105	567	239	27	114	6	2	12	11	2,098
Nova Scotia		41	20	10,971	658	221	685	32	6	66	100	12,800
New Brunswick		70	54	1,557	7,316	207	499	20	17	36	45	9,821
Quebec		51	39	409	1,193	63,355	6,677	66	42	149	258	72,239
Ontario		69	33	665	395	1,316	120,267	629	248	546	993	125,161
Manitoba		5	1	149	21	84	556	12,839	185	181	188	14,209
Saskatchewan		2	2	29	7	47	369	229	8,513	293	166	9,657
Alberta		17	5	139	22	126	1,004	197	401	24,307	753	26,971
British Columbia		12	3	103	42	268	1,083	188	295	887	23,659	26,540
Yukon/Northwest Territories		3	—	6	2	10	58	10	10	166	91	356
Outside*		8	2	40	47	162	554	10	—	51	253	1,127
Total Other Canadians		293	164	4,101	2,753	2,519	11,831	1,388	1,215	2,414	2,879	29,557
Non Canadian**		294	63	1,760	668	8,276	17,367	1,704	1,112	3,156	3,080	37,380
Unclassified & Unreported***		7	—	193	137	11,976	1,517	33	3,024	111	1,004	18,002
Total Enrolment		6,429	1,332	17,025	10,874	86,126	161,341	15,964	13,864	29,998	30,622	353,106
Other Canadians as % of Total Enrolment		4.6%	12.3%	24.1%	25.3%	2.9%	7.3%	8.7%	8.8%	8.0%	9.4%	8.4%

*Canadians resident outside Canada but attending universities in Canada.

**Includes landed immigrants

***Possibly includes some Canadians.

Source: Statistics Canada.

early consideration be given to the establishment of a focal point or mechanism to ensure internal co-ordination of federal programs related to post-secondary education.

The ministers most likely to be involved on an ongoing basis in such an arrangement would appear to be the Secretary of State, the Minister of State for Science and Technology and the Minister of Employment and Immigration.

Level and Form of Federal Support It is clear that in most provinces, the value of the EPF transfer—whether measured in cash or as a total of cash and EPF tax point value—has grown faster than provincial support for higher education in recent years. This is illustrated in Table V-3, which also shows the large role played by the federal government in supporting provincial financing of post-secondary education since 1967-68. As discussed in Chapter III, there is a controversy about the quantum of federal support, that is, whether the federal contribution should be seen as including EPF cash plus the value of the related tax transfer, or as the cash only. However, no matter which measure is used, there is no doubt that federal action over the years, in one way or another, has underwritten provincial financing of higher education to a remarkable degree.

Representatives of the provinces pointed out that the rate of growth of the EPF transfer has fallen, and can be expected to be somewhat lower than nominal Gross National Product (GNP) increases over the next few years—a period when provinces expect higher education costs to rise faster than economic growth. It is true that if the present arrangement were to be continued with the same annual escalator (a three year moving average per capita GNP growth), federal contributions probably would fall behind inflation. On the other

*The forecasts of costs in Table V-4 are based partly on the projected enrolments of Table V-5. Table V-5 shows provincial variations, but a 1982 peak in full-time equivalent enrolments in Canada. However, David K. Foot, after an intensive analysis of relevant data concluded that "...further increases can be anticipated for the next three or four years". Foot dealt only with university enrolments whereas Table V-5 covers other post-secondary institutions as well. See—David K. Foot, "A Troubled Future? University Enrolments in Canada and its Provinces", in David M. Nowlan and Richard Bellaire, eds., *Financing Canadian Universities* (Toronto: OISE Press, forthcoming, August 1981).

hand, forecasts of higher education operating costs available to the Task Force indicate virtually no increase in costs in real terms over the next several years. In fact, these forecasts (see Table V-4) suggest that post-secondary operating costs in 1981 constant dollars could fall short of GNP growth by perhaps one percentage point annually during the next five or six years. Much depends on participation rates across the demographic spectrum—that is, on the personal decisions of those who might be candidates for post-secondary level training. Government policies to encourage increased enrolment or retraining in areas of highly-skilled manpower shortages could also change the picture. However, current projections of post-secondary enrolment figures, set out in Table V-5,* indicate declines in all provinces throughout the rest of the 1980s.

Given the scale of and recent increases in the federal contribution to post-secondary operating costs documented in Table V-3, our view is that current federal support to this area is certainly adequate. It is apparent, however, that many, perhaps most, post-secondary institutions are finding it difficult to make the adjustments essential to serving the country's changing economic, social and other needs. There appears to be no doubt that these difficulties are being compounded by financial constraints. The underlying question in this regard is the adequacy of the resources institutions will receive from the provinces in the years ahead. The Task Force appreciates that most provinces are coping with the need to effect overall restraint on their budgets and that many of them will not find it easy to ensure that post-secondary education has resources it may require. Provincial problems in this regard could be exacerbated—and seriously exacerbated for some—if the federal government's support were suddenly to be capped or reduced. *It is our view that such precipitous action should be avoided and that, indeed, federal general support should be continued on the current basis, at least until the two orders of government have consulted about the goals and future needs of the higher education sector.*

The provision of federal post-secondary assistance through 'block-funding' along the lines of the present arrangement has widespread support, on the part of both governments and representatives of the academic community. We also believe that this method of providing general support to

Table V-3*

Federal Share of Funding of Post-Secondary Education Operating Costs
(current \$ thousands)

Federal Transfers to Provinces and Institutions	1967/68	1976/77	1977/78	1980/81	1981/82 ⁽¹⁾
<i>Newfoundland</i>					
1. Cash less Revenue Guarantee ⁽²⁾	3,617	14,951	33,173	54,883	59,319
2. Cash and Tax less Revenue Guarantee ⁽³⁾	9,016	39,741	54,339	83,541	91,586
3. Total Post-Secondary Operating Costs	10,700	65,514	74,670	92,854	101,648
4. Line [1] as % of Line [3]	33.8%	22.8%	44.4%	59.1%	58.3%
5. Line [2] as % of Line [3]	84.2%	60.6%	72.8%	89.9%	90.1%
<i>Prince Edward Island</i>					
1. Cash less Revenue Guarantee ⁽²⁾	1,124	2,087	6,520	9,661	10,740
2. Cash and Tax less Revenue Guarantee ⁽³⁾	1,855	7,335	11,031	15,804	17,624
3. Total Post-Secondary Operating Costs	2,521	9,903	9,491	14,311	15,524
4. [1] as % of [3]	44.5%	21.0%	68.6%	67.5%	69.1%
5. [2] as % of [3]	73.5%	74.0%	116.2%	110.4%	113.5%
<i>Nova Scotia</i>					
1. Cash less Revenue Guarantee ⁽²⁾	11,751	31,669	52,945	71,218	88,458
2. Cash and Tax less Revenue Guarantee ⁽³⁾	20,023	68,440	84,281	113,344	135,943
3. Total Post-Secondary Operating Costs	33,446	102,496	118,325	164,319	176,074
4. [1] as % of [3]	35.1%	30.8%	44.7%	43.3%	50.2%
5. [2] as % of [3]	59.8%	66.7%	71.2%	68.9%	77.0%
<i>New Brunswick</i>					
1. Cash less Revenue Guarantee ⁽²⁾	5,139	15,705	37,896	63,557	69,400
2. Cash and Tax less Revenue Guarantee ⁽³⁾	11,869	45,778	63,681	98,502	108,655
3. Total Post-Secondary Operating Costs	20,024	70,717	72,872	108,861	118,708
4. [1] as % of [3]	25.6%	22.2%	52.0%	58.3%	58.4%
5. [2] as % of [3]	59.2%	64.7%	87.4%	90.4%	91.5%
<i>Quebec</i>					
1. Cash less Revenue Guarantee ⁽⁴⁾	91,379	421,162	430,662	594,665	651,384
2. Cash and Tax less Revenue Guarantee ⁽⁴⁾	154,041	697,339	666,429	878,649	997,817
3. Total Post-Secondary Operating Costs	227,690	1,005,247	1,221,525	1,614,844	1,785,925
4. [1] as % of [3]	40.1%	41.8%	35.2%	36.8%	36.4%
5. [2] as % of [3]	67.6%	69.3%	54.6%	54.4%	55.8%
<i>Ontario</i>					
1. Cash less Revenue Guarantee ⁽²⁾	96,567	283,591	486,683	734,443	798,186
2. Cash and Tax less Revenue Guarantee ⁽³⁾	193,910	698,027	835,316	1,199,361	1,322,254
3. Total Post-Secondary Operating Costs	347,268	1,239,407	1,338,295	1,738,469	1,893,607
4. [1] as % of [3]	27.8%	22.8%	36.3%	42.2%	42.1%
5. [2] as % of [3]	55.8%	56.3%	62.4%	68.9%	69.8%
<i>Manitoba</i>					
1. Cash less Revenue Guarantee ⁽²⁾	14,019	42,086	66,105	94,119	101,667
2. Cash and Tax less Revenue Guarantee ⁽³⁾	24,466	87,469	104,722	144,937	158,315
3. Total Post-Secondary Operating Costs	41,587	127,793	142,900	169,448	190,253
4. [1] as % of [3]	33.7%	32.9%	46.9%	55.5%	53.3%
5. [2] as % of [3]	58.8%	68.4%	73.2%	85.5%	83.1%
<i>Saskatchewan</i>					
1. Cash less Revenue Guarantee ⁽²⁾	17,213	27,796	53,283	87,056	101,294
2. Cash and Tax less Revenue Guarantee ⁽³⁾	24,583	68,778	88,444	135,953	146,242
3. Total Post-Secondary Operating Costs	35,802	111,864	125,760	173,028	188,008
4. [1] as % of [3]	48.0%	24.8%	42.3%	50.3%	53.8%
5. [2] as % of [3]	68.6%	61.4%	70.3%	78.5%	77.7%

(continued overleaf)

Table V-3 (cont'd)*
Federal Share of Funding of Post-Secondary Education Operating Costs
(current \$ thousands)

Federal Transfers to Provinces and Institutions	1967/68	1976/77	1977/78	1980/81	1981/82 ⁽¹⁾
<i>Alberta</i>					
1. Cash less Revenue Guarantee ⁽²⁾	31,530	60,799	97,167	149,853	171,983
2. Cash and Tax less Revenue Guarantee ⁽³⁾	47,376	164,736	188,772	283,679	322,651
3. Total Post-Secondary Operating Costs	71,471	269,037	325,144	436,193	506,745
4. [1] as % of [3]	44.1%	22.5%	29.8%	34.3%	33.9%
5. [2] as % of [3]	66.2%	61.2%	58.0%	65.0%	63.6%
<i>British Columbia</i>					
1. Cash less Revenue Guarantee ⁽²⁾	21,463	54,259	129,487	211,028	237,269
2. Cash and Tax less Revenue Guarantee ⁽³⁾	46,344	180,571	239,491	363,613	409,367
3. Total Post-Secondary Operating Costs	85,958	317,522	350,499	512,692	607,939
4. [1] as % of [3]	24.9%	17.0%	36.9%	41.1%	39.0%
5. [2] as % of [3]	53.9%	56.8%	68.6%	70.9%	67.3%
<i>Canada</i>					
1. Cash less Revenue Guarantee ⁽²⁾	293,802	954,092	1,395,926	2,084,377	2,302,781
2. Cash and Tax less Revenue Guarantee ⁽³⁾	533,483	2,058,201	2,219,379	3,510,832	3,552,469
3. Total Post-Secondary Operating Costs	876,467	3,318,500	3,779,431	5,025,019	5,584,431
4. [1] as % of [3]	33.5%	28.7%	36.9%	41.4%	41.2%
5. [2] as % of [3]	60.8%	62.0%	58.7%	69.8%	63.6%

*This table should be read in light of the discussion of EPF transfers in Chapter III.

Notes: (1) Post-secondary operating costs are based in part on provincial budget figures.

(2) Includes 32.1% of EPF basic and transitional cash payments to provinces plus direct payments to institutions from 1977/78 to 1981/82; less revenue guarantee (basic cash and related transitional cash) from 1977/78 to 1981/82.

(3) Includes federal revenues forgone through the original 1967 post-secondary education equalized tax transfer from 1967/68 to 1976/77; but 32.1% of the federal revenues forgone through EPF equalized tax points transfer from 1977/78 to 1981/82.

(4) Cash portion in lines (1) and (2) in each case includes 32.1% of EPF contracting out abatement to Québec for post-secondary education from 1977/78 to 1981/82.

Sources: Department of Finance; Statistics Canada.

the provinces best accords with the primary responsibility of the provinces for education. The Task Force therefore recommends that

federal general support for higher education be continued on a block-funded basis but, as argued in Chapter III, that it be established as a program separate from future support for health programs.

The question of the form of federal post-secondary assistance (cash or cash plus tax point values), and its presentation or display in future arrangements, is dealt with in Chapter III.

The Task Force discussed the possibility of calculating one-half of future block-funded transfers on the basis of full-time enrolment (or registrations for post-secondary courses) in each province, and the other half as under the present arrangements, that is, an equal per capita amount for each province. Such a formula would recognize greater

need in provinces of high enrolment relative to the national average. (See Table V-5 for past and forecast future enrolments.) On the other hand, this approach would result in unequal per capita grants among the provinces—contrary to one of the original objectives of the EPF arrangements. It would, moreover, present difficulties in determining accurate full-time enrolment figures. Inevitably, the conversion of part-time registrations to full-time equivalents would be cause for debate and would tempt provinces and institutions to classify borderline courses as post-secondary. Nevertheless, some Task Force members feel that this suggestion merits consideration.

Before arriving at the conclusions set out above, we reviewed the proposals of the recently released report of the Task Force (of officials) on Labour Market Development in the 1980s, in particular, chapter 9, which discusses highly qualified manpower training. This report, written from the vantage point of labour market supply and returns on

Table V-4
Forecast of
Post-Secondary Education Operating Costs
(1981 constant \$ thousands)

		1982-83		1983-84		1984-85		1985-86		1986-87	
		\$	% incr.	\$	% incr.	\$	% incr.	\$	% incr.	\$	% incr.
Nfld.	Non-university	14,002	—	14,050	—	13,993	—	13,749	—	13,573	—
	University	88,749	—	78,559	—	78,547	—	77,895	—	77,440	—
	Total	102,751	1.1	92,609	-9.9	92,540	-0.1	91,644	-1.0	91,013	-0.7
P.E.I.	Non-university	5,660	—	5,660	—	5,630	—	5,534	—	5,397	—
	University	9,998	—	9,998	—	10,051	—	9,969	—	9,819	—
	Total	15,658	0.9	15,658	0.0	15,681	0.1	15,503	-1.1	15,216	-1.9
N.S.	Non-university	17,355	—	17,311	—	17,139	—	16,802	—	16,349	—
	University	161,052	—	160,585	—	159,593	—	157,638	—	154,798	—
	Total	178,407	1.3	177,896	-0.3	176,732	-0.7	174,440	-1.3	171,147	-1.9
N.B.	Non-university	16,798	—	16,734	—	16,593	—	16,298	—	15,875	—
	University	102,953	—	103,001	—	102,544	—	101,450	—	99,794	—
	Total	119,751	0.9	119,735	0.0	119,137	-0.5	117,748	-1.2	115,669	-1.8
Que.	Non-university	746,980	—	728,919	—	709,982	—	686,339	—	664,339	—
	University	1,048,885	—	1,049,609	—	1,034,775	—	1,014,867	—	995,216	—
	Total	1,795,865	0.6	1,779,028	-0.9	1,744,757	-1.9	1,701,206	-2.5	1,659,555	-2.4
Ont.	Non-university	967,524	—	465,874	—	462,978	—	456,580	—	445,940	—
	University	1,453,651	—	1,458,816	—	1,454,897	—	1,442,875	—	1,420,881	—
	Total	1,921,175	1.5	1,924,690	0.2	1,917,875	-0.4	1,899,455	-1.0	1,866,821	-1.7
Man.	Non-university	19,857	—	19,772	—	19,546	—	19,166	—	18,658	—
	University	172,193	—	171,557	—	170,742	—	169,001	—	166,540	—
	Total	192,050	0.9	191,329	-0.4	190,288	-0.5	188,167	-1.1	185,198	-1.6
Sask.	Non-university	29,070	—	28,544	—	27,920	—	27,161	—	26,299	—
	University	161,508	—	161,486	—	159,102	—	155,985	—	152,439	—
	Total	190,578	1.4	190,030	-0.3	186,022	-2.1	183,146	-1.5	178,738	-2.4
Alta.	Non-university	149,890	—	149,715	—	149,911	—	149,234	—	147,856	—
	University	366,620	—	368,791	—	370,518	—	370,320	—	368,643	—
	Total	516,510	1.9	518,506	0.4	520,429	0.4	519,554	-0.2	516,499	-0.6
B.C.	Non-University	199,499	—	198,680	—	197,569	—	194,979	—	192,053	—
	University	419,281	—	420,914	—	420,179	—	416,967	—	413,048	—
	Total	618,780	1.8	619,594	0.1	617,748	-0.3	611,946	-0.9	605,101	-1.1
Canada	Non-university	1,666,635	—	1,645,259	—	1,621,261	—	1,585,842	—	1,546,339	—
	University	3,984,890	—	3,983,816	—	3,960,948	—	3,916,967	—	3,858,618	—
	Total	5,651,525	1.2	5,629,075	-0.4	5,582,209	-0.8	5,502,809	-1.4	5,404,957	-1.8

Source: Statistics Canada unpublished data.

investment in training, argues for some reduction in total post-secondary commitments, accompanied by a significant internal reallocation of the remaining higher education resources to areas of highly qualified manpower shortages.

The Labour Market report also suggests changes in federal programs and new initiatives to assist the institutional adjustment required to meet Canada's current and future needs for highly

qualified manpower. The report also notes, however, that "...the main initiatives...will have to be taken by provincial governments and the institutions themselves. Federal policies can be facilitative, but collective federal, provincial, institutional and private sector action is required to achieve full success".¹⁹

As the Labour Market report intimates, early consultation with the provinces is essential. Indeed,

Table V-5
Full-time Equivalent Post-secondary Enrolment*

Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1972 ^a	9,959	2,377	19,760	13,809	185,208	208,060	23,221	17,344	43,819	41,790	565,347
1973 ^a	9,329	2,621	20,326	13,422	192,556	218,932	23,032	17,898	45,249	43,932	587,297
1974 ^a	9,029	2,456	21,365	13,410	200,427	229,705	23,779	18,105	46,849	49,817	614,942
1975 ^a	9,241	2,467	22,713	14,290	214,348	244,037	25,431	19,056	50,376	51,803	653,762
1976 ^a	9,734	2,515	23,256	14,000	222,017	247,315	25,687	19,834	51,262	51,700	667,320
1977 ^a	9,917	2,570	23,337	14,157	241,247	246,551	24,953	19,976	52,158	51,580	686,446
1978 ^a	9,190	2,432	22,911	13,944	247,157	245,607	23,814	19,436	51,404	51,981	687,876
1979 ^a	9,789	2,355	22,674	14,107	251,045	252,984	23,025	19,332	51,842	52,505	699,658
1980 ^p	10,793	2,340	23,480	14,623	256,650	266,017	23,883	19,903	53,093	54,267	725,049
1981	10,977	2,313	23,663	14,887	258,867	273,583	24,173	20,193	54,123	55,193	737,972
1982	11,053	2,313	23,940	14,927	257,267	276,667	24,317	20,407	54,993	55,983	741,867
1983	9,510	2,313	23,830	14,927	253,100	277,367	24,173	20,343	55,277	56,103	736,943
1984	9,496	2,321	23,582	14,808	245,484	275,829	23,959	19,879	55,566	55,864	726,788
1985	9,346	2,284	23,090	14,527	235,845	271,680	23,526	19,278	55,423	55,107	710,106
1986	9,239	2,224	22,387	14,106	226,645	264,380	22,924	18,594	54,950	54,210	689,659
1987	9,099	2,173	21,644	13,725	217,510	257,716	22,355	17,976	54,483	53,554	670,235
1988	8,983	2,120	20,986	13,245	208,861	251,875	21,809	17,301	54,052	52,849	652,081
1989	8,827	2,055	20,417	12,937	199,451	246,830	21,478	16,693	53,711	52,297	634,696
1990	8,618	2,003	19,906	12,656	192,245	241,466	21,048	16,133	53,369	51,738	619,182

*Includes full-time university and non-university enrolment and the full-time equivalent of part-time university enrolment using a factor of 3 for conversion. 1981-83 is 1981 *Advance Statistics of Education* data and 1984 and beyond assumes constant participation at 1983 level.

a = actual

p = preliminary

Source: Statistics Canada.

the consultation framework for discussions between federal ministers and the CMEC proposed earlier in this chapter could provide a useful vehicle for intergovernmental discussion of a broad range of post-secondary questions of concern to both orders of government, including the views expressed in the Labour Market report.

Student Assistance The subject of student assistance is closely linked to the accessibility and mobility goals discussed above. Moreover, student assistance could become more directly connected with federal post-secondary support policy should it be decided, sometime in the future, to shift, indirectly, some resources to post-secondary institutions through increased student aid that would then be used, in part, to finance substantial fee increases. Although this subject lies outside our formal terms of reference, we make some proposals for work to follow up the Report of the Federal-Provincial Task Force on Student Assistance (December 1981). We agree that early action is needed to remedy difficulties now being experienced, difficulties that are well-documented in that report. *We therefore recommend that*

the responsible provincial and federal ministers jointly review and take appropriate action on the alternatives for improved assistance to needy students described in the Report of the Task Force on Student Assistance.

We also recommend that

priority attention be given to early adjustments in existing programs that will ensure that needy students have realistic levels of assistance in the light of rising living and other costs and reduced opportunities for summer earnings.

Accountability to Parliament Finally, the Task Force is agreed that there should be more accountability to Parliament and more public information made available on the general (EPF) support provided to provinces for post-secondary education by the federal government.

The details of how this should be accomplished should be worked out primarily in intergovernmental discussions. We are of the view, nevertheless, that there should be a specific and separate annual

report made to Parliament by the responsible minister on federal involvement in matters affecting post-secondary education. Such a report could include details on support to provinces as well as on intergovernmental discussions on post-secondary matters of mutual concern and should be referred to a parliamentary committee for review. *The Task Force therefore recommends that*

the minister designated responsible for consulting with the Council of Ministers of Education, Canada (CMEC) report annually to Parliament, beginning in 1982-83 on:

- **transfers to each province for higher education;**
- **to the extent appropriate, other programs of federal support to or involvement in post-secondary education;**
- **the effectiveness of these federal programs in moving toward the country's economic and other goals; and**
- **the results of consultations with the CMEC about the definition of national purposes to be served by higher education, and the means by which the CMEC and the provinces will achieve these objectives.**

We also recommend that

the Minister's annual report be referred to a parliamentary committee for review, and that arrangements be negotiated with the provinces covering information exchange and such other action as may be required to enable the responsible minister to discharge his or her responsibility for reporting to Parliament.

Finally, the Task Force recommends that

the new post-secondary program be subject to alteration or termination on three years' notice, but with no notice possible before March 31, 1983.

This provision is not introduced in contemplation of or out of a wish to see any withdrawal from federal support for higher education. To the contrary, as is amply demonstrated in this chapter, we are convinced that the commitment of governments to the continuity of adequate general sup-

port to this area is of cardinal importance. It is possible, however, that at the end of the first year of the new program, some renegotiation will be desired—by provinces or the federal government or both—in the light of consultations on the definitions of national purposes to be served by higher education and related provincial views and actions. To reiterate, however, it is to continued federal support through block-funding—not to major change or withdrawal—that the Task Force has directed its thinking.

Notes (Chapter V)

- ¹ L'Université de Moncton, *Mémoire présenté au Groupe de travail parlementaire sur les arrangements fiscaux*, le 27 mai 1981, p. 1.
- ² Association of Universities and Colleges of Canada, *Submission to the Task force on Federal-Provincial Fiscal Arrangements*, April 21, 1981, p. 2.
- ³ Association of Community Colleges, *Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, May 31, 1981, p. 7-2.
- ⁴ Council of Ontario Universities, *A Brief to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, May 21, 1981, p. 5.
- ⁵ Douglas T. Kenny, President of the University of British Columbia, *Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, June 3, 1981, p. 2, 6, and 7.
- ⁶ Hon. Richard Hatfield, Premier of New Brunswick, *Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, May 27, 1981, p. 36.
- ⁷ University of Western Ontario Student's Council, *A Brief to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, May 1981, p. 2-5.
- ⁸ Pierre Bélanger, Fédération des associations des professeurs d'universités du Québec, *Minutes of Proceedings and Evidence of the Special Committee on Federal-Provincial Fiscal Arrangements*, Issue No. 24, p. 24:22.
- ⁹ David Lloyd Johnston, Principal and Vice-Chancellor, McGill University, *A Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, June 1, 1981, p. 3.
- ¹⁰ T.K. Shoyama, School of Public Administration, University of Victoria, *Minutes of Proceedings and Evidence of the Special Committee on the Federal-Provincial Fiscal Arrangements*, Issue No. 20.
- ¹¹ David Stager, Manpower Issues in Financing Canadian Universities, March 3, 1981, p. 16. (A paper prepared for the Conference on Financing Canadian Universities.)
- ¹² Hon. Alan J. MacEachen, Deputy Prime Minister and Minister of Finance, *A Submission to the Parliamentary Task Force on the Federal-Provincial Fiscal Arrangements*, April 23, 1981, p. 18.
- ¹³ Hon. Francis Fox, Secretary of State, *Federal Support of Post-Secondary Education, Notes for Statement...to the Special Parliamentary Committee on the Federal-Provincial Fiscal Arrangements*, June 11, 1981, p. 6-9.
- ¹⁴ *Ibid.*, p. 13.
- ¹⁵ *Ibid.*, p. 14.
- ¹⁶ *Ibid.*, p. 16.
- ¹⁷ Peter M. Leslie, Study No. 3, *Canadian Universities 1980 and Beyond—Enrolment, Structural Change and Finance*, September 1980, p. ii.
- ¹⁸ *Ibid.*, p. 373-374.
- ¹⁹ Task Force on Labour Market Development in the 1980s, *Report* (Ottawa: Employment and Immigration Canada, 1981), p. 159.

Annex V-A

Student Assistance

The Task Force was impressed by the briefs and evidence from student groups respecting the need for changes to ensure more realistic, more equitable and more portable aid programs. Most of the student aid problems raised by students and representatives of post-secondary institutions have been intensively examined by a federal-provincial task force on student assistance. The report of that task force examines existing student aid programs and their shortcomings in relation to a set of agreed objectives and principles—objectives and principles that should continue, the report suggests, to guide student assistance programs. The objectives, which are also favoured by the parliamentary Task Force, include:

1. *Student Well-being Objectives*: to allow all qualified, financially needy students to engage in post-secondary education...
2. *Equal Opportunity Objective*: to improve access to post-secondary education by reducing geographic, socio-economic and other constraints on participation.
3. *Participation Objectives*: to encourage participation in post-secondary education of all with the potential to benefit, regardless of financial capacity.

The student aid task force concludes with fairly detailed descriptions of five alternatives for the continuation, modification or replacement of existing programs of assistance for both full and part-time students. (Quebec does not participate in the Canada Student Loan program—that province operates a separate program involving loans and grants. An observer from Quebec participated in the work of the Task Force on Student Assistance.)

The alternative plans referred to above include:

1. Continuation Plan

This plan would allow students in different provinces to receive different mixes of aid as at present, but the criteria to determine eligibility and need would be applied consistently in all provinces. The forms of aid would be those now available—guaranteed loans with varying degrees of interest subsidy, and grants.

2. The Loan-First Plan

The criteria for determining need, etc., would be the same as in 1., and a student with the same need would receive the same mix of loans and grants in all provinces. As intimated by its title, a loan would be provided to a first level of need, a grant to a second, and a mix of 50 per cent loan and 50 per cent grant thereafter to a maximum.

3. Aid Mix Related to Year of Study Plan

This is the same as 2. above, but to encourage lower income students, more grant money would be given to students in the early years of their post-secondary studies.

4. Income Contingent Repayment Plan

All or most aid in this plan would be repayable. Payments would be determined by income after graduation; an income tax surcharge might be the vehicle of collection.

5. All-Grant Plan

The title is self-explanatory.

The Income Contingent Repayment Plan is seen by some members of the parliamentary Task Force as being fairer, overall, than other student aid regimes based largely on grants. Such a plan

would place responsibility for repayment on those who benefit most from post-secondary education. Other members were concerned about the possible negative effects on accessibility associated with a high loan content in student aid, and favour something more akin to the Aid Mix Related to Year of Study Plan.

We agree that early action is needed to remedy the difficulties now being experienced, difficulties that are well-documented in the Report just cited. Therefore, we recommend that the responsible

provincial and federal ministers jointly review and take appropriate action on the alternatives for improved assistance to needy students described in the Report of the Task Force on Student Assistance.

We also recommend that priority attention be given to early adjustment in existing programs that will ensure that needy students have realistic levels of assistance in the light of rising living and other costs, and reduced opportunities for summer earnings.

Annex V-B

Definition of Post-Secondary Education For Purposes of the Post-Secondary Transfer 1967-68 through 1976-77

Federal-Provincial Fiscal Arrangements Act, 1972:

“post-secondary education”, in relation to a province, means every course of studies in the province that

(a) requires for admission the attainment of a level not lower than that of junior matriculation in the province,

(b) is of not less than 24 weeks duration, and

(c) has been certified as a course of studies at a post-secondary level by such persons or persons as may be designated by the Lieutenant-Governor in Council of the province for such purpose;

“junior matriculation”, in relation to a province, has the meaning given to that expression by the regulations;

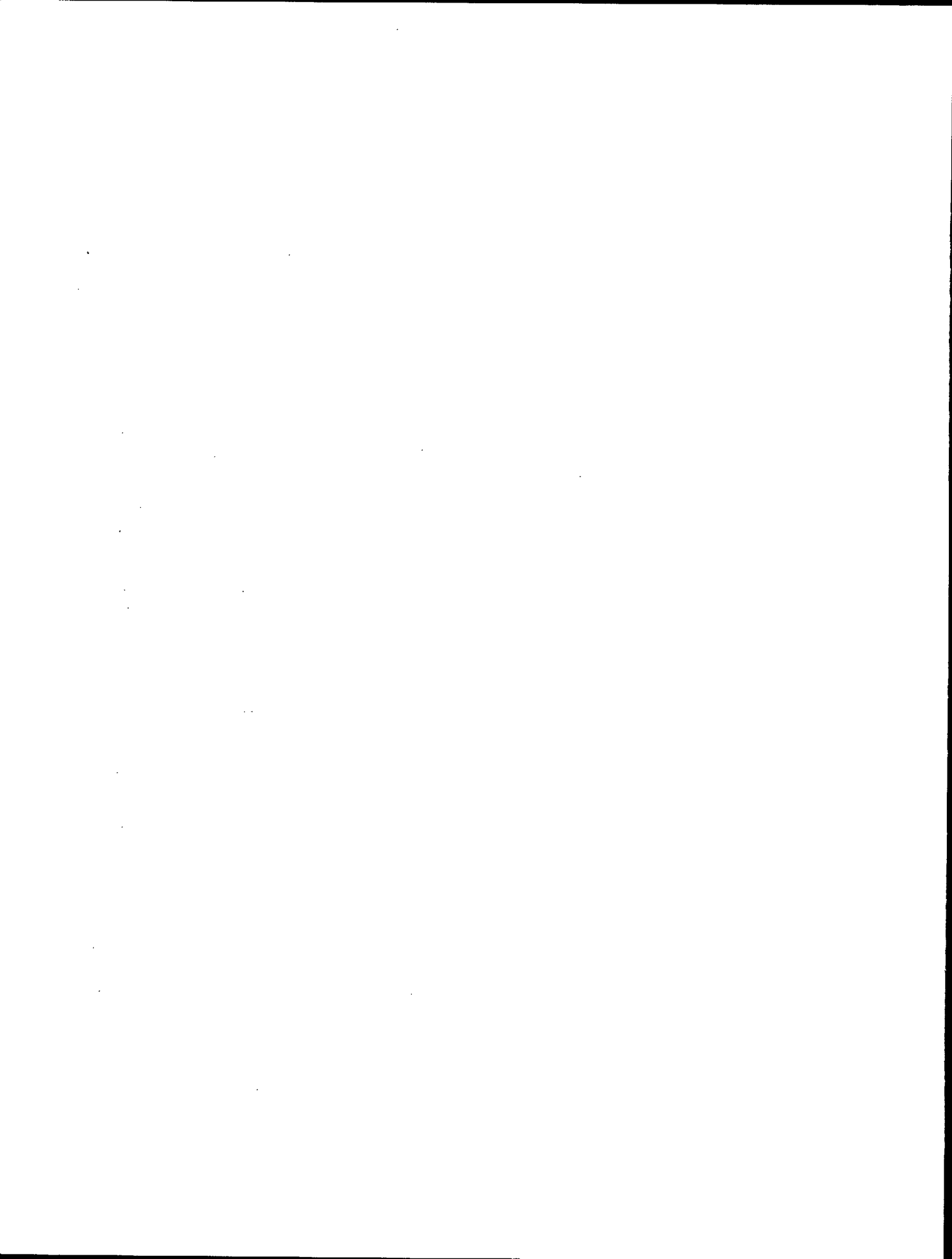
Federal-Provincial Relations Act, 1972 Regulations:

“junior matriculation” means the level of academic attainment of a person

(a) who has completed a course of study that, in the year ending December 31, 1966, was recognized by the department of education of the province in which he completed it, in the case of Prince Edward Island, New Brunswick, Ontario or British Columbia, as being of grade 12 level in the province, and in all other provinces as being of grade 11 level in the province,

(b) who has completed a course of study that is recognized by the department of education of the province in which he completed it or an educational institution in that province as being an academic equivalent of the grade level prescribed in respect of the province in paragraph (a), or

(c) that, when taken with his work or other experience, is recognized by the department of education of the province in which he is resident or an educational institution in the province as being an educational equivalent of the grade level prescribed in respect of the province in paragraph (a);



Chapter VI

SOCIAL ASSISTANCE AND SOCIAL SERVICES: THE CANADA ASSISTANCE PLAN

As described in Chapter II, the Canada Assistance Plan (CAP) authorizes the federal government to share 50 per cent of the costs of provincially-delivered social services and social assistance subject to a test of need or likelihood of need. In this report 'social services' refers to personal services such as day care, home-makers, counselling services, child welfare and so on. 'Social assistance' includes only the payment of money to families or individuals to meet the ordinary expenses of daily life. Social assistance is usually available only as a last resort when all alternative sources of income fail. The disabled and single parents with dependent children make up the largest proportion of recipients. Persons who are able and willing to accept employment but who are unemployed may also receive social assistance if they are not eligible for unemployment insurance. (These definitions do not correspond precisely to those in the CAP, where social assistance includes social services purchased on a recipient's behalf as well as some child welfare services; further, in the CAP, 'social services' are called 'welfare services'.)

Although federal payments to the provinces under CAP are not part of the Fiscal Arrangements and Established Programs Financing (EPF) Act, they are linked in a number of ways. First, social services cost-shared under the CAP are closely related to extended health care programs covered under the EPF. As discussed in Chapter IV, part of the CAP was therefore 'folded in' to the EPF in 1977. Second, as one of the main federal-provincial transfer programs and the only remaining cost-shared transfer system, CAP will have to be considered in any general re-assessment of federal-provincial fiscal arrangements.

Although CAP transfers account for less than a fifth of the amount transferred under the fiscal arrangements and EPF, a surprisingly high proportion of the briefs heard by the Task Force focused on the CAP. This no doubt reflects not only the number of individual agencies active in this area, but also the priority many Canadians attach to programs now shared under the CAP. In its present form, CAP received broad support during the Task Force hearings. Nevertheless, in the review of briefs submitted to the Task Force, and during questioning and internal discussions, several major concerns emerged. This chapter presents these concerns and Task Force views on them.

Fiscal Arrangements for Social Assistance

We view programs in income redistribution, including social assistance paying money to individuals and families, as an area of co-jurisdiction with the provinces. This approach coincides with the 1969 constitutional proposals of the federal government "that Parliament and the provincial legislatures ought to have equal powers to make general income support payments to persons".¹ This proposition was accepted at that time by all provincial governments except that of Quebec.² *The Task Force believes that the Parliament of Canada has a constitutional responsibility for programs of income redistribution, including social assistance programs paying money to Canadians anywhere in Canada.*

If governments have concurrent authority in this area, it is most reasonable that they share fiscal

and program responsibility through a cost-sharing mechanism. *The Task Force therefore endorses the cost-sharing approach for social assistance programs paying money to individuals and recommends that*

any statute establishing Parliament's role in provincial social assistance programs continue to use a cost-sharing approach.

This recommendation is not only consistent with the Task Force view of Parliament's constitutional responsibility for income redistribution programs, it also ensures that Canada as a whole will share in economic and social risks experienced in any individual region. Several provincial governments and other witnesses pointed out that the open-ended nature of CAP was most appropriate because there could be relatively sudden and unexpected fluctuations in economic circumstances requiring unanticipated expenditures. Because the number of persons in need is not predictable with certainty, any program paying social assistance to all persons in need must also be unpredictable. For example, the Manitoba government argued in its brief that:

It is also important to point out, in connection with CAP, that strong arguments can be mounted for the continuation of federal cost-sharing on the social assistance side, in particular, since provincial assistance costs can be influenced directly by the differing regional effects of national economic problems such as unemployment.³

The Task Force believes that it is appropriate for all of Canada to share in these uncertainties through open-ended cost-sharing by Parliament of provincial social assistance.

Of course, not all social assistance recipients are uniformly affected by economic circumstances. Some assistance recipients, such as those who are severely disabled, could not reasonably be expected to earn most of their income through employment, even if the economy were extremely buoyant. This caseload will remain relatively stable. On the other hand, short-term assistance and payments to unemployed persons who are employable but not eligible for unemployment insurance may be very sensitive to fluctuations in the economy. The federal government may wish to consider special or enriched cost-sharing to assist provincial governments with those portions of the caseload that may

be most directly related to economic downturns. We return to this question later in this chapter.

This suggestion should not be seen as an endorsement of social assistance as an alternative to economic development or direct job creation. Social assistance is and remains a last resort when other alternatives fail. We would much prefer to see full employment and real economic opportunities in every province, but when employment falls and opportunities disappear there must be the means available to ameliorate these circumstances. This is a job with which we believe all of Canada must assist, rather than leaving each province or region to bear the full burden on its own.

The Task Force favours cost-sharing for social assistance, but we also recognize that the existing CAP is in many ways out of date. In particular, its requirement that social assistance be 'needs-tested' was designed for a clientele that was not expected to earn income through employment and hence would likely remain on assistance for much of their lives. It is now increasingly apparent that social assistance programs must be designed to facilitate and encourage recipients to escape the welfare trap. This is not just a means of reducing government expense; virtually all recipients of assistance would lead fuller and more rewarding lives by participating in the mainstream of society.

As important as encouraging employment among those on assistance is providing the working poor with some income supplementation. This is not only to help them overcome poverty. It is also to ensure that they are treated fairly in comparison with those on assistance and that they are not given incentives to leave employment. Work incentives for those on assistance and supplementation for the working poor are opposite sides of the same coin.

Needs-tested programs cannot perform either of these functions adequately because with even a small amount of employment income a family is no longer considered 'in need'. A needs test implies that families are allowed only a very low level of liquid assets. Almost any employed person will surpass allowable liquid asset levels simply by keeping a bank balance to pay bills and regular employment expenses.

For these reasons the Task Force believes that fiscal arrangements for social assistance must be up-dated. This problem was underlined by the Hon. Monique Bégin, Minister of National Health and Welfare, in her submission to the Task Force:

I am also very concerned about the hardship suffered by the working poor, those whose take-home pay is not sufficient to allow them and their families to live above the poverty line. CAP has not been overly helpful in overcoming their problems, and we must give further attention to their situation.⁴

The federal government has, of course, provided significant assistance to the working poor through the universal Family Allowance and, more recently, the income-tested Child Tax Credit. Moreover, since neither of these programs is needs-tested, they do not create a welfare trap. But it is clear that these two programs are not in themselves sufficient for the purposes discussed above.

In recent years, provinces have introduced work incentives into their social assistance schemes, to allow recipients to retain part of their benefits rather than losing them all if they find employment. As well, some provinces have introduced major income supplementation programs to assist the working poor. Limitations in the CAP have restricted the extent to which the federal government can participate with the provinces in these positive developments. There are also anomalies in the administration of CAP throughout Canada. For example, according to the National Council of Welfare:

The Canada Assistance Plan is not well designed to share the costs of the provincial income supplement programs for the working poor. Since CAP legislation demands a needs-test and the provincial income supplements have eliminated the standard needs-test, the federal government cannot share costs directly. A compromise was worked out in the case of Saskatchewan's Family Income Plan (FIP); the federal government shares the cost of that portion of FIP that would have been paid under social assistance, and the province administers the conventional needs and assets tests to determine shareable costs, even though such tests are ignored in determining the actual benefit paid to the applicant. In other words, the federal government shares a significant portion (around 75%) but not 100% of FIP benefits. Quebec, on the other hand, refuses to "shadow test" its Work Income Supplement scheme and so receives no federal contribution at all.⁵

The Task Force understands that Ontario's recently-introduced Work Incentive Plan is also not fully cost-shared.

The federal government's role in cost sharing social assistance programs can no longer be limited to needs-tested provincial programs. However, the Task Force has neither the mandate nor the time to explore adequately the alternatives available in this area. *We therefore recommend that*

the Minister of National Health and Welfare pursue attempts to resolve the issue of work incentives and income supplementation for the working poor, either through new fiscal arrangements for programs of social assistance and supplementation, through direct federal initiatives (such as, for example, tax credits), or through amendments to the existing Canada Assistance Plan.

Finally, the Task Force notes that financial incentives by themselves are not necessarily sufficient to encourage employment. Jobs must be available and many assistance recipients require special training and social service support to become independently employed. The CAP Part III (Work Activity Projects) was designed to allow provinces to undertake some activities in this area with federal assistance. As the Canadian Council for Rehabilitation of the Disabled pointed out:

This portion of CAP [Part III] is underutilized. In fact, only 50 projects are now operating across Canada under this program, and few involve disabled people.⁶

The Task Force understands that the Minister of National Health and Welfare is now studying ways to allow Part III to be expanded and improved. As well, the Canada Employment and Immigration Commission and social assistance personnel in many provinces have established good working relationships for purposes of employment referral, job creation and training. These ties could be further strengthened. *The Task Force recommends that*

positive action by both orders of government on improving training and employment opportunities as an alternative to social assistance be undertaken in the near future.

In the long run, the Task Force hopes that real economic development will eliminate much of the need for special employment schemes.

Fiscal Arrangements for Social Services

The Task Force was not unanimous with respect to continued cost-sharing of social services. Although all members agree that the current operation of the CAP has serious limitations with respect to social services, members differed on what reforms might best ensure that the federal government could no longer be accused of discouraging the development of provincial social services. The majority of members argued for cost-sharing of expanded services as proposed under the Social Services Act (Bill C-57, 1977); some believed that block-funding, as proposed under the Social Services Financing Act (Bill C-55, 1978), was preferable. (Neither bill was passed.) The view was also expressed that the federal government should have no fiscal arrangements statute concerning provincial social services, and should cancel CAP provisions for social services while transferring sufficient tax room to the provinces to enable them to provide services on their own. It should be noted that the total federal fiscal commitment to social services would not be reduced under any of these options.

Members who argued for continued cost-sharing of social services felt that any federal funds not specifically provided to match provincial expenditures could easily be diverted to other areas. This view was shared by many who made presentations to the Task Force. For example, the New Brunswick Advisory Council on the Status of Women argued that "block-funding lacks the accountability that cost-sharing provides. Once federal money reaches provincial coffers, block funding agreements mean that there is no way to ensure that funds intended for, say, day care centres or medical programs, are not diverted to build roads".⁷

The same members also felt that federal attempts to leave more responsibility for social services with the provinces would not necessarily be accepted by the public. As the Hon. Monique Bégin said in her brief to the Task Force, "The participation of the federal government in this area

[social services] is fully accepted, and, indeed, considered, essential".⁸ Thus, the public might still hold members of Parliament partially accountable for social services spending despite block-funding or tax transfers.

The case for continued cost-sharing is also supported by the fact that cost-sharing is favoured by most provincial governments, including all the Atlantic provinces, and almost all social agencies and volunteer groups.⁹ These services are not generally viewed as 'established' in the sense of having already reached a mature level of development. They have grown and will likely continue to grow at a higher rate than most economic indicators. This position was stated by the Social Planning Council of Winnipeg:

Cost-sharing, however, is the only transfer mechanism which is inherently capable of unequivocal maintenance of standards and necessary growth of immature services, since it allows for orderly expansion at a rate greater than the growth of the economy.¹⁰

J.E. Green, who is Deputy Minister of Social Services in Prince Edward Island, but who spoke to the Task Force in a personal capacity, advanced a similar argument but added that cost-sharing implies an automatic advocacy role for the federal government.

In my view, it would be particularly inappropriate for the Parliament of Canada to abandon this field at this time, when we have not yet achieved any kind of national understanding of the important role of these services in assisting the poor and disabled to achieve some marginal degree of participation in the social, economic, and cultural life of the Canadian nation. Until some measure of national standards have been achieved, as in the case of hospital and medical insurance, it would seem inopportune for the Parliament of Canada to withdraw this very powerful support from clients of the welfare assistance and social service program.¹¹

Finally, those members who favoured continued cost-sharing point to the important federal-provincial liaison and mutual co-operation that are natural results of cost-sharing. This has allowed the federal government to play a substantial role in the development of improved services and their diffusion among the provinces. Both provincial governments and volunteer groups spoke to the advantages of close liaison between governments. This

view is well summarized by the government of Nova Scotia:

Our Province considers CAP as a vehicle for optimum federal/provincial co-operation. In the past, the federal government has played a significant leadership role in bringing provinces together to review social security needs. Such federal/provincial exchanges of information and ideas have resulted in significant program improvements.¹⁵

Task Force members who would prefer to move toward block-funding of social service programs now cost-shared under CAP also have persuasive arguments in support of their view. They point to the highly variable per capita costs of social services being shared across Canada. This variation reflects differences in the level and type of services offered in each province as well as varying costs per unit of service. Figure VI-1 gives shareable expenditures incurred by provinces in 1980-81. As may be seen, per capita social service spending in the less well-to-do provinces is generally less than that in provinces with more revenue. Some members argued that this is the result of a program that requires a province to spend a dollar before it receives a dollar in return. Although the Newfoundland Community Services Council concluded that cost-sharing was preferable overall, they agreed that cost-sharing appeared defective in at least one respect:

Those provinces which can afford more become eligible for a greater share of the federal dollar; thus, the disparity between provinces and regions increases.¹³

In contrast, block-funding of social services would provide some have-not provinces with substantial additional funds, which could be used to bring their social services to a higher level.

Members who favour block-funding point out that it would not only allow Parliament to treat each province more equally, it would also give provinces flexibility to develop their social service systems as they see fit. The conditions on provinces that would be retained under block-funding would be similar to those proposed in the Social Services Financing Act (1978)—no residency conditions, provision of statistical and financial information, and so on. The advantage of flexibility was described by several witnesses favouring block-funding. According to the brief by the Association of Municipalities of Ontario:

[Cost-sharing] restricts the ability of municipalities to adapt the available funding to a particular situation. As such, services for which funding is available from the provincial and federal governments are sometimes substituted for those that are really needed, but which are not funded.¹⁴

The heterogeneity of social services makes it difficult for the federal government to prescribe guidelines that will define the range of cost-shareable services without restricting provincial flexibility at the same time. Some members who favour block-funding point out that increased provincial flexibility combined with cost-sharing will lead to a situation where the Parliament of Canada shares the cost of an ever-increasing range of services. Is this a priority of the federal government, or should its fiscal commitment be limited to a block fund based on an adequate level of services to persons in need, or likely to be in need?

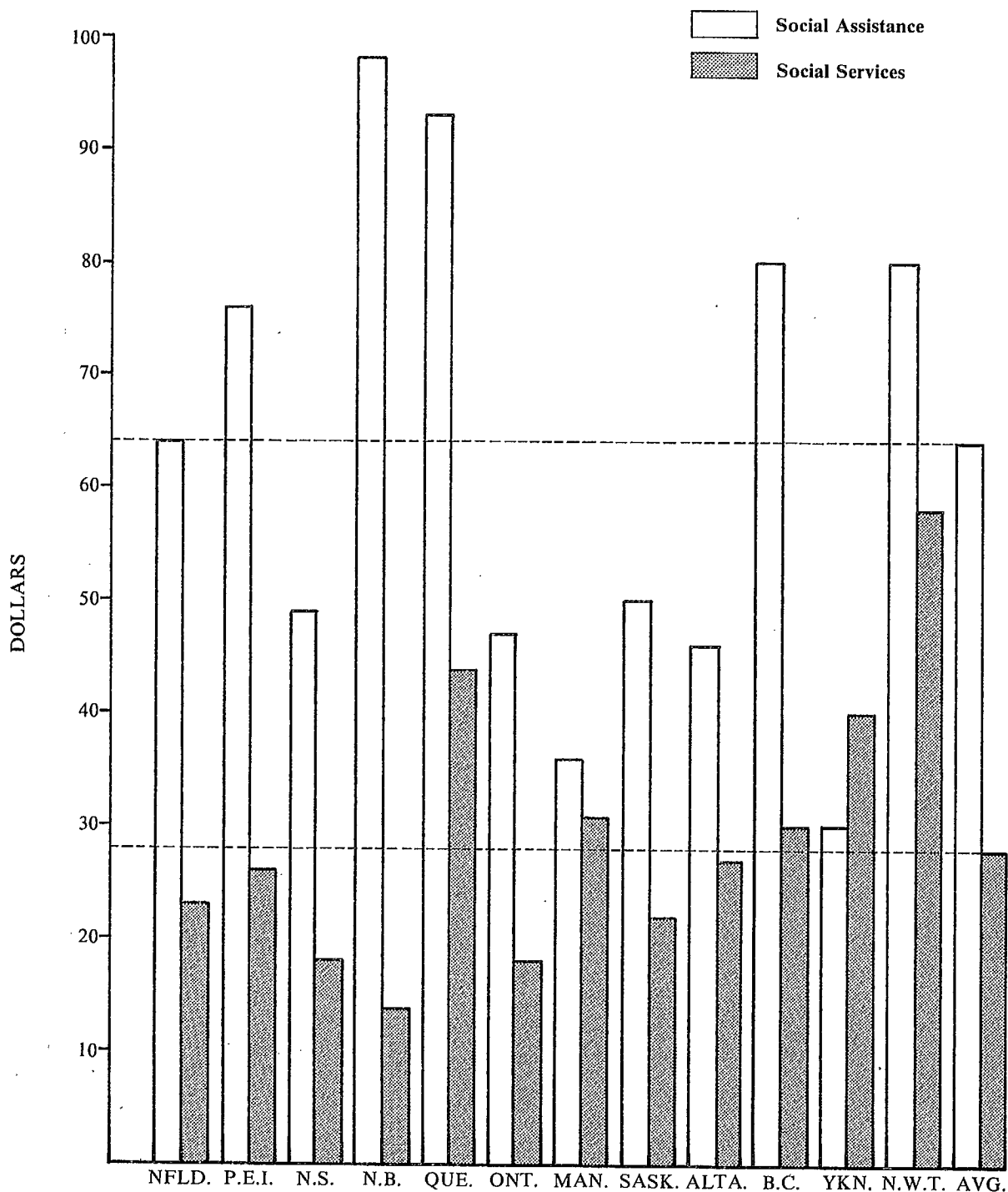
Finally, members not in favour of cost-sharing for social services point out that this is an agreed area of provincial jurisdiction. If federalism is to have substance, there must be some areas where provinces can make decisions free of federal influence. Unlike many other areas of modern government, there does not appear to be any overriding national concern with respect to social services that calls for a direct federal involvement. The use of the federal government's spending power to provide '50-cent dollars' is seen as interference in a matter of truly local or provincial nature to influence priorities and make social service spending more attractive.

A third option, federal withdrawal with a compensating tax transfer, was also put forward. According to this view, block-funding is an attempt at compromise between cost-sharing and complete federal withdrawal from the area. This compromise may not be viable, because as long as Parliament has a statute providing for funding of social services, it will be held partially responsible for provincial social service systems. An alternative is therefore to get out of the area completely by transferring tax room to the provinces. This has been the traditional demand of Quebec provincial governments.

Because provincial agreement on a social services block-funding bill could only be obtained if much larger amounts of federal funds were

FIGURE VI-1

Per Capita Provincial Spending on Social Assistance and Social Services Shareable by the Federal Government, 1980-81.



Note: Social Assistance includes some Social Services purchased on behalf of individuals and some child welfare.

Source: Data supplied by Health and Welfare Canada.

involved (as proposed in the Social Services Financing Act), and because the federal dollars might not find their way into social service programs anyway, there does not seem to be much chance of moving to block-funding in the near future. Because the federal government will therefore probably continue using a shared-cost approach for at least the next few years, the majority of members, including those in favour of block-funding, are willing to support a 'loosening-up' of CAP for selected social services as an interim measure. We understand that the Minister of National Health and Welfare has been discussing with her provincial colleagues areas of highest priority for greater provincial flexibility. *The majority of the Task Force therefore endorses reducing the restrictiveness of the Canada Assistance Plan on cost-sharing of social services in areas of highest priority (as identified by the federal and provincial ministers), at least as an interim measure.*

Interprovincial Variation

In hearings in almost every province, witnesses addressed the problem of reducing the variations in levels of social assistance and social services. In her statement to the Task Force, the Minister of National Health and Welfare noted that these disparities remain, despite CAP:

The poorer provinces find it increasingly hard to fund their part of the expenditures needed to support the development of such programs. This economic disparity also means that the level of financial assistance provided to individuals and families and the range of welfare services available to Canadians vary considerably from one part of Canada to another, since both are established by the provinces. Thus, although CAP does meet its objective of providing equitable access to social assistance, payments and services are not uniform.¹⁵

As stated by the Canadian Council on Social Development:

... even today with substantial levels of federal financial support, major discrepancies exist among income support levels and the access to and quality of social services on a provincial basis...¹⁶

This problem obviously relates to the issue of general fiscal equalization payments, the purpose

of which is to allow provinces to provide reasonably comparable public services at reasonably comparable levels of taxation.¹⁷ However, as it is now designed, general fiscal equalization only equalizes fiscal *capacity*; that is, the amount of money provincial governments may raise with a given amount of tax effort. If a comparable level of public services entails substantially different *costs* between provinces, the current equalization formula may therefore fail to meet the agreed objective.

This point was made by the Canadian Advisory Council on the Status of Women in their brief: "The basis on which transfer payments are derived seem to take little account of the diversity of social problems and the varying costs of services among provinces".¹⁸ Chapter VII of this report discusses more fully the extent to which this argument should be regarded as a general criticism of equalization with respect to the full range of public services. The requirement for most public services is usually thought to be roughly equal when averaged over all services, so that once provinces have an equivalent fiscal capacity, they automatically have the ability to offer a comparable level of public services. But social assistance is different from most services, because provinces cannot be expected to have comparable requirements and because it is those provinces with the least fiscal capacity that have a greater than average number of persons in need. Providing equal levels of assistance in these provinces will imply a greater than average tax burden for this purpose, even if fiscal capacity is equal. As Table VI-2 shows, Newfoundland, New Brunswick and Quebec all have substantially greater percentages of the population on assistance than the Canadian average. Of course, these measures are based on a province's own definition of 'need', so it can only be considered roughly indicative of differing requirements among the provinces. *The Task Force recommends that*

fiscal arrangements recognize interprovincial differences in cost arising from differing levels of need for social assistance payments to individuals.

Such special provision would be particularly appropriate given that at least a portion of the caseload may result largely from economic circum-

Table VI-2
Caseload and Recipients
(Basic provincial and municipal assistance programs 1977-78)

	Average Monthly Number of Cases	Average Monthly Number of Recipients	Recipients as % of Population	Average Monthly Recipients Per Case
B.C.	79,510	139,410	5.6%	1.8
Alta	35,074	82,919	4.3%	2.4
Sask.	15,860	34,360	3.6%	2.2
Man.	22,974	47,954(e)	4.8%	2.1
Ont.	168,302	353,949	4.2%	2.1
Que.	242,964	456,944	7.2%	1.9
N.B.	28,024	65,796	9.6%	2.3
N.S.	20,289	49,616	6.0%	2.4
P.E.I.	2,717	6,847	5.7%	2.5
Nfld	18,700	49,649	8.8%	2.7
N.W.T.	1,393	3,824	8.8%	2.7
Yukon	422	859	4.1%	2.0
TOTAL	636,229	1,292,127		
AVERAGE			5.6%	2.0

(e) estimate

Source: Report for the Interprovincial Conference of Ministers Responsible for Social Services, *The Income Security System in Canada* (Ottawa: Canadian Intergovernmental Conference Secretariat, 1980), p. 145.

stances. Additional funds might be provided through a system of differential cost-sharing in income maintenance, as was proposed by the Atlantic provinces in 1970. Provinces with greater needs, determined by a formula based on labour force participation rates and average personal incomes, would receive more than 50 per cent cost-sharing for their social assistance expenditures. Alternatively the extra sharing might be based on the proportion of caseload enrolled due to economic circumstances, as discussed in the first section of this chapter. Extra sharing would ensure that any additional funds committed by Parliament would in fact go for the intended purpose. A similar objective might also be achieved by an extra grant in times of economic distress for purposes of job creation. Such a grant could be paid if a province fell below a specified level on a socio-economic index, and might be combined with higher rates of cost-sharing in an attempt to remove the causes of regional economic distress while at the same time relieving its effects.

The Task Force notes that the concept of paying more to provinces that need more was greeted favourably by witnesses everywhere in Canada, as well as by most provincial governments. It is an

encouraging sign of the fundamental health of the federation that Canadians in all provinces are willing to assist those who are less fortunate. For example, during Task Force questioning Mr. G. Pawson of the Saskatchewan Council on Social Planning stated that:

We have to take a look at some regional disparities and provincial disparities in terms of economic income. For those people, I would like to see perhaps most cost-sharing provided by the federal government in order to raise and establish a higher quality of programs in some of those provinces, particularly the Atlantic provinces.¹⁹

Although additional equalization would provide less well-off provinces with the means to improve social assistance, and differential cost-sharing will provide positive encouragement as well as the means, neither of these measures will necessarily result in a reduction in interprovincial variation in levels of social assistance, or national minimum standards, because discretion is still left with the provinces.

The Hon. Marc Lalonde, when he was Minister of National Health and Welfare, proposed that:

In the interest of combating poverty by way of a fair distribution of income among people all

across Canada, and in the interest of promoting national unity through avoiding extremes in income disparities, national minimums should be set by the Parliament of Canada in the levels of the allowances and income guarantees involved in the country's income security system.³⁰

It is the view of the Task Force that reducing interprovincial variation in levels of social assistance and encouraging the development of national minimum standards, taking into account differences in the cost of living, should be an objective of the federal government. This objective will give expression and meaning to Canadian unity. There are several mechanisms through which this objective could be achieved.

In the long run, the federal government itself might assume greater responsibility for many of those now assisted through provincial programs. This has already occurred to some extent through the universal Family Allowance, the Refundable Child Tax Credit and other national programs. If at some time national anti-poverty programs (such as income support/supplementation) were developed further, these would in themselves reduce interprovincial variation (just as has occurred for those 65 and over). Other methods may include 'front-end loading' where higher levels of cost-sharing are offered up a minimum level of social assistance, or simply a federal-provincial agreement on minimum standards.

The Task Force recognizes that this is properly a subject of federal-provincial negotiation and leaves the selection of a specific mechanism to achieve national standards to that forum. Of course, as previously discussed, any mechanism must ensure that provinces with greater needs are not required to bear a disproportionate burden.

With respect to interprovincial variation in social services, members' views depend generally upon their preference for continued cost-sharing, block-funding or tax-transfer. Those who favour cost-sharing argue that the federal government should take an active role in encouraging reduction in interprovincial variation and achieving national minimums in social services as well as in social assistance. Those who prefer block-funding or tax transfers would leave the choice of levels of service up to each province. But all members look forward

to a time when the funding available to provinces for social services becomes more equal on a per capita basis.

Federal Leadership

The importance of federal leadership in the past, particularly through the CAP, was stressed by social organizations. In its brief, the National Council of Welfare described the contribution of the federal government, through CAP, to the development of Canada's social security system:

Since its inception in 1966 as a major strategy in the federal government's war on poverty, the Canada Assistance Plan has played an important part in the expansion of provincial social security systems, especially in economically disadvantaged provinces and areas within provinces. Federal dollars and technical assistance helped expand the range and quality of social services such as case-work, counselling, assessment and referral, day care, homemaker services and child welfare. The elderly, disabled, and poor families and children have benefited from social service programs.

CAP also made a marked improvement in provincial social assistance ("welfare") programs. It enabled most provinces to consolidate and rationalize various provincial and municipal income maintenance programs into a single uniform plan. CAP required the development of provincial appeal procedures for dissatisfied welfare recipients and abolished residency requirements for social assistance.²⁴

Aside from day-to-day consultation and negotiation on cost-sharing matters, federal leadership may also play a role in special areas requiring development. The recent National Pension Conference and the National Day Care Information Centre are examples of federal initiatives in areas of federal and provincial concern. Fiscal arrangements may provide another important avenue for the federal government to exert influence in areas of particular concern. For example, both of the proposed bills relating to social services mentioned earlier in this chapter included a special fund for capital expenditures by the provinces on rehabilitation facilities. Similar to the Health Resources Fund, which is now almost fully utilized, this fund would have given provinces a strong incentive to develop more fully their capital facilities required for rehabilitation of the disabled.

Several witnesses called for the use of similar thrust funds in other areas of current concern. Notable among these was the brief of the Canadian Association for the Mentally Retarded:

We believe that the federal government can initiate a change in the heavy reliance on institutional services across the country and could play a leadership role with the provinces by offering incentives to transfer from an institutional to a community model.

In particular, the CAMR recommends that the federal government establish a special short-term funding mechanism available to provincial governments in order to support accelerated efforts to move from segregated, institutional services to integrated, community-based services.²²

The majority of the Task Force agrees that the federal government must retain the flexibility and capacity to exercise leadership in specific areas of national concern. *The Task Force therefore recommends that*

fiscal arrangements allow the federal government to assist new provincial initiatives in social assistance and social services, or permit the federal government itself to provide leadership in new initiatives, as these may be desired from time to time.

Of course, use of the federal spending power in the area of social services, contrary to social assistance paying money to individuals, should take due regard of provincial jurisdiction in this area and should, therefore, be used only in consultation with the provinces.

In the area of social assistance payments to individuals, federal leadership could take the form of increasing direct initiatives. One possibility is further reform in the system of child-related benefits (Family Allowance, the Refundable Child Tax Credit and other child-related tax policies). An energy tax credit or other measures to use the tax system for benefits to those with low or moderate incomes would also imply a larger direct federal role in assuring minimum incomes to those now on social assistance. Of course, an income support/supplementation system as was proposed during the social security review would make much of social assistance unnecessary. This system might be delivered directly by the federal government or in partnership with the provinces.

During its hearings the Task Force received many valuable and serious suggestions for specific program reforms which will be considered by the appropriate ministers. But the problem of transition for the mentally and physically disabled from an institutional to a community-based system of services deserves further comment. The Task Force notes that many provincial governments have made significant efforts toward de-institutionalization but are encountering some difficulties during the adjustment period. This is particularly because there will be a time during which institutional and community services must overlap and because expertise built up in one province may not be transmitted to other provinces. *The Task Force therefore recommends that*

the Minister of National Health and Welfare consider establishing, after consultation with provincial colleagues, a special short-term de-institutionalization thrust fund, together with national technical expertise to assist provinces as they continue programs of de-institutionalization.

Confusion and Secrecy

Many programs shared under the CAP are delivered by 'third parties'. These are often non-governmental organizations, although they sometimes have a statutory responsibility. (Most Children's Aid Societies, for example, are incorporated under specific provincial acts and given enforcement responsibility for functions such as the apprehension of children.) In some provinces, particularly Ontario, municipalities play a significant role in the delivery of both social assistance and social services.

Many groups told the Task Force that they have insufficient information about what is cost-shareable under CAP. For example, the Canadian Rehabilitation Council for the Disabled argued that "voluntary organizations and disabled individuals need to be better informed of the potential benefits available through CAP so they can lobby their provincial governments effectively".²³

From a slightly different perspective, municipalities in Ontario, charged with the delivery of Gen-

eral Welfare Assistance and many social services, complain that they do not know whether the rules governing their funding are provincial or federal. According to representatives of Metro Toronto, they have been told "that municipalities may not even be privy to the contents of the federal-provincial agreements".²⁴ As a result, they do not know whether the rules regarding services are needed to conform with Canada Assistance Plan requirements, or are simply rules established by the provincial government.

There are four essential components in the definition of CAP cost-sharing limits. First, the statute itself is the basic law giving the federal government the authority to cost-share. Second, regulations are drawn up under the statute and passed by federal order-in-council so as to define more precisely certain aspects of the statute. Third, general agreements are signed between the provincial and federal governments. Fourth, Health and Welfare Canada occasionally issues 'guidelines' to establish exact maxima on what is cost-shareable in terms of dollars and specific criteria.

The statute and regulations are obviously public documents, as is the case for any act of Parliament. The agreements are exactly the same for every province, and the blank agreement form has been made public. The agreement is really nothing more than a re-statement of the act, with a provincial signature added to signify compliance. Schedules to the agreement listing homes for special care and provincially-approved agencies differ from province to province, and cannot be released to the public by the federal government without provincial consent. However, since these schedules are only lists of agencies, their release would make little difference with respect to any perceived confusion or secrecy.

It is only the guidelines that may present real problems of understanding the limits of CAP for the public and social agencies. The guidelines are an administrative tool that has been developed since the early 1970s to ensure that CAP can be uniformly applied in all provinces. The guidelines specify exactly the maximum limits of cost-sharing according to each service or item of assistance in question. To date, the guidelines have not generally been made public.

In the interest of public knowledge, and to reduce any confusion regarding CAP, it is desirable for public and social agencies to have a better understanding of what is shareable. *The Task Force therefore recommends that*

the Minister of National Health and Welfare have a Canada Assistance Plan manual compiled to include all guidelines, notes and administrative directives, and that this manual be made public, with appropriate provision to respond to questions by the public on its application.

Accountability

The question of accountability has two sides: on one side, Parliament may ask what it is buying with its money, and on the other side, voters must be able to identify the role of each order of government. The latter is precisely the question of 'visibility' discussed elsewhere in this report. What Parliament buys with federal taxpayers' money are the 'conditions' that provinces must meet in order to obtain CAP funds (aside from the sharing of risks and the incentive toward development implicit in cost-sharing). In the CAP these conditions are:

1. no residency restriction;
2. federal/provincial exchanges of financial and statistical information as may be required for administration of the Act;
3. the provision of assistance to anyone in need; and
4. the establishment of appeal procedures (for social assistance).

Although the Task Force is generally satisfied with the intent of these conditions, there has been some concern expressed that the conditions are not being adequately met in some provinces. According to the Legal Aid Lawyers' Association of Manitoba, the appeal procedure is in danger of becoming "a frustrating and meaningless exercise for the appellant"²⁵ in many provinces. This is because the federal government and the provinces have never made a mutual effort to define more precisely what constitutes an appeal procedure. Similar arguments have been presented concerning

the provision of assistance to anyone in need. *The Task Force notes this concern and recommends that*

the Minister of National Health and Welfare undertake to review the extent to which provinces are meeting the Canada Assistance Plan conditions, and to consult with provincial colleagues on a more precise definition of the conditions.

The Task Force has also noted that a comprehensive summary of provincial programs cost-shared under CAP is not readily available. The Task Force believes that such information should be regularly compiled, so that members of Parliament and the general public may know what programs the federal government is assisting financially in each province. *The Task Force therefore recommends that*

the Canada Assistance Plan requirements for statistical and financial information be strengthened to improve understanding of the programs cost-shared under the Plan.

Maintenance of Funding

As the review of its development has shown, the CAP provided the foundation for the development of social assistance and social services in Canada. Most groups appearing before the Task Force to comment on CAP acknowledged this role; so did most provincial governments. The first question asked by many witnesses was thus whether any overall reduction in funds for social programs was being contemplated. In fact, many briefs were so intent upon making a strong case against cuts in social program funding, that positive suggestions for improvements were absent. The joint brief of the Ontario Welfare Council, the Committee of Social Planning of Ontario and PROACT summarizes much of the concern over possible cuts:

Any reduction in the financial support for these programs [now cost-shared under CAP] can have a tremendous impact on the services provided to many of Ontario's citizens. Human service organi-

zations would be unable to respond to expanding needs, and could face severe restrictions in existing programs. Municipalities which have initiated cost-shared programs would be forced to rely on their own inadequate property tax base to continue them, or to reduce or abandon the services entirely. But it is the individual who would suffer the most. Consider the client population who would be affected—the aged, the sole-support parent, the day-care user, the recipient of social assistance, the family in need of support, the abused or neglected child. These are the vulnerable members of our society and they are most in need of continued and increased support from the services available to them.²⁶

It should also be noted that if the needs of Canadian women are a high priority of the federal government, then funding of social programs now cost-shared under CAP must also have a high priority. This is because women are the main recipients of assistance or services under these programs and “women have the most to lose if reductions in social program spending are effected”.²⁷ This point was made by J. E. Green in his submission to the Task Force:

It is now very evident that for the most part both the welfare assistance and the social service programs are directed towards meeting the needs of women and dependents. In the case of the welfare assistance program, approximately 83% of those supported are women and dependents, while fully two-thirds of all assistance accounts show a female “head of household”.

In the case of the social services, these are almost entirely addressed to the needs of women, in the sense of addressing problems which conventionally fall to women within family households.²⁸

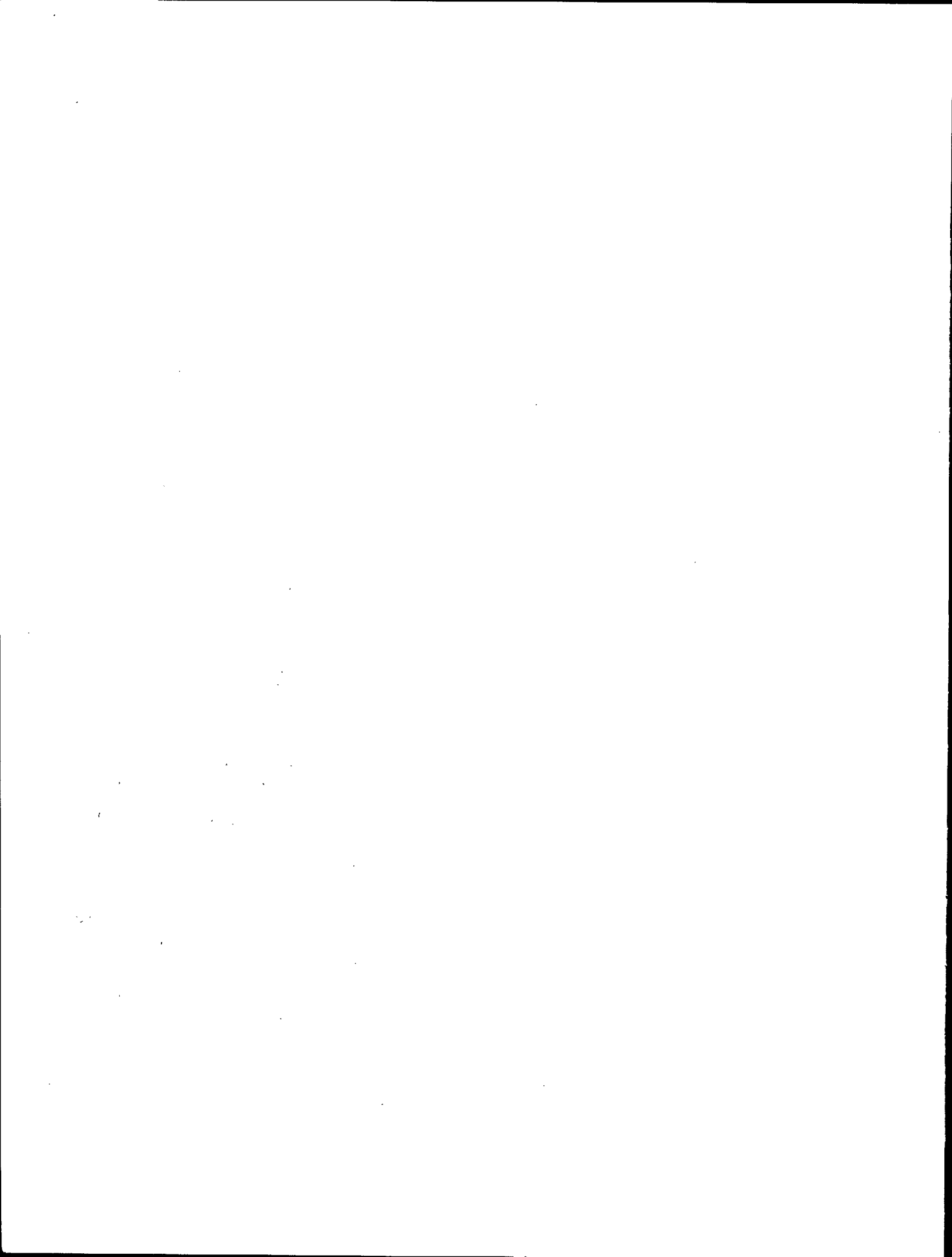
The Task Force shares these concerns and recommends that

there be no reductions in the overall fiscal commitment for programs now cost-shared by the Canada Assistance Plan.

The Task Force hopes that with this basic question clearly answered, it will be possible to discuss more fully potential ways to improve fiscal arrangements for these programs, along the lines discussed in this chapter.

Notes (Chapter VI)

- ¹ Right Hon. Pierre Elliot Trudeau, *Income Security and Social Services* (Ottawa, 1969), p. 106.
- ² *Ibid.*, p. 66:
- Income Support Measures. It is suggested that Parliament and the provincial legislatures ought to have equal powers to make income support payments to persons, whether in the form of "demogrants" (grants to persons falling into specified age or other population groups), guaranteed income measures, or a negative income tax. This proposition was substantially accepted at the June, 1969 meeting of the Constitutional Conference, where "most delegations agreed that the present power of Parliament to make payments to individuals... should not be subjected to any constitutional limitation". However, ..."one province... reserved its position until the question of the distribution of powers had been dealt with..." (quoted from the Report on the Conclusions of the Meeting; Constitutional Conference, June 11-12, 1969).
- As is well known, there was no final agreement on the *Victoria Charter*.
- ³ Province of Manitoba, *Brief to Task Force* (May 1981), p. 22.
- ⁴ Hon. M. Bégin, *Notes for a Submission to the Special Committee on the Federal-Provincial Fiscal Arrangements* (June 11, 1981), p. 7.
- ⁵ National Council of Welfare, *Submission to Task Force* (May 22, 1981), pp. 34-35.
- ⁶ Canadian Rehabilitation Council for the Disabled, *Brief to Task Force* (May 1981), p. 10.
- ⁷ New Brunswick Advisory Council on the Status of Women, *Brief to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements* (May 27, 1981), p. 11.
- ⁸ Hon. M. Bégin, *Notes for a Submission to the Special Committee on the Federal-Provincial Fiscal Arrangements* (Ottawa, June 11, 1981), p. 6.
- ⁹ The only briefs from social agencies or volunteer groups that explicitly favoured block-funding as in Bill C-55 were those by the Association of Municipalities of Ontario and the Association des Centres de Services Sociaux du Québec. A few others, notably the Canadian Association for the Mentally Retarded, did not take a stand on the issue of cost-sharing versus block-funding. All others favoured continued cost-sharing.
- ¹⁰ Social Planning Council of Winnipeg, *Brief to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements* (Winnipeg, May, 1981), p. 5.
- ¹¹ J. E. Green, Deputy Minister of Social Services for Prince Edward Island, "Some Personal Views on the Impact of Federal-Provincial Cost-Sharing Arrangements on the Social Services Field in Prince Edward Island" (April 24, 1981), p. 7.
- ¹² Province of Nova Scotia, *Brief to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements* (May 28, 1981), p. 19.
- ¹³ The Community Services Council of Newfoundland, Testimony of Penelope Rowe, Executive Director, to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements (May 4, 1981).
- ¹⁴ Association of Municipalities of Ontario, *Brief to the Task Force on Federal-Provincial Fiscal Arrangements* (May 14, 1981), p. 9.
- ¹⁵ Hon. M. Bégin, *Notes for a Submission to the Special Committee on the Federal-Provincial Fiscal Arrangements* (Ottawa, June 11), p. 5.
- ¹⁶ Canadian Council on Social Development, *Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements* (Ottawa, May 14, 1981), p. 10.
- ¹⁷ See discussion in Chapter VII of this report.
- ¹⁸ Canadian Advisory Council on the Status of Women, *Equality and Equalization: A Brief to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements* (June 29, 1981).
- ¹⁹ Geoff Pawson, Saskatchewan Council of Social Planning, Testimony to the Task Force (May 21, 1981).
- ²⁰ Hon. Marc Lalonde, *Working Paper on Social Security in Canada* (Ottawa, 1973), p. 21.
- ²¹ National Council of Welfare, *Submission to the Task Force* (May 22, 1981), p. 26.
- ²² Canadian Association for the Mentally Retarded, *Brief to the Task Force* (June 9, 1981), pp. 4, 5.
- ²³ Canadian Rehabilitation Council for the Disabled, *Brief to the Task Force* (Toronto, 1981), p. 11.
- ²⁴ Municipality of Metro Toronto, *Brief to the Task Force* (April 28, 1981), p. 2.
- ²⁵ Legal Aid Lawyers' Association of Manitoba, *Submission to the Task Force* (May 20, 1981), p. 10.
- ²⁶ Pages 3 and 4 of the joint Ontario Welfare Council, Committee of Social Planning Councils of Ontario, and PROACT brief. PROACT is a coalition of voluntary human service organizations in Ontario including: Ont. Div., Victorian Order of Nurses; Ont. Div. Red Cross Society; Ont. Association for the Mentally Retarded; Ontario Mental Health Association; Ontario Association of Children's Mental Health Centres; Ont. Div. Salvation Army; Ont. Association of Professional Social Workers; Ontario Association of Family Service Agencies; Ontario Federation for the Cerebral Palsied; Ontario March of Dimes; Ont. Div. Elizabeth Fry Society; Ont. Div. John Howard Society; and the Committee of Social Planning Councils of Ontario.
- ²⁷ Canadian Advisory Council on the Status of Women, *Equality and Equalization: A Brief to the Parliamentary Task Force on Federal-Provincial Arrangements* (June 29, 1981), p. 9.
- ²⁸ J. E. Green, Deputy Minister of Social Services for P.E.I., "Some Personal Views on the Impact of Federal-Provincial Cost-Sharing on the Social Services Field in P.E.I." (April 24, 1981), pp. 3-4.



Chapter VII

EQUALIZATION PAYMENTS

Introduction

The federal program providing for equalization payments to provincial governments is one of the basic and central features of Canadian federalism. This program, now in its 25th year, was variously described by witnesses before the Task Force as "the glue that holds Confederation together", "the lubricant for the federal system" and "a pillar of Confederation". The depth of the Canadian commitment to the principle of equalization is reflected in the fact that a section entitled "Equalization and Regional Disparities" appears as Part III of the proposed Constitution Act, 1981. It is worth quoting this brief section in full:

35.(1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to

(a) promoting equal opportunities for the well-being of Canadians;

(b) furthering economic development to reduce disparity in opportunities; and

(c) providing essential public services of reasonable quality to all Canadians.

(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.

The legislative provisions pertaining to equalization expire on March 31, 1982 and it is therefore imperative that new legislation be adopted before that date. It is with this objective in mind that the Task Force has approached this issue.

In considering the future development of federal-provincial fiscal arrangements, the Task Force accepted as a basic premise that continued adherence to the principle of equalization must form a key element of any successful federal structure. No evidence brought to our attention questioned this basic premise. More specifically, *the Task Force has concluded that the principle of equalization should continue to be pursued through direct federal payments to provincial governments, and that these payments should be unconditional.*

The Task Force heard arguments to the effect that adequate direct transfers to individuals should render unnecessary any equalization payments to provincial governments. We have concluded that these arguments ignore the fundamental distinction between private goods and services, which are usually provided through the market place, and public goods and services, which are provided by governments. Although transfers to individuals and income-maintenance programs of various kinds may help to sustain individual purchasing power, they do not assure the capacity of provincial governments to provide adequate levels of public service without recourse to unduly burdensome rates of taxation. For this purpose, equalization transfers to provincial governments are necessary; they serve, in effect, to equalize the net benefit of public sector operations to residents of each province.

The argument that these payments should be unconditional rests on the simple belief that the differing circumstances and priorities of residents in different provinces, as well as those of their elected governments, must be respected. The principle of equalization does not call for uniformity in either the bundle of programs to be offered in a province, or the mix of revenues to be used to finance them. Where the federal government feels that particular national interests call for some influence on provincial government decisions, the use of conditional grants may be appropriate. For purposes of equalization, an unconditional grant to bridge the gap from inadequate fiscal capacity to a comparable level of public services is all that is required.

The Task Force believes that it is important not to confuse the objective of equalization payments with other redistributive goals. It is true that some redistribution among persons may be attempted in order to reduce inequalities in personal income. It is also true that various revenue-sharing schemes may be proposed to eliminate disparities in provincial revenues. But equalization as such is directed toward assuring a fiscal capacity adequate to provide reasonably comparable levels of public service. The persistence of 'fiscal dualism', or the continued existence of provincial fiscal capacities higher than the level to which equalization payments bring the least well-off provinces, is not evidence that the objective of equalization has not been achieved. Equalization is not designed to bring the fiscal capacity of all provinces to the same level. Instead, it is designed to bring all provinces to a national average fiscal capacity, without suggesting that some provinces should not exceed that average.

Nor, finally, is equalization designed to eliminate or reduce directly regional disparities in economic activity or performance. Various economic development programs and economic adjustment mechanisms exist that are designed to ensure the best use of resources across the country, and thereby to reduce disparities in economic activity. Public services made possible by equalization payments will contribute to this goal in the long run by ensuring better levels of health, education and social services for all citizens. But equalization payments as such are designed only to offset, or

compensate for, the disparities in provincial fiscal capacity that stem in part from disparities in economic power and activity—not to eliminate those disparities.

It is important to be clear about this objective, because some of the present criticism of equalization payments reflects a misunderstanding of what they are intended to accomplish. *To summarize, the Task Force interprets equalization payments as a continuing feature of Canadian federalism. They take the form of direct, unconditional payments by the federal government to provincial governments and are designed to be sufficient to guarantee that all provincial governments have the fiscal capacity to ensure comparable levels of public service at comparable levels of taxation.* Equalization payments thus permit a separation of responsibility for the management and delivery of public goods and services from direct powers to raise revenues. They enable provinces with differing fiscal capacities to assure reasonably comparable levels of public services without recourse to unduly burdensome levels of taxation.

This implies, of course, that equalization payments encroach on the principle of fiscal responsibility which requires that each jurisdiction must, so far as possible, be responsible for raising the revenues to support its own programs. More generally, this principle relates to the central theme of this report, the need for full accountability of governments to the public in each jurisdiction.

The Task Force reconciles its support for this general principle with its support for equalization payments by observing that such payments are made only to provinces with an overall fiscal capacity deficiency. No aggregate fiscal imbalance as between the federal government and provincial governments taken together is implied. Therefore, the program of equalization payments could not properly be replaced by a transfer of tax points so as to eliminate the need for continuing federal-provincial cash transfers. Thus, the need for equalization payments overrides the general principle of accountability. Although it has never been stated explicitly in the past, this order of precedence conforms with past and current arrangements.

It is with this general limit in mind that the Task Force approached the basic dilemma of the

equalization program at this particular juncture in Canadian history—namely the dilemma of unevenly-distributed natural resource revenues. Since the early 1960s, but particularly since the 'oil shock' of 1973, it has become clear that the dramatically-skewed distribution of revenues from natural resources can impose severe strains on the federal structure, and especially on the system of equalization payments. Much of our discussion of equalization centered on the appropriate response to this problem. Options range from simply excluding natural resource revenues from consideration for equalization purposes, through various schemes for provincial participation in equalization or direct interprovincial revenue-sharing, to proposals for increased federal access to revenues to fund a vastly-enlarged equalization program. The Task Force favours proposals that would include revenues from natural resources in equalization, but that would establish limits on the overall growth of the program. At the same time, we concluded that proposals for some form of energy security bank have merit and should be pursued in the general context of energy pricing. In this respect the proposal by the Hon. Alan Blakeney, Premier of Saskatchewan, is of interest because it emanates from the government of a province well-endowed in energy resources. We deal with this issue in the last section of this chapter.

The Task Force has also looked at the possibility of bringing into the equalization formula the resource rents associated with hydro-electricity that are passed on to consumers through below-market prices. The Economic Council of Canada has done a considerable amount of research on measuring the value of such rents. The results of this research were included in the Council's submission and examined by the Task Force. The conclusion we reached is that although it would be conceptually sound to include at least a portion of these imputed rents in the equalization formula, greater experience in measuring them should be acquired before they are effectively taken into account in computing provincial equalization entitlements. *The Task Force therefore concludes that such rents ought not to be included in the equalization formula for the 1982-87 period but that more research should be carried out on the subject for consideration in negotiations to establish the arrangements for the 1987-92 period.*

How the Formula Works

Before dealing with some of the specific issues associated with equalization, it may be useful to outline how the present formula for determining equalization payments works. In fact, it is a simple idea; complexity arises only because of a multiplicity of tax bases and some tinkering with the results. The reasoning is as follows.

It is assumed that the revenue sources potentially available to any one province are those from which any province in Canada now raises revenue. The base from which this revenue is raised must then be identified. For example, the base for revenues from sales tax is the value of retail sales on which sales tax is levied; the base for revenue from sales of diesel fuel is the volume of diesel fuel sold, and so on. (The identification of an appropriate base may sometimes be rather difficult, but the basic idea is clear.)

The distribution of tax bases across provinces will be different for different revenue sources. For personal income taxes, Ontario has traditionally had a large fraction of the base, while Newfoundland has a small fraction; for oil and gas revenues Alberta has a large fraction of the base, while Ontario has virtually none. In the equalization formula, the fiscal capacity of a province for a particular revenue source—that is, its ability to raise revenue from that source—is measured in terms of its share of the national base for that source. This share is then compared with the province's share of the national population. For example, a province with 10 per cent of the Canadian population, but only 8 per cent of retail sales in Canada, is considered to have a fiscal capacity *deficiency* in the revenue source represented by retail sales tax. If the same province had 12 per cent of retail sales, it would be said to have a fiscal capacity *surplus* or excess. If it had 10 per cent of retail sales to match its 10 per cent of the population, it would be said to have a *national average* fiscal capacity.

If the only revenue source open to provinces were the retail sales tax, a province with a fiscal capacity deficiency in respect of retail sales would be unable to deliver the national average level of public services without recourse to a tax rate above the average provincial rate. In this case, an equali-

zation payment by the federal government would be necessary to bring such a province's fiscal capacity up to the national average fiscal capacity. If the purpose of equalization is to put the province in the same posture as a province whose fiscal capacity is at a national average, that is, to bring it up to the national average, then the equalization payment in the above case must be equal to the *additional revenue* the province would collect from retail sales (a) if its share of national retail sales were equal to its share of national population and (b) if the rate it was imposing on retail sales were equal to the national average rate. It can be demonstrated that this *additional revenue* is precisely equal to the total of all provincial revenues from the retail sales tax multiplied by the province's fiscal capacity deficiency—that is, the difference between its share of population and its share of retail sales. This is exactly the way the actual dollar amount of equalization payable to a province in respect of the retail sales tax base is calculated. If the province has a fiscal capacity deficiency in respect of sales tax, the amount of equalization arrived at will be positive. If it has a fiscal capacity surplus, the amount will be negative.

This exercise is repeated for each of 29 revenue categories identified under the current equalization formula as sources from which at least some provinces derive revenue. For each province, the total of all positive and negative amounts is determined, and for those provinces where the net total is positive, a payment equal to that total is made by the federal government. It is important to note that although only provincial revenue sources are brought into this formula, no provincial revenues are redistributed. A payment is made by the federal government, financed from federal revenues received from taxpayers across Canada, but no reductions to provincial revenues occur anywhere. Provinces with an overall net fiscal capacity deficiency are brought up to a national average; provinces with an overall net fiscal capacity excess are unaffected and thus remain above the national average. The workings of the present formula are illustrated in some detail in Annex VII-A, where a complete example relating to a single province and a single revenue source is given, and where the 29 revenue sources and tax bases are listed.

There are several important issues associated with the equalization formula that will have to be

dealt with in the forthcoming round of fiscal negotiations. The remainder of the chapter is devoted to a more detailed examination of these issues.

The Definition of Population

Because a province's share of the national population is one of the key factors in the equalization equation, the population data used for computing equalization must be as accurate as possible. The population figures used in the past, and at present, are the official population estimates as determined by the Chief Statistician of Canada.

The problem of *census under-enumeration* has considerable financial implications for equalization-receiving provinces. It is caused by the inadvertent failure to enumerate a small portion of the population in a census. Methodologies exist to estimate the extent of under-enumeration. One, known as the reverse record check, has been used in Canada to estimate the number of persons missed in the 1966, 1971 and 1976 censuses, and is being used again for the June 1981 census. The estimate is designed to provide some guidance to users of census data of the likely magnitude of this source of error.

The question raised by census under-enumeration is whether population data used in the equalization formula should be adjusted to take account of census under-enumeration. The question is important because it may involve hundreds of millions of dollars over the 1982-87 period. The reverse record check following the 1976 census indicated that some 477,000 people across the country had not been counted. A relatively high proportion of these people lived in British Columbia and Quebec and a slightly above-average proportion lived in New Brunswick. According to the Chief Statistician, when the interprovincial distribution of population is adjusted for under-enumeration, the distribution obtained is likely to reflect more accurately the unknown true distribution than does the unadjusted distribution. The Chief Statistician has, however, expressed doubt about the use of the adjusted distribution at this time. A number of arguments are advanced in support of this position, including the fact that the results of the estimates of under-enumeration in

the 1981 census are not yet known and could differ from those for 1976, in which event there would be no general pattern of under-enumeration. The reverse record check estimates of the 1981 census under-enumeration will be available by the end of 1982. *The Task Force therefore recommends that*

if the results of the reverse record check of the 1981 census indicate a pattern of under-enumeration similar to that observed for the 1976 census, the federal government use population data adjusted for census under-enumeration for purposes of computing equalization payments.

Taking Account of Differential Costs and Needs

It is sometimes argued that the current equalization system is deficient in that it takes into account interprovincial disparities that arise on the revenue side of provincial accounts and ignores entirely disparities existing on the expenditure side. The latter disparities exist because there are variations in the per unit costs of certain provincial services, and also because of variations in the actual quantity of certain services. British Columbia, for example, has argued for many years that a mile of highway across the Rockies is more costly to build and maintain than a mile of highway in Saskatchewan or Manitoba. The latter provinces might argue, however, that although highways are cheaper to build on their territory, their economic and geographic conditions are such that they have higher than average needs with respect to highways, that is, they require more highway mileage per capita than most other provinces. The same arguments could be made with respect to many other types of provincial services.

Since the purpose of equalization is to enable provinces to provide their residents a reasonably comparable level of public services with a reasonably comparable level of overall taxation, it would be desirable to take into account interprovincial differences relating to costs and needs in computing equalization payments. Indeed, that is precisely what the Rowell-Sirois Commission had in mind when it proposed that a system of National Adjustment Grants be implemented. The difficulty, however, is to measure provincial costs and

needs on a comparable basis. Although several provinces have recommended that equalization payments take such factors into account, none has proposed a specific solution to the measurement problems involved, which seem formidable indeed.

The Task Force is not at the moment in a position to make recommendations as to how the problems of measuring provincial costs and provincial needs might be overcome, and therefore *concludes that, for the time being, equalization payments should continue to be determined exclusively on the basis of disparities in provincial fiscal capacity.* We do, however, urge that work continue in the technical committees of federal and provincial officials on methods by which differential costs and needs might appropriately be reflected in an equalization formula based primarily on measures of fiscal capacity.

The 'Representative Tax System' Approach

As explained, the equalization payable to any province rests essentially on a measurement of that province's capacity to raise revenues or, more precisely, on a comparison between its capacity and the average capacity of all provinces. Fiscal capacity is the key element in the calculation of equalization payments. The way in which fiscal capacity is measured is, therefore, of the utmost importance, and must be reassessed periodically.

There are basically two methods of measuring provincial fiscal capacity; they are usually referred to as the 'representative tax system' approach and the 'macro-economic' approach. The former attempts to measure fiscal capacity on the basis of the actual taxes that provinces levy. The problem is that although the measurement must be done in a uniform way for all provinces, provinces have varying tax systems—some provinces rely more heavily than others on certain types of taxes. It was to get around this problem that the concept of a representative tax system was developed. The system is 'representative' of the 10 tax systems that have been put in place by the provinces. It involves considering separately each of the significant revenue sources cultivated by provinces, and measuring the revenue-raising capacity of each province in respect of each source. The aggregate

capacity of a province under such an approach is equal to the sum total of the capacities in respect of all the revenue sources included in the representative tax system. This is the approach that has been used since 1967 to compute equalization payments.

Under a macro-economic approach, the fiscal capacity of a province is determined without reference to the taxes that provinces actually collect. Instead, some aggregate measure of income or production is used. The assumption underlying this approach is that all taxes are ultimately paid out of the income or production generated by an economy and that a province's capacity to raise revenues in respect of all taxes is adequately measured by the value of that income or production. In a macro-economic formula, revenues from all sources are added together. The equalization payable to a province is calculated in a way quite like that used under the representative tax system approach, the only difference being that there is only one calculation to be made—instead of ten, fifteen or twenty-nine.

There is no doubt that the macro-economic approach offers some important advantages. It is much simpler to administer than the representative tax system approach, in that it eliminates the need to classify provincial revenues by major revenue sources—a step that sometimes involves arbitrary judgments—and the need to define tax bases for each revenue source. An alleged advantage is that it eliminates any 'temptation' a province might have under a representative tax system to tinker with its tax system in order to increase its equalization entitlement. (There is, however, no evidence to suggest that equalization-receiving provinces are allowing their taxation decisions to be influenced by a desire to increase their equalization entitlements.)

There are also major disadvantages associated with the macro-economic approach. Perhaps the most important is that it relates not to what provinces *actually* tax, but to what they may *potentially* tax. If the purpose of equalization were merely to equalize provincial fiscal capacities, the argument in favour of a macro-economic approach might have some validity. However, the purpose of the program is to enable all provinces to offer a comparable level of public services. The equalization formula must, therefore, relate to the actual

taxing practices of the provinces rather than to what they can potentially tax.

The distinction is important because interprovincial disparities in revenue-raising capacity are larger when measured on the basis of what provinces do tax than on some other broad basis such as provincial income or Gross Provincial Product. This is because the items most heavily taxed by the provinces—for example, incomes, retail sales, property—are more unevenly distributed across provinces than are aggregate measures such as personal income, gross product and so on. The total equalization payable under a macro-economic approach would therefore tend to be significantly less than that payable under the approach currently used. Table VII-1 compares an estimate of the equalization payments that would emerge from use of the macro-economic formula with an estimate of those that would emerge from a representative tax system formula when all provincial and municipal revenues are equalized.

Another problem with the macro-economic approach is that it would require the use of some comparable measure of Gross Domestic Product by province. Although Statistics Canada produces this information in its Provincial Economic Accounts, the data are labelled 'experimental' and it appears that they are not yet sufficiently developed to warrant their use for purposes of a macro-type equalization formula.

Weighing all these considerations, the Task Force has concluded that the representative tax system approach to equalization is conceptually superior to the macro-economic approach because it is based on a measure of fiscal capacity more closely related to the actual tax practices of the provinces. *The Task Force therefore recommends that*

the representative tax system approach to equalization be maintained under the 1982-87 fiscal arrangements.

In examining the classification of revenues currently used for equalization purposes, the Task Force noted that although property taxes for school purposes are included in the formula, property taxes for municipal purposes are not. This exclusion reduces the 'representative' nature of the tax system used to assess the fiscal capacity of the provinces. It also gives rise to a particular problem

Table VII-1

Estimates of equalization payments calculated under a macro-economic formula and under a representative tax system formula when all provincial and municipal revenues are equalized. Based on 1980-81 data.

(\$ millions)

Equalization entitlement under:	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	TOTAL
a) Macro-economic formula*	469	97	548	475	1,107	(-230)	243	74	(-2,117)	(-592)	3,013
b) Representative tax system formula	512	122	659	568	2,885	(1,433)	509	(-401)	(-5,193)	(-739)	5,255**

* Based upon Adjusted Net Provincial Income at Factor Cost.

** Excludes Ontario's entitlement.

Source: Economic Council of Canada (using data provided by federal Department of Finance).

when a province decides to restructure its local tax system. It is possible for a province to increase or decrease property taxes levied for school purposes and to make offsetting changes in the level of property taxes levied for municipal purposes. This affects equalization entitlements because it modifies the amount of property tax revenues that, under the current formula, is subject to equalization. (This is precisely what happened in 1980 when Quebec changed its property tax regime. Although the changes did not affect the level of total property taxes in the province, there was a large decrease in revenues to be equalized, because the effect of the changes was to decrease property taxes for school purposes, which are included in the formula, and to increase property taxes for municipal purposes, which are not included. The result was that the six provinces that have positive equalization in respect of property taxes for school purposes saw their entitlements substantially reduced. Obviously, the equalization formula should be neutral with respect to the relative weights that provinces choose to give municipal and school property taxes. *The Task Force therefore recommends that*

property taxes for municipal purposes be included in full in the equalization formula.

Table VII-2 shows that all provinces currently receiving equalization would see their total entitlements increased by the inclusion of property taxes for municipal purposes. The effect on Saskatchewan's position with respect to equalization would be marginal. As regards Ontario, if that province were not excluded from receiving equalization through the personal income override (it is recommended further on in this chapter that the override be abolished), then its overall equalization entitlement would be significantly reduced by the inclusion of property taxes for municipal purposes. The reason for this is that the overall equalization entitlement of a province is equal to the *net* total of the positive and negative entitlements calculated in respect of all the revenue categories included in the representative tax system. Having a substantial property tax base relative to other provinces, Ontario has a fiscal capacity excess in this category, and this reduces its average entitlement to equalization payments.

Table VII-2

Estimated and projected costs of equalizing property taxes for municipal purposes, 1979-80 to 1984-85

(\$ millions)

Fiscal Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.*	Man.	Sask.	Alta.*	B.C.*	TOTAL
1979-80 (Estimated)	47.7	9.7	54.0	47.1	141.1	-132.0	7.4	-1.4	-118.8	-54.7	±307.0
1980-81 (Estimated)	58.3	11.8	64.8	57.1	157.2	-164.7	4.8	-2.2	-132.0	-55.3	±354.1
1981-82 (Estimated)	64.6	12.9	70.8	62.7	160.8	-193.2	1.6	-2.4	-129.2	-48.5	±373.4
1982-83 (Projected)	75.3	14.8	82.2	74.5	175.2	-157.0	10.3	0.3	-205.9	-69.7	±432.6
1983-84 (Projected)	85.6	16.5	92.6	85.0	184.3	-147.2	14.0	2.1	-254.8	-78.0	±480.0
1984-85 (Projected)	96.7	18.4	103.7	96.6	192.2	-131.5	18.3	4.4	-312.3	-86.6	±530.4

* Note that since Ontario, B.C. and Alberta do not receive equalization payments, the negative values shown there do not reduce the federal outlays for equalization purposes.

Source: Federal Department of Finance.

The Treatment of Natural Resource Revenues

The amount of equalization payable with respect to natural resource revenues has increased considerably over the past decade. The reasons for this are twofold. First, the actual amount of resource revenues accruing to the provinces has surged, mainly because of the increases in oil and gas prices since 1973. Second, and more important, oil and gas resources are very unevenly distributed across provinces, that is, because those resources are concentrated in the three western-most provinces, each of the remaining seven provinces has a very small or nil portion of the base for oil and gas revenues. This means that each of the latter provinces has a very high fiscal capacity deficiency with respect to those revenues. (Put differently, their share of oil and gas production in Canada is much smaller than their share of the Canadian population.) As already mentioned, the greater a province's fiscal capacity deficiency respecting a particular revenue source, the higher its equalization associated with that source. Since fiscal capacity deficiencies respecting oil and gas revenues are greater than those with respect to, say, personal income tax revenues, each dollar of oil and gas revenue included in the equalization formula generates a larger amount of equalization than does a dollar of personal income tax revenue.

The current equalization formula is based on the assumption that provinces collect revenues only with a view to financing public services, and that the revenues accruing to them constitute an adequate measure of their expenditure needs. To the extent that natural resource revenues accruing to the three western-most provinces reflect good fortune, rather than a desire on the part of their governments to provide services to their citizens, the above assumption no longer holds, and it has proven necessary to impose limitations on the treatment of those revenues. These limitations currently consist in including revenues from non-renewable resources to the extent of 50 per cent only, in excluding oil and gas land sales entirely, and in providing that the equalization associated with resource revenues of all kinds cannot exceed one-third of total equalization. If such limitations had not been put in place, the formula would have led to a situation of 'over-equalization'. This would have meant that recipient provinces would have

been put in a position where they could have offered a more-than-reasonable level of public services, with the federal government footing the bill.

The question therefore arises as to whether these limitations should be maintained as they are for the 1982-87 period, or if they should be modified. In answering this question, there are several factors that must be taken into account. These include:

1. the amount of resource revenues that will be accruing to oil and gas-producing provinces in the coming years (these amounts will be largely determined by the outcome of current negotiations between the Alberta and federal governments, by domestic and world prices for oil and gas, and by the volumes of oil and gas production);
2. the share of the revenues just mentioned that will be used to finance normal provincial services;
3. the base (or bases) under which resource revenues are equalized (as mentioned, if the base used to determine a province's capacity to raise oil and gas revenues were, say, personal or business income instead of some measure of oil and gas production, then the equalization associated with such revenues would be diminished);
4. as a practical matter, the necessity to insulate the federal government from sudden and very large increases in the total equalization bill; and
5. the revenues that the federal government must enjoy in order to finance the equalization program.

The Task Force does not make specific recommendations regarding the treatment of natural resource revenues because we do not know how some of these factors, particularly the split of petroleum revenues between federal and provincial governments, are likely to evolve in the next few years. *We believe, however, that the following rules should guide decisions taken with respect to the treatment of resource revenues:*

1. The maximum portion of natural resource revenues that should be included in the equalization formula should be that portion

of these revenues that are used for budgetary purposes, that is, as a minimum, the portion sequestered to non-budgetary heritage funds should be excluded.

2. To the extent that resource-rich provinces use their resource revenues to provide special services to their citizens that they would not normally offer if they were rich non-resource producing provinces, it would be reasonable to exclude from the formula a portion of resource revenues that find their way into provincial budgets. For example, if a resource-rich province decides to retire all municipal debts, as was done in Alberta, the federal government need not assume that the retiring of municipal debts is a normal provincial expenditure. In short, resource revenues should be included in the formula only to the extent that they are used to finance what might be considered normal provincial services.
3. All resource revenues should be treated in the same manner. That is, no particular type of resource revenue should be excluded from the equalization formula and all resource revenues should be included to the same extent. (Under the current formula, revenues from land sales are excluded, non-renewable resource revenues are included to the extent of 50 per cent, and renewable resource revenues are included in full.)
4. There should continue to be some kind of ceiling or safety net relating to the share of total equalization that may be paid out on account of resource revenues in order to protect the federal treasury against runaway increases in the cost of equalization.

One way of dealing with the resource revenue issue that should be examined would consist in treating all resource revenues as if they were personal income tax revenues, or revenues from business income, or a mixture of both. The rationale underlying this approach is that if sub-surface mineral rights were privately-owned rather than publicly-owned, the resource rents now accruing to provincial governments would be accruing to individuals or business enterprises. For those individuals and enterprises, the rents would constitute income, which would be taxed under the provincial personal or corporate income tax. It

would therefore make sense for the portion of resource revenues included in the equalization formula to be based on some estimate of the percentage of those privately-held rents that would find their way into provincial treasuries if they were taxed at current provincial rates. For example, if it is estimated that, at current provincial income tax rates, 20 per cent of private resource rents would be paid in income taxes, then current provincial resource revenues would be included in the equalization formula to the extent of 20 per cent. Moreover, a portion of these revenues (perhaps one-half) would be equalized as personal income tax revenues and another portion as revenues from business income. The tax bases used to equalize personal income tax revenues and revenues from business income would, of course, have to be adjusted to equalize these special revenues. (In the case of revenues from business income, this could be done by adding to the current base the full value of the resource rent from which the tax would be deemed to have been paid. The same would be done with respect to the base used to equalize personal income tax.)

The main advantage of this solution is that it would eliminate the need to set out arbitrarily the extent to which resource revenues would be included in the formula. It would also eliminate the need for an arbitrary ceiling on the portion of total equalization that might be paid in respect of resource revenues. Finally, it would permit a uniform treatment of all resource revenues.

The effect of this proposed solution would be to reduce substantially the amount of equalization currently paid with respect to resource revenues. It would also have the effect of delaying, at least for a few years, Ontario's eligibility for equalization (assuming the personal income override were abolished). However, this reduction in the total cost of the equalization program could be offset by other changes proposed by the Task Force, particularly the inclusion of property taxes for municipal purposes.

The treatment of natural resource revenues will be one of the most difficult issues to deal with in the forthcoming round of fiscal negotiations. The issue has several technical aspects of which the Task Force has tried to take account. Because we recognize that there are complex technical ques-

Table VII-3

Estimated and projected costs of equalizing 30 per cent of all
natural resource revenues, 1981-82 and 1986-87

(\$ millions)

Fiscal Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	TOTAL
1981-82 (Estimate)*	35.0	11.8	76.0	56.9	532.1	733.7	84.5	-143.9	-1,380.9	- 5.3	1,530.0
1986-87 (Projected)**	75.9	28.8	181.0	143.1	1,227.5	1,765.4	200.9	- 65.0	-3,463.1	-94.5	3,622.6

* The estimates do not take account of the effect of the one-third ceiling and of the personal income override.

** Projections based upon data available as of federal budget, October 1980 and, in the case of shared revenues from the federal export charge on oil, as of January 1981.

Source: Federal Department of Finance.

tions associated with this issue, the Task Force has set out the alternative described above as a suggestion that we feel should be examined by experts rather than as a firm recommendation. In our view, the merit of this alternative lies in the fact that it minimizes arbitrary judgements on the part of policy makers. Therefore, what is important in the proposed solution is not so much its technical aspects as the sense of direction it provides.

Another possible solution might be to bring in all categories of resource revenues as revenues to be equalized, with all the existing bases as at present, but scaling down these revenues arbitrarily, but uniformly, by some appropriate percentage—say, 25 or 30 per cent. Table VII-3 shows the cost of equalizing 30 per cent of all resource revenues in 1981-82 and in 1986-87. The total estimated cost of \$1,530 million for 1981-82 does not take account of the one-third ceiling on resource revenues and of the personal income override. If the current method of computing equalization associated with resource revenues were applied, but the personal income override did not apply, the total estimated cost for 1981-82 would be \$1,994.2 million.

Table VII-4 shows the estimated cost for fiscal year 1980-81 of the equalization program under different assumptions as to the revenues included in the formula, and as to the base under which resource revenues might be equalized. The table shows that the effect of including municipal property taxes in the formula would be to increase equalization payments by some \$352 million. But if instead of equalizing resource revenues as we currently do (the effects of this are shown on line 5), we were to equalize 25 per cent of all resource revenues while retaining the bases currently being

used to equalize those revenues, the equalization associated with resource revenues would decrease from \$1,069.7 million (total of line 5) to \$564.6 million (total of line 3). Alternatively, if we were to equalize 100 per cent of natural resource revenues under the base currently used to equalize revenues from business income, the equalization associated with resource revenues would be reduced to \$493.7 million (total of line 4). The purpose of line 4 in the table is to illustrate the dramatic effect of switching from the current bases used to equalize resource revenues to a base that is more evenly distributed across the provinces. Although the Task Force does not believe that the base currently used to equalize revenues from business income is adequate to equalize resource revenues, we do believe that a version of that base that would give some significant weight to resource revenues would likely prove adequate. (The greater the weight of resource revenues in the base, the less evenly distributed it would be and, hence, the greater the resulting equalization would be.)

The Personal Income Override

A special provision to the effect that no equalization may be paid to a province with a personal income per capita above the Canadian average was introduced in the equalization formula in 1981. This had the effect of excluding Ontario from receiving equalization.

This measure constitutes an arbitrary element in the equalization formula. It was introduced to protect the federal government at a time of expenditure restraint. It was done mid-term in fiscal

Table VII-4
Estimated Cost of Equalizing Various Categories of Provincial Revenues, 1980-81
(\$ millions)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total Receiving Provinces
<i>Estimated cost of equalizing:</i>											
1. All provincial revenues from non-resource revenues, plus school purpose taxes;	339.7	70.6	339.9	307.3	1,003.6	-753.1	224.6	108.7	-1,115.4	-525.8	+2,394.4
2. Municipal property taxes;	58.3	11.8	64.8	57.1	157.3	-164.7	4.8	-2.2	-132.0	-55.3	+351.9
3. 25% of resource revenues (under bases currently used to equalize such revenues);	26.0	9.2	58.7	43.1	409.7	563.6	65.7	-47.8	-1,097.4	-30.8	+564.6
4. 100% of resource revenues (under base used to equalize revenues from business income);	61.2	14.5	74.6	70.2	218.5	-81.9	45.1	9.6	-380.4	-31.4	+493.7
5. Resource revenue included in current formula**	36.7	17.4	109.0	71.5	717.1	(1,018.2)*	118.0	-68.5	-1,893.2	-126.6	+1,069.7
A. Sum total of lines 1, 2, & 3	424.0	91.6	463.4	407.5	1,570.6	—	295.1	58.7	—	—	3,310.9
B. Sum total of lines 1, 2, & 4	459.2	96.9	479.3	434.6	1,379.4	—	274.5	116.1	—	—	3,240.0
C. Equalization entitlements under current formula	376.4	88.0	449.0	378.7	1,720.8	(265.2)*	342.6	40.1	—	—	3,395.6
D. Equalization entitlements under current formula but without personal income override	376.4	88.0	449.0	378.7	1,720.8	265.2	342.6	40.1	—	—	3,660.8

* Ontario does not receive its entitlement because of the personal income override.

** Under the current equalization formula, revenues from land sales are excluded, non-renewable resource revenues are included up to 50 percent, and renewable resource revenues are included in full.

Source: Based on data provided by Department of Finance.

Table VII-5
Indices of Fiscal Capacity, Province of Ontario

Fiscal Year	Provincial-Local Revenues from Own Sources		Provincial-Local Revenues from Own Sources Plus Equalization		Provincial-Local Revenues from Own Sources Plus All Federal Transfers	
	Index	Rank	Index	Rank	Index	Rank
1973-74	106	3	98	3	96	6
1977-78	95	4	88	4	88	9
1978-79	92	4	86	10	96	10
1979-80	91	4	85	10	85	10

Source: Federal Department of Finance.

arrangements that, when negotiated, contained no allowance on anybody's part for the possibility of payments to Ontario. This restraint measure affected no province other than Ontario.

Since 1979, when the formula showed for the first time that Ontario had, according to the measures of fiscal capacity employed in the 'representative tax system', become one of the 'have-not' provinces, a growing body of evidence has developed to suggest that, indeed, Ontario might truly be viewed, in significant respects, as having lost its earlier position as a benchmark against which to measure economic position.

Table VII-5 provides three different sets of indices of Ontario's fiscal capacity, and shows how that province ranks with other provinces in respect of each index. The indices in the first column measure Ontario's capacity to raise revenues from all provincial and municipal revenue sources relative to the national average provincial capacity. (An index of 106 means that Ontario's fiscal capacity is 6 per cent above the national average capacity and an index of 95 means that Ontario's fiscal capacity is 5 per cent below the national average.) In the second column, the indices in the first column are adjusted to take account of the effect of equalization transfers. The second column therefore indicates Ontario's capacity to raise revenues from own-sources *and* from equalization. In the third column, the indices in the second column are adjusted to take account of all federal transfers to provinces, including equalization. They therefore measure Ontario's capacity to raise revenues from own-sources *and* from all federal transfers.

The obvious conclusion to be drawn from this table is that Ontario's fiscal capacity has deteriorated significantly relative to that of other provinces since 1973-74. Since 1977-78, its fiscal capacity has been markedly below the national average, whatever index is used to measure it. In 1978-79 and 1979-80, it had the lowest capacity index of all provinces when equalization was taken into account and when all federal transfers were taken into account. Moreover, Ontario's position appears to be worsening year by year.

The treatment of Ontario with respect to equalization has given rise to charges of inequity in the funding of the program. It has been argued, for example, that in 1978 the equalization associated with resource revenues accumulating in the western provinces was in the order of \$1 billion. Since equalization is financed out of the federal treasury and about 40 per cent of all federal receipts come from Ontario, that province contributed some \$400 million to the equalization paid to other provinces but was denied its own entitlement by the personal income override.¹

The Ontario Government has not challenged the override that precludes it from receiving equalization but has indicated that its acceptance of the override was "conditional on the program being reformed in 1982 as part of an overall solution to Canada's problem of regional fiscal imbalance".²

This issue raises difficult problems of perception and may cast some doubts on the continued validity of the measures of fiscal capacity currently employed. In light of the foregoing indicators, however, there seems to be little doubt that any

measure specifically aimed at making Ontario ineligible for equalization payments based on a representative tax system approach, could be viewed as arbitrary and unwarranted. *The Task Force therefore recommends that*

negotiations be directed toward an equalization formula that can apply uniformly to all provinces, without arbitrary or discriminatory special provisions.

Interprovincial Resource Revenue-Sharing Arrangements

Earlier in this chapter, the Task Force addressed two major questions—the nature of the formula employed for determining equalization payments, and possible changes in the revenue sources taken into account for equalization purposes. In light of current debates, it is also necessary to consider possible contributions by provincial governments toward financing equalization payments.

The Task Force was reminded by several witnesses that our consideration of these questions would inevitably be set in the wider context of the constitutional division of powers between federal and provincial governments, the pricing of natural resources, particularly oil and gas, federal access to revenues from natural resources and interprovincial revenue-sharing. Professor T. Courchene, for example, told the Task Force at our first public hearing after the federal Minister of Finance had appeared, "You are going to have to bring forward some recommendations with respect to the fiscal arrangements, without knowing the basic parameters of...the final national energy policy agreement".

At our last public hearing, we heard Dr. David Slater, Chairman of the Economic Council of Canada, conclude that:

...in the upcoming negotiations 'equalization issues' could be the most difficult. The reason is the enormously increased role of resource revenues in the equalization formula, and, in particular, the interrelationships between oil and gas issues (including pricing, taxation and revenue sharing) and problems with the current equalization program. While it may be possible to deal with these issues separately and one at a time, in the end careful attention will have to be given to these interdependencies.

In the weeks that separated the appearances of these two witnesses, the Task Force heard a variety of other witnesses with similar observations. Without exception, they saw the ultimate solution lying in a substantially higher price for oil and gas, which would contribute to both conservation of supplies (and hence lower expenditures and greater self-sufficiency) and higher federal and provincial revenues. To the extent that federal revenues were the primary beneficiary, the federal government would achieve access to the resources necessary to finance expanded equalization payments, direct investment in major energy projects and perhaps other programs designed to insulate consumers directly from the impact of higher energy prices. To the extent that provincial revenues benefit more substantially, provincial contributions to some interprovincial revenue-sharing or redistribution pools, or provincial participation in an energy security fund, would be essential.

The Task Force has already noted the massive implicit transfers from Alberta to the rest of Canada that have occurred by virtue of enforced low prices for oil and gas. Although we recognize that questions of energy policy and control of resource pricing are outside our terms of reference, the Task Force has been persuaded by the evidence before it that the whole domain of federal-provincial fiscal arrangements could be more effectively addressed, and problems co-operatively resolved, in an environment in which this implicit interprovincial transfer and consumer subsidy is made more explicit, with visible provincial participation in some redistribution or recycling scheme.

In this connection, the Task Force believes it is necessary to reaffirm federal responsibility for interpersonal and inter-regional redistribution. We do not consider this role one that can properly or appropriately be assumed by provincial governments. Nevertheless, we also recognize that 'recycling' of petro-dollars can be accomplished in many ways, and that attempting to do the whole job through the federal budget would lead to an undesirable centralization and concentration of powers at the federal level. For these reasons we find considerable merit in proposals for some form of 'energy bank' or 'resource bank' in which current resource revenues may be pooled and used to finance new developments that may assure energy self-sufficiency in the future.

One proposal, advanced by Professors Helliwell and Scott, involves a scheme under which provincial revenues would be redistributed through an interprovincial equalization program. The Task Force judged that this proposal has substantial theoretical and analytical appeal, but that it is inconsistent with members' strong conviction that to transfer this degree of responsibility for inter-regional redistribution to a purely provincial scheme would violate basic principles of federalism.

The original two-tier proposal of Professor Courchene, which would take only resource revenues into an interprovincial pool, while maintaining a basic federal equalization program including all non-resource revenue sources, encounters the same objection. This objection is lessened to some extent if the federal government initiates, underwrites and participates in whatever new national institution is designed to provide for the pooling of these resource revenues, but we would nevertheless reject this approach to revenue-sharing on principle.

It must also be noted that, whatever our own views, the Task Force could hardly fail to be impressed by the vigour with which most provincial governments opposed these proposals. This message was of course confirmed in the conclusions of the meeting of provincial ministers of finance in Victoria on June 26, 1981.

This same objection may not apply to proposals for an 'energy bank' providing for the transformation of Canada's depletable resource base into a continuing industrial base of physical capital. Interprovincial revenue-sharing features become secondary in such a scheme; it is not open to interpretation as 'just another resource levy'. Indeed, given both provincial and federal sensitivities to any apparent transfer of responsibility for inter-regional redistribution, it is important to emphasize that such a plan would be directed toward the social problem of achieving a smooth transformation of the nation's depletable resource base into a national industrial base, rather than the purely financial problem of revenue-sharing or recycling of petro-dollars. The challenge is to find a new national institution to smooth or 'mutualize'

successive surges or waves of revenue in different provinces. Redistribution or revenue-sharing seems to carry connotations of contributions that are gone forever. The mutual participation of provincial and federal governments in an institution that facilitates the transformation of wasting assets into durable investments in renewable resources or industrial wealth, on the other hand, might carry connotations of mutual benefit and interprovincial, intergenerational transfers in which all participants benefit at some stages. These investments would, of course, have to offer a reasonable rate of return to contributing governments. It is in the nature of societies that not all participants can be net winners at all times. But mutual participation promises each member some benefit in the long run. For a province like Alberta, being a major contributor at an early stage would then mean not a permanent loss, but a continuing stake in a permanent national institution. As an alternative to seeing their revenues captured for current redistribution, the present or potential oil-producing provinces might find that such an emphasis had some appeal. Some federal initiatives to promote this approach within the present energy negotiations and possible future negotiations on federal-provincial relations might contribute to a reduction of current tensions.

The problem of massive resource revenues concentrated in one or a few provinces raises questions of equity, to be addressed by proposals for revenue-sharing such as those discussed above. But these are largely outside our mandate. In one respect, however, the problem merges into the more general problem of tax competition or competitive enrichment of levels of public services. To the extent that windfall resource revenues permit provinces to pursue their own development goals at the expense of other provinces, it may be argued that efficiency in the overall allocation of the country's productive resources is compromised and unnecessary costs in terms of shifting these resources are incurred. To this extent, measures to enforce tax harmony or to preclude resource-rich provinces from using resource revenues to engage in competitive reductions of tax rates might be advocated. Although we are aware of this argument, the Task Force believes that, with a well-designed federal equalization program in place, this matter need not raise serious concerns. The general problem is addressed more fully in Chapter VIII.

Conclusions

The Task Force thus sees the development of the equalization program over the next five years as being very much an extension of its present scale and structure, with the major developments in revenue-sharing or recycling of resource revenues taking place outside the framework of equalization payments *per se*, and instead forming part of the overall division of responsibilities in resource ownership, pricing and economic development.

Certain adjustments within the present representative tax system approach must be considered, however. Although the Task Force does not propose to offer firm recommendations in this technical area (any more than in other areas of specific short-term budgetary analysis), we do urge further work on some possibilities to the exclusion of others. These have been indicated in the preceding sections.

The Task Force concludes that the basic features of the equalization program should be maintained. The various adjustments recommended in the foregoing paragraphs do not involve radical changes. They are very much in line with the principles and assumptions underlying the current formula. Indeed, they are meant to make those principles and assumptions more relevant to its actual functioning. The Task Force has no

doubt that this formula, which has been in place since 1967, has served Canada well and that the changes made to it in recent years have preserved, rather than impaired, its validity. Our recommendations should be perceived as an attempt at 'fine-tuning' the current formula, and certainly not as a criticism of what has been done in the recent past. In fact, the Task Force believes that the revised formula should have as its result in 1982-83 neither a reduction nor a substantial increase in the overall level of entitlements. (This assumes that all municipal tax revenues would be included in the formula.)

In concluding, the Task Force recognizes that some of the adjustments recommended in this chapter could have the effect of reducing the entitlements of one or two particular provinces whose budgeting is predicated on the assumption that their entitlements will not be reduced. *We therefore recommend that*

if any province whose equalization entitlement in 1981-82 is more than \$5 per capita sees its equalization entitlement reduced by more than 5 per cent as a result of the implementation of a revised formula, it should continue to receive 95 per cent of its 1981-82 entitlement until 1984-85 or until the formula yields more than 95 per cent of its 1981-82 entitlement, whichever comes sooner.

Notes (Chapter VII)

¹ T. Courchene, *Refinancing the Canadian Federation* (C.D. Howe Institute, 1979), p. 49.

² Ontario, *The Ontario Budget, 1981*, Budget Paper B.

Annex VII-A

Description of the Fiscal Equalization Program*

ILLUSTRATION OF EQUALIZATION CALCULATION—RELATING TO A SINGLE PROVINCE (NOVA SCOTIA) AND A SINGLE REVENUE SOURCE (TOBACCO TAX)^(a)

(Data taken from December estimate of equalization for 1977-78)

DATA

1. Population of 10 provinces, June 1, 1977		23,226,317
2. Population of Nova Scotia, June 1, 1977		835,395
3. Nova Scotia share of population, June 1, 1977		
= $\frac{835,395}{23,226,317}$		= <u>3.596761%</u>
4. Number of cigarettes purchased in 10 provinces, 1977 ^(b)		66,229.940 million
5. Number of cigarettes purchased in Nova Scotia, 1977		1,983.333 million
6. Nova Scotia share of tax base, 1977		
= $\frac{1,983.333 \text{ million}}{66,229.94 \text{ million}}$		= <u>2.994617%</u>
7. Total revenues of the 10 provinces from taxing tobacco, 1977-78		<u>\$494.9 million</u>

EQUALIZATION CALCULATION

Total revenues of all provinces from tobacco tax	x	Nova Scotia share of total provincial population	
= \$494.9 million	x	[3.596761% - 2.994617%]	Nova Scotia share of total provincial tax base for tobacco taxes
= \$494.9 million	x	0.602144%	
= <u>\$2,980,000</u>			

NOTES

- (a) In the fiscal equalization program for the 1977-78 to 1981-82 period, similar calculations are made for each province for each of 29 groups of revenues. While population is common to each calculation, the amounts for revenues and tax bases are different. Total equalization to Nova Scotia is equal to the sum of the results from the 29 separate calculations. Any negative amounts (which arise for a revenue source if a province is above the national average in per capita tax base) are deducted from positive amounts in arriving at the total.
- (b) While the tax base is referred to as the number of cigarettes purchased, it is based upon cigarettes "or equivalent" and takes account of the consumption of cigars and tobacco as well. The base is derived by dividing the revenues of the Province from tobacco taxes (\$11,900,000** in the case of Nova Scotia) by the average rate of tax per cigarette (6/10 of 1 cent in the case of Nova Scotia) during the fiscal year.

*Supplied by the federal Department of Finance.

**This amount is an estimate by the Province; it cannot be compared with revenue numbers published by Nova Scotia since these are presented in a form that combines retail sales and tobacco taxes.

SUMMARY OF 29 REVENUE SOURCES AND REVENUE BASES CONTAINED IN THE FISCAL EQUALIZATION PROGRAM FOR THE 1977-78
TO 1981-82 PERIOD

Revenue Source	Summary Description of Revenue Base
(a) Personal income taxes	Yield in the province for the taxation year of a representative provincial personal income tax, determined through the Revenue Canada Personal Income Tax Microsimulation Model, by applying the average rate of provincial tax, net of credits, for each tax bracket to the total taxable income of a province's taxpayers whose marginal income falls within that bracket. (Rates calculated with reference to federal basic tax.)
(b) Revenues from business income:	Private business profits before losses (national accounts total, distributed by province on basis of corporation taxable income) plus provincial government business enterprise profits of profit-making corporations other than lottery enterprises and B.C. Petroleum Corporation (distributed by province on a national accounts basis). Corporation taxable income excludes estimated income arising from the non-expensing of provincial levies on oil and on gas. The latter equals oil and gas royalties and other special levies on oil and gas to the extent that they exceed the federal 25 per cent resource allowance in respect of oil and gas.
(i) corporation income tax	
(ii) remittances of provincial government business enterprises other than liquor commissions, lotteries and the B.C. Petroleum Corporation	
(iii) shared revenues under the Public Utilities Income Tax Transfer Act.	
(c) General and miscellaneous sales taxes	Value of retail sales in the province (excluding food, children's clothing and footwear, tobacco, and motive fuel), plus cost of materials used in construction, plus expenditures for investment in place for machinery and equipment, (excluding agriculture and fishing) plus sales of hotel, telephone and theatre services.
(d) Tobacco taxes	Number of cigarettes (or equivalent re cigars and tobacco) sold in each province.
(e) Gasoline taxes	Number of gallons of gasoline sold in province and taxed at road-use rates, excluding fuel used in farm trucks where taxed at such rates.
(f) Diesel fuel taxes	Number of gallons of diesel fuel sold in province and taxed at road-use rates, excluding fuel used for off-highway purposes where taxed at such rates.
(g) Motor vehicle licence revenue, non-commercial	Total number of passenger vehicle registrations in the province with motorcycles and mopeds given a weighting of one-third. Mopeds included whether or not registration is required.
(h) Motor vehicle licence revenue, commercial	Total value of sales of commercial vehicles in the province for the current and previous 4 years in constant dollars.
(i) Alcohol — spirits	Volume of domestic and foreign spirits sold in the province.
(j) Alcohol — wine	Volume of domestic and foreign wine sold in the province.
(k) Alcohol — beer	Volume of domestic and foreign beer sold in the province.
(l) Hospital and medical care insurance premiums	Number of federal income tax returns filed by persons resident in the province with taxable incomes large enough to be subject to premiums in a typical premium levying province. (Separate income levels established for 8 categories: (i) individuals taxed as single with no dependents, (ii) individuals taxed as single with one or more dependents, (iii) individuals taxed as married with no dependents, (iv) individuals taxed as married with one dependent, (v) individuals taxed as married with two dependents, (vi) individuals taxed as married with three dependents, (vii) individuals taxed as married with four dependents, and (viii) individual taxed as married with five or more dependents.)

Revenue Source	Summary Description of Revenue Base
(m) Succession duties and gift taxes	Total income of provincial residents whose income (total income as per the federal income tax return) exceeds \$50,000.
(n) Race track taxes	Amounts wagered in the province at pari-mutual tracks on harness and running horse races.
(o) Forestry revenues	Value added for the forest industry from Crown lands in the province.
(p) Crown oil revenue	Value of marketable production of crude oil, synthetic crude oil and condensate from Crown lands in the province.
(q) Freehold oil revenues	Value of marketable production of crude oil, synthetic crude oil and condensate from freehold lands in the province.
(r) Crown gas revenues (including B.C. revenues from remittances by the B.C. Petroleum Corporation)	Volume of production of natural gas from Crown lands in the province.
(s) Freehold gas revenues	Volume of production of natural gas from freehold lands in the province.
(t) Sale of Crown leases*	Provincial revenues from sale of Crown leases and reservations on oil and natural gas lands.
(u) Other oil and gas revenues	Volume of production of oil and natural gas from Crown lands in the province, with the two components combined on the basis of their energy equivalent values, i.e., 5.8 m.c.f. of natural gas equalling 1 barrel of oil. (natural gas volumes determined with respect to unprocessed gas in order to take account of natural gas liquids.)
(v) Metallic and non-metallic minerals	Value added in the province for metallic and non-metallic minerals including coal and structural materials, adjusted to exclude portion attributable to government subventions.
(w) Water power rentals	Number of kilowatt hours of electricity generated in the province from hydro sources — both publicly and privately owned.
(x) Insurance premium taxes	Total value of insurance premiums for property and casualty insurance and for life insurance, issued by federally or provincially registered corporations, plus the value of premiums, contributions and dues of fraternal benefit societies minus the value of dividends paid to policy holders.
(y) Payroll taxes	The wages and salaries portion of personal income in the province, plus military pay and allowances, but excluding supplementary labour income.
(z) Property taxes (includes school purpose taxes)	<p data-bbox="807 872 1801 892">Composite base with 3 separate components for the building and land portions of the real property tax base:</p> <p data-bbox="807 904 1492 923"><i>Building components</i> (70 per cent of total base for 10 provinces as a whole)</p> <p data-bbox="807 941 1429 961">Two components, with equal weight for the 10 provinces as a whole:</p> <p data-bbox="807 979 1876 1025">(i) The value of residential net capital stock in the province, measured in constant 1971 dollars as of the end of the calendar year preceding the fiscal year, and</p> <p data-bbox="807 1028 1876 1102">(ii) The value of that portion of non-residential net capital stock in the province consisting of building construction in all industries other than local government, universities, hospitals, churches and other institutions, measured in constant 1971 dollars as of the end of the calendar year preceding the fiscal year.</p>

*This category of revenue has been excluded from equalization, effective with 1980-81, as a consequence of the enactment by Parliament of Bill C-24 in February 1981.

Revenue Source

Summary Description of Revenue Base

Land Component (30 per cent of total base for 10 provinces as a whole)

(iii) The provincial gross domestic product at factor cost for the calendar year ending in the preceding fiscal year and for the four preceding calendar years, adjusted for price changes by means of the G.N.E. price deflator.

(aa) Lotteries

Personal income excluding:

(i) value of change in farm inventory

(ii) provincial-local transfers to persons

(iii) federal direct tax withdrawals, consisting of federal income tax on persons (adjusted in the case of Quebec to add back the value of the 16½ point abatement) plus employer and employee contributions to unemployment insurance, the C.P.P. and the Q.P.P.

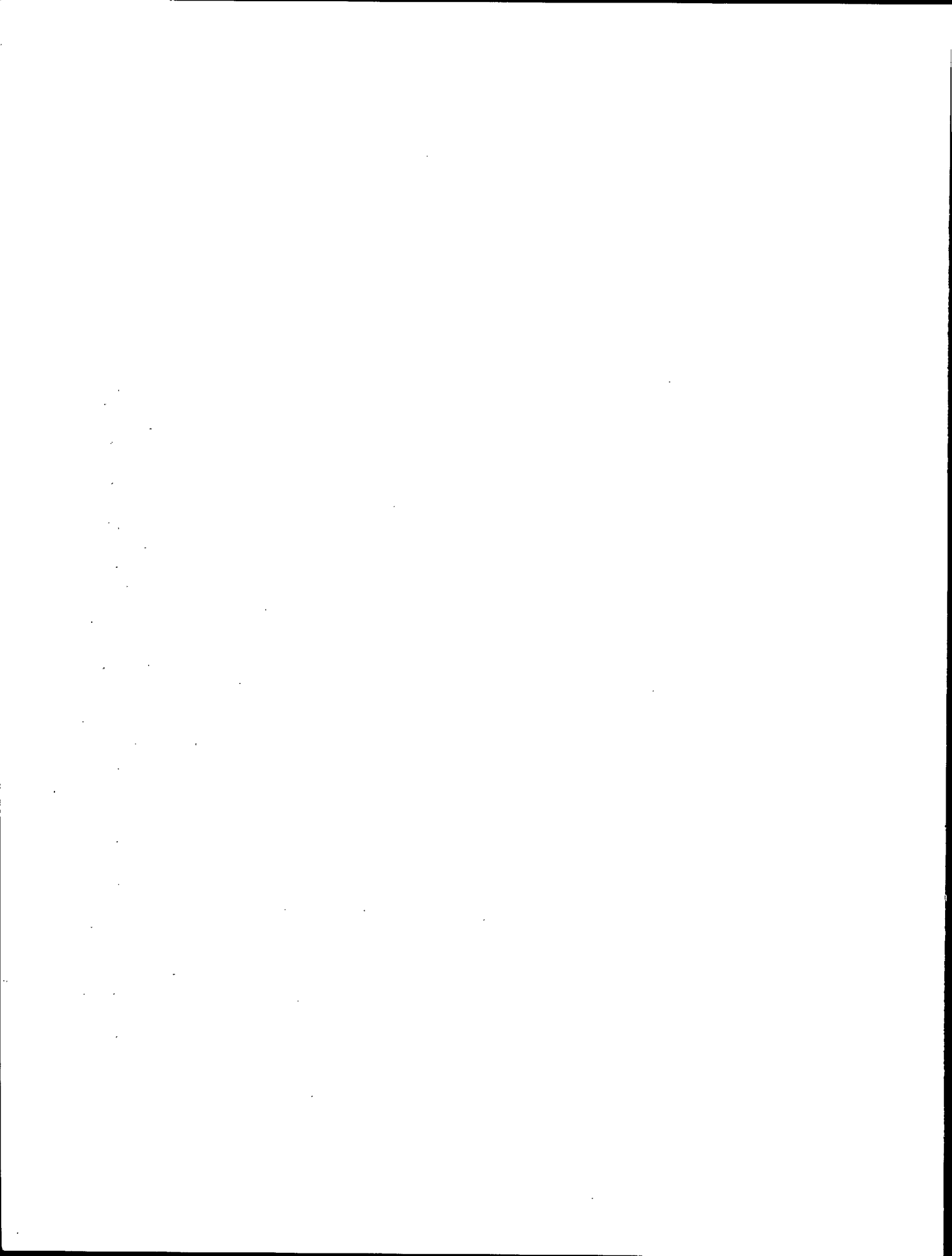
(bb) Other taxes and revenues

Provincial gross domestic product at factor cost.

(cc) Shared tax on payout of undistributed corporate surplus

Actual revenues of the province from this source.

Note: Revenues are measured on a fiscal year basis; revenue bases are usually measured on a calendar year basis.



Chapter VIII

FISCAL HARMONIZATION AND ECONOMIC CO-ORDINATION

Part III of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 provides the federal government with authority to enter into tax collection agreements with the provinces whereby it administers and collects income taxes on their behalf. At present all provinces and territories but Quebec have such agreements with the federal government for collection of personal income tax. Quebec, Ontario and Alberta collect their own corporation income taxes. Through the tax collection agreements, the federal government encourages the provinces to maintain relatively 'harmonious' tax systems. Although provinces are still free to set their own tax rates, the tax collection agreements provide for joint federal and provincial use of a common tax base. This arrangement minimizes taxpayer compliance costs and administrative costs. Increasingly, however, provinces view the restrictions arising out of these arrangements as constraints on their ability to implement social or economic policies through selective tax measures. For this reason, some provinces now appear willing to forgo the benefits of centralized tax collection with the federal government bearing the administrative costs involved. The key problem for the federal government in renegotiating such agreements is balancing the goal of uniform tax treatment in an effective economic union against the provinces' desire for flexibility and innovative capacity in the pursuit of widely differing objectives.

* Although it is clear that comparisons of personal income tax rates do enter some migration decisions for individuals, these are likely to be dominated by many other considerations. In the location decisions of firms, however, tax incentives are likely to figure more prominently. Accordingly, it is the corporate income tax field in which concerns about discriminatory practices are greatest.

The Concept of Harmonization

The existence of relative harmony between the tax practices of different jurisdictions would be of little importance if each political jurisdiction in a federation or larger body (such as the European Economic Community) were totally self-sufficient. However, in the modern world, such mercantilist states rarely exist and few governments or peoples would want or could afford to create such entities. The concern with tax harmonization stems from the mobility of labour and capital or the existence of close trading relationships among political jurisdictions. Uniform (that is, non-discriminatory) tax practices are pursued to reduce the ability of one government to use tax measures to achieve economic gains at the expense of other jurisdictions. In practical terms, this implies that governments collectively impose restraints on themselves so as to limit the extent to which they use their tax systems to attract industry and people from other jurisdictions.* It is thought that elimination of 'excess' tax competition may help to prevent the misallocation of resources that occurs when the tax regime becomes a major criterion by which location decisions are made. Although tax harmonization may impose some constraints on the degree to which individual governments may pursue development strategies, it helps to minimize the amount of tax-induced distortion in allocating scarce resources.

In addition to the advantages already noted, a harmonious tax system ensures that income tax schedules have the same degree of progressivity across systems.** This does not imply that the tax

** In a 'progressive' tax system the ratio of tax to income rises as one's income increases.

rates of both orders of government or of provincial governments need be the same. However, by restricting themselves to common federal-provincial definitions of taxable income and applying single rates of tax to the federal basic tax, the provinces (except for Quebec) generally maintain the progressivity found in the federal tax system. By introducing surcharges or granting tax credits and rebates, provincial governments are able to engage in further income redistribution through their tax systems. In his submission on the Task Force, the federal Minister of Finance discussed the implications of this practice:

...the introduction of special measures has altered the progressivity of the combined federal and provincial individual income tax system. It must therefore be assumed that the equity objective which was to be achieved by requiring uniform progressivity now has a lower priority.¹

As mentioned earlier, the mere presence of tax differentials need not be distorting. If provincial taxes reflect mainly charges for the use of public services, then differences in taxes would merely correspond to differences in provincial tastes. As one expert on the subject notes:

...tax harmonization would be unnecessary if provinces adopted benefit taxation as their method of finance and did not try to engage in redistributing income. From another angle, if the function of redistributing income were lodged exclusively with the federal government, the existence of provincial tax differentials would be non-distorting and no cause for concern among policy-makers.²

Although some economists view the prospect of increasing tax competition with alarm, others believe that the bidding for relatively mobile capital and labour ensures that individuals and corporations are not unduly taxed by particular provinces. The key word is 'mobile'; people or enterprises that are immobile will bear the costs of the competition for labour and capital that can move in response to lower effective tax rates. In this view, however, no corporation (or individual)

*Fiscal harmonization would be concerned with the difference between the value of public goods and services received (including explicit and implicit subsidies) and the amount of taxes paid. If this 'fiscal residual' differs widely among jurisdictions, then location decisions will be made on fiscal rather than economic grounds. The main problem with using the 'fiscal residual' as a measure is that it is very difficult to determine the value of government expenditures.

will long remain in a jurisdiction in which the costs in terms of taxation far outweigh the benefits received in the form of public goods and services. If there are no barriers to capital or labour mobility, taxpayers 'voting with their feet' ultimately impose some degree of discipline and harmony among fiscal jurisdictions. One jurisdiction may have relatively high tax rates, but must then offset this by offering a comparably high level of public goods and services. Personal considerations aside, taxpayers will choose to live in the jurisdiction that offers the combination of taxation and public services most closely in line with their preferences.³ Therefore, what may be viewed as undesirable tax competition by some is seen by others as contributing to the goals of national diversity and freedom of choice for citizens.

Bringing the subject of provincial expenditure patterns into the discussion suggests that concentrating only on the tax side of the harmonization issue may leave a gap in the analysis. Expenditure policies can offset any of the gains made possible by greater tax harmonization. For example, although the present tax collection agreements help to maintain a relatively uniform system of corporate taxation across the country, provinces are still free to influence the spatial distribution of economic activity by granting subsidies to new or existing firms. Since explicit or implicit subsidies to corporations or individuals are substitutes for tax incentives, it would seem that any efforts to harmonize taxation must be accompanied by agreements to limit the use of provincial government expenditures to influence location decisions. Therefore, what might be termed 'fiscal harmonization' is both more comprehensive and more important than tax harmonization.

In this respect, the concept of fiscal harmonization is related to the choice of an equalization system. In a recent paper it is argued that both equity and economic efficiency considerations dictate the establishment of a systems of inter-regional equalization payments.⁴ In this argument it is observed that individuals' real incomes comprise not only earnings from their labour and capital but also the net benefits they receive from government activities (the 'fiscal residual' referred to in the note). Decisions to move to another province may be based on real incomes, but federal taxes apply only to factor incomes; they do not take account of

differences across provinces in the size of the fiscal residual. Therefore, equity considerations imply that these differences in net fiscal benefits should be equalized. To the extent that migration decisions are based on real income differences, efficiency considerations also demand that interprovincial differences in the fiscal residual be equalized.

This argument has implications for the treatment of large, unanticipated resource revenues. To the extent that such revenues contribute to a larger fiscal residual, and therefore to the real incomes of citizens in a particular province, both equity and efficiency considerations argue for their equalization under a system of interprovincial equalization. However, revenues placed in 'heritage funds' do not contribute to a larger fiscal residual, nor does investment income returned to the fund. Therefore, as suggested in Chapter VII, they should not be equalized.

This discussion ranges somewhat beyond the relatively simple concept of tax harmonization. However, the interrelationships between provincial taxing and spending decisions and equalization outlined above argue for a more comprehensive approach to the tax competition issue.

The Tax Collection Agreements

Historical Background Although there has been some degree of intergovernmental co-operation in the area of taxation since Confederation, the philosophy underlying the current tax collection agreements can be traced to the report of the Rowell-Sirois Commission in 1940. In examining federal-provincial fiscal relations, the Commission found a remarkable lack of tax co-ordination among jurisdictions in Canada. One of the Commission's major criticisms of the corporate tax system of the 1930s concerned

...the inevitable inequity [and] lack of efficiency arising from the divided jurisdiction...investments in the same kind of business are taxed at different rates in different provinces; investments in business operating on a national scale are double and triple-taxed with no relation to earning power...⁵

* Annex II-A provides more details on tax rental and tax collection arrangements.

Maintenance of the 'tax jungle' of the 1930s would "intensify the evils of the existing competitive scramble for revenues" and "lead to increasing friction between governmental units..."⁶

From the provinces' point of view, the recommendations of the Rowell-Sirois Commission involved a greater degree of centralization than they appeared willing to accept. However, with the outbreak of World War II, the provinces recognized the heavy financial burden that would be placed on the federal government. To help finance the war effort, the provinces temporarily ceded their occupation of the income tax field in exchange for 'tax rental' payments from the federal government. In 1947, when extension of the wartime tax rental arrangement was offered, Quebec and Ontario chose to establish their own corporation income tax systems. Subsequently, in 1954, Quebec set up and began to administer a personal income tax. Changes in the arrangements were made in 1957 to provide for 'abatements'.* In 1962, the foundations of the present tax collection agreements were laid. Responding to pressures for greater provincial autonomy than was permitted by the tax rental agreements, the federal government agreed to reduce its share of personal and corporate income taxes collected in each province. It also offered to collect, free of charge, any provincial taxes assessed as long as the province (1) accepted the federal definition of the tax base in each case and (2) maintained general conformity of its tax base with that of the federal government. Ontario decided to collect its own corporate income tax while Quebec rejected the entire federal offer, preferring to administer a separate personal and corporate tax system.

The current tax collection arrangements (outlined in the next section) are similar to those adopted in 1962, although the federal government has relaxed some of the conditions. Initially, provinces were required to express their tax rates as a single percentage of basic federal tax. However, in recent years the federal government has agreed to administer for some provinces various tax credits and surcharges that alter the degree of progressivity of the national tax system. Provinces must still maintain a tax base that conforms to the federal tax base defined in the federal Income Tax Act. These are 'basic federal tax' in the case of the personal income tax and 'corporation taxable income' in the case of the corporation income tax.

The interaction of the federal and provincial systems can be illustrated by reference to a stylized personal income tax return set out in Figure VIII-1. Each individual's 'taxable income' (line 3) is determined by subtracting various allowable deductions from 'total income' (line 1) and 'net income' (line 2). A progressive schedule of federal income tax is applied to taxable income to arrive at a 'basic federal tax' liability in line 4. The province then levies a single rate of income tax, using the federal tax liability as a base. Thus, provincial tax is expressed as 38.5 per cent of federal basic tax in Alberta, 58 per cent of basic federal tax in Newfoundland, and so on.

By raising or lowering exemptions and deductions*, federal tax policy can decrease or increase basic federal tax and, consequently, provincial tax payable. In general, across-the-board increases in exemptions and deductions reduce the progressivity of the national tax system as they provide proportionately larger dollar benefits to upper-income groups than to lower-income groups. Fed-

eral tax credits (between lines 4 and 5 of Figure VIII-1) do not affect basic federal tax or provincial tax payable.

The joint use of the corporation tax base is facilitated by provinces' acceptance of 'corporation taxable income' as defined in the Income Tax Act. Provinces may apply multiple rates to this base but, for the most part, they have limited themselves to a general rate and a lower small business rate. Even those provinces that do not currently have a tax collection agreement with the federal government have adopted voluntarily the same definition of the corporate tax base, thus maintaining the harmony of the corporate tax system in this respect.

An important consideration in levying a corporate income tax in a federal system is the allocation of income among jurisdictions. The federal government and the provinces in aggregate jointly occupy this tax field, but there is a formula accepted by both orders of government for allocating

Figure VIII-1

A STYLIZED PERSONAL INCOME TAX RETURN

TOTAL INCOME	\$ _____
LESS: DEDUCTIONS (PENSION, UNION DUES ETC.)	
NET INCOME	\$ _____
LESS: EXEMPTIONS (PERSONAL, MARRIED)	
: OTHER DEDUCTIONS (MEDICAL, CHARITABLE)	
TAXABLE INCOME	\$ _____
BASIC FEDERAL TAX	\$ _____
LESS: FEDERAL TAX REDUCTION	
: FEDERAL POLITICAL CONTRIBUTION TAX CREDIT	
NET FEDERAL TAX PAYABLE	\$ _____
ADD: PROVINCIAL TAX PAYABLE	\$ _____
TOTAL TAX PAYABLE	\$ _____
LESS: TAX PAID BY SOURCE DEDUCTIONS, INSTALMENTS	
: FEDERAL AND PROVINCIAL TAX CREDITS	
REFUND OR BALANCE DUE	\$ _____

Source: Department of Finance.

*These have come to be known as 'tax expenditures'.

corporation taxable income among the provinces. A province's share of the taxable income of a multiprovincial enterprise is determined by weightings of the province's share of the firm's total wages, salaries and sales.

In addition, to facilitate federal and provincial access to a common tax base, the tax collection agreements have two major advantages over independent provincial tax collection: they offer lower total administrative costs, as well as lower compliance costs and relative simplicity for the taxpayer.

Ontario and Quebec have collected their own corporate income taxes for a number of years. They adhere to the federal definition of taxable income and the agreed rules for allocating corporate income, and usually adopt changes in definition made by the federal government. Alberta began to administer its own corporation tax as of January 1, 1981. British Columbia has expressed concern about those outside the agreements having more flexibility than participants and has threatened that "if absolutely necessary" it would collect its own personal and corporate income taxes.⁷ Quebec continues to collect personal income tax; it has never been party to any tax collection agreement.

Although the present tax collection agreements offer a number of advantages, some provinces feel constrained by what they consider to be a lack of flexibility on the part of the federal government in administering the agreements. Over the past few years, a number of provinces have added rental tax credits, income tax surcharges and a variety of other measures. That some provinces wish to go further is illustrated by recent provincial requests to introduce new types of economic development incentives through the tax system. For example, the Quebec government recently introduced a 'stock savings tax credit' for investments in Quebec-based corporations. British Columbia announced that it would introduce a dividend tax credit for residents investing in BC-based corporations, but the federal government refused to administer this program on the grounds that it would create a barrier to the free movement of capital within Canada.

The question arises as to whether the federal government can continue to play a major role in tax harmonization if several of the larger provinces withdraw from the tax collection agreements. Can the federal government, in attempting to ensure that capital moves freely within Canada, insist upon strict guidelines in administering the tax collection agreements without thereby inducing some provinces to set up their own tax systems? (It has been suggested to the Task Force that the federal government's present concern with tax harmony and barriers to the free flow of goods and people seems to have developed only since western provinces began to use provincial revenues for economic development purposes. There was no evident concern for tax harmony when Quebec and Ontario were permitted to run all or part of their own tax systems by staying out of the 1962 tax collection agreements—only now that Alberta has decided to collect its own corporate tax and British Columbia has indicated some interest in withdrawing from the agreements is tax harmonization seen as a major problem.) As will be seen in the next section, some witnesses were quite alarmed by the prospect of an increase in tax competition. However, other witnesses and the provincial governments maintained that although some disruptive potential exists, nothing serious has happened yet because the provinces have acted responsibly.

Provincial withdrawals from the tax collection agreements would eliminate some of the advantages of these agreements. Administrative costs would increase, taxpayers would find they must fill out more forms, and the structure of taxation would likely vary from province to province. Of course, some of this exists with the present agreements. For example, British Columbia and Saskatchewan have introduced surcharges on higher income tax payers.

With the preceding considerations in mind, the Task Force identified four major issues in the tax/fiscal harmonization area. The first question is whether tax harmony should continue to be pursued through a broad set of tax collection agreements. The second issue is provincial adherence to the three basic criteria for a national tax system set out by the Minister of Finance (efficient administration, non-discrimination, essential harmony and uniformity). The third question con-

cerns the pursuit of tax harmony and uniformity through an agreed federal-provincial 'code of tax conduct'. Finally, the Task Force considered the broader issue of fiscal harmonization and its achievement through a 'code of economic conduct' covering a much wider range of government activities (regulation, spending, taxing).

Evidence and Proposals for Change

In the following sections, we outline some of the views and proposals for change submitted to the Task Force in writing and in hearings across Canada.

Individuals Almost all the witnesses who addressed the tax harmonization issue agreed that some new provincial tax initiatives are discriminatory and encourage balkanization of Canadian capital markets. All favoured the establishment of an intergovernmental 'code of conduct' in the tax area. Some argued for an extension of the 'code of tax conduct' approach to a much wider range of government activities. Essentially, these witnesses favour the 'fiscal harmonization' approach discussed at the beginning of the chapter.

The Task Force received no specific proposals regarding the contents of a code of conduct. Nonetheless, most witnesses (including the Minister of Finance; see below) felt that any code of conduct should apply equally to the federal government as well as to the provinces. One exception was Professor Tom Shoyama who stated that although a code of conduct is desirable, the federal government should be careful that it does not bar itself from the use of the national tax system to achieve sectoral or regional objectives.

The success or failure of a code of conduct would appear to turn on (1) the scope of the agreement and (2) the interpretation of 'equal application'. Clearly, a term such as 'code of conduct' can mean many things, even when applied to a relatively narrow area such as taxation. As the code expanded in scope, agreement would become more and more difficult to achieve. For example, provinces might not agree to a code of economic conduct that could preclude the use of the provincial spending power to achieve objectives foreclosed by the simpler code of tax conduct.

As was noted above, it is difficult to see how any code of conduct could apply equally to both levels of government if the term 'equally' were interpreted literally by the provinces. On the other hand, the provinces may be satisfied if the federal government agrees to some ground rules, even if provincial policy becomes somewhat more constrained.

Among the more specific suggestions made to the Task Force were two from Donald Huggett of Coopers and Lybrand. Huggett suggested that in addition to interprovincial agreements and codes of conduct, there was also scope for a neutral tax collection agency run by both the provinces and the federal government. Such an agency would collect all tax monies raised in Canada and distribute the proceeds among the federal government and the provinces according to an agreed formula. Some members of the Task Force viewed the national tax collection agency as a way of eliminating some of the discrepancies and unfairness that exist in the current formula for allocating corporate income (mainly by making formula revisions easier). The agency was also seen to have a potentially broader role as an administrator of a revamped equalization system. Rather than make separate equalization payments to the provinces, this process could occur directly in the tax payments to provincial governments. For various reasons, one of which is noted in the next section, the Task Force rejected the idea of a federal-provincial tax collection agency.

Another witness, Professor Wayne Thirsk of the University of Waterloo, made some very specific suggestions to the Task Force. Thirsk believes that Canada is in danger of returning to the 'tax jungle' of the 1930s and cites as evidence of this the proliferation of 'beggar-thy-neighbour province' policies in recent years. Thirsk recommends that the federal government persuade the provinces to vacate the corporate tax field by offering suitable compensation. Sales tax bases would belong to the provinces and personal income tax would remain a joint field. His recommendations are based on the view that it is appropriate to have provinces rely on residence and destination-based types of taxes while the federal government takes care of source and origin-based taxation. Failing these kinds of agreements, Thirsk says that the federal government could challenge the constitutional basis of provincial corporate taxation before the Supreme

Court on the technical ground that it fails to meet the requirement of being a "direct tax within the province".

Another idea discussed by the Task Force was the possibility that the federal government in its corporate tax system might offer a tax credit up to a specific limit for provincial tax paid. Such a measure would have the effect of reducing the temptation for provinces to offer unfair tax incentives by reducing the benefit to corporations eligible for such incentives.

More generally, at the suggestion of a provincial minister, the Task Force briefly discussed the possibility that the corporate tax field might best be assigned exclusively to the federal government accompanied by a compensatory transfer to provinces of federal excise taxes on tobacco and alcohol. Such a scheme would have considerable theoretical appeal, as pointed out in the testimony of Professor Thirsk, but a number of serious technical questions would have to be addressed and these could not be pursued adequately in the time available to the Task Force.

The Provincial Governments The western provincial governments have expressed considerable interest in the code of conduct idea but insist that it should apply equally to all governments in both the tax collection and tax expenditure areas. At least one provincial government believes that the federal government has been "too fond of the unilateral introduction of tax expenditures which the provinces must cost-share".⁸ Although they feel they could support a code of conduct, most western provinces would still want sufficient latitude to pursue their own development priorities. This position seems to have support from Newfoundland as well.

Among the Maritime provinces, New Brunswick and Nova Scotia favoured the code of conduct idea. Nevertheless, Nova Scotia's Minister of Finance indicated that he sees as inevitable the withdrawal of some provinces from the tax collection agreements. Prince Edward Island emphasized that it felt no strong need to offset the progressivity built into the present federal rate structure. For the Atlantic provinces, collecting their own taxes is an unpalatable alternative to the present agreements.

The two largest provinces, Ontario and Quebec, have made some mention of the code of conduct proposal. In a statement to the meeting of provincial finance ministers in December 1980, the Provincial Treasurer of Ontario said that he favoured setting up an "officials committee of tax experts" to review and report on a regular basis on the performance of the Canadian tax system and provide assessments of the impact of major changes. Like some of the other provinces, Ontario's 1980 Budget noted that it was an open question as to what degree of differential in taxes and subsidies would constitute a disruptive situation. This point was also made by Manitoba.

It appears that Quebec might accept a code of conduct as long as its powers were "very limited", although the Minister of Finance suggested that there was a natural process of tax harmonization which made such a code of conduct unnecessary. In any case, however, it seems clear that Quebec would never be part of a national tax collection agency even if the provinces collectively controlled the management of such an agency.

Both territorial governments favour the retention of the current tax collection agreements.

The Federal Government The federal government finds itself in a difficult position vis-à-vis the tax collection agreements. The fundamental problem was described by the Minister of Finance in his brief to the Task Force:

Extending full flexibility to participating provinces would result in a loss of the advantages of tax harmony and relative uniformity. On the other hand, restricting the flexibility of provinces too severely could drive them out of the tax collection agreements altogether.⁹

The Minister of Finance indicated that three general guidelines are followed to determine whether a measure will be administered under the tax collection agreements:

First, the measure must be able to be administered reasonably effectively. Second, the measure must not significantly erode or have the potential to erode the essential harmony and uniformity of the federal and provincial income tax systems. Third, the measure must not jeopardize the efficient functioning of the Canadian economic union by the erection of income tax barriers to normal interprovincial investment flows.¹⁰

The three guidelines are intended to simplify calculations for taxpayers and administration for Revenue Canada, slow the erosion of uniform progressivity, and counter the trend toward interprovincial tax competition.

The Minister of Finance indicated to the Task Force that he found the code of conduct approach (applying 'equally' to both federal and provincial governments) "most promising".

Conclusions and Recommendations

The Task Force recognizes that there has been a swing of economic power toward the west. This change of economic fortune will continue to bring enormous benefits to western Canadians. To the extent that this trend is reflected in growth of the national economy, all Canadians will benefit. There may be no reason to be concerned with this changing balance of economic power or with a sharing of new-found revenue sources; this may occur automatically through the usual economic linkages, without governments having to intervene. However, it is important to remember that the Atlantic provinces are not as likely to share in the benefits of western growth to the same extent as central Canada.

At the same time, rapid growth will also make significant new demands on provincial governments. The Task Force recognizes that these governments will probably want to use their relatively new-found economic leverage (through whatever means are open to them) to achieve provincial economic and social objectives. These objectives may not always coincide with the national goals and priorities determined by the federal government. On the other hand, the Task Force has heard the traditional complaints that national policies have, in fact, been designed to favour central Canadian interests and that the federal government should not discourage provinces wishing to assist their own industries out of provincial revenues. Although the Task Force does not necessarily endorse this view, we are not particularly concerned that provinces want to use their economic power. However, just as federal policies may sometimes be harmful to particular provinces, provincial actions at times may be detrimental to the country as a whole and to other provinces. The

Task Force believes that in a federal system, the policies of the federal government should not be thwarted by the actions of sub-national governments. This means that although the Task Force favours the establishment of 'codes of conduct' between the federal government and the provinces, and among the provinces themselves, we strongly reject the notion that a code of conduct should preclude the federal government from pursuing policies deemed to be in the national interest.

Since 1962, the tax collection agreements have provided for a highly decentralized system of raising revenue. That this is combined with a high degree of harmonization "...is a great achievement—perhaps one of the most remarkable accomplishments of Canadian federalism" in the opinion of the Minister of Finance.¹¹ The Task Force shares his view and does not support actions that might lead to a breakdown of the national tax system. However, the present agreements do not contribute as much as might be considered desirable to fiscal harmonization—the provinces can easily use expenditure and regulatory policy if they are precluded by the tax collection agreements from using the tax system to achieve their objectives. This poses a question: if the provinces are going to use their economic leverage, is it preferable that they use the tax system or expenditure and regulatory policy to achieve their goals? Although this must remain an open question, the Task Force does note that the present tax collection agreements provide implicit incentives for the provinces to use means other than the tax system to achieve their goals. More generally, we believe that it is in the interest of all Canadians that provincial and federal governments work toward a situation where the role of the 'fiscal residual' in allocating labour, capital and economic activity among regions is minimized, and the free movement of labour, capital and goods in the economic union is promoted.

With the foregoing considerations in mind, the Task Force believes that efforts toward development of a code of tax conduct—or, more broadly, a code of economic conduct—should be pursued. In the interests of maintaining a tax structure and tax collection procedures that offer minimum overall administrative costs, low taxpayer compliance costs and reasonable uniformity and harmony in tax systems, federal administration of a central-

ized tax collection system is desirable. Beyond this, development of a code of tax conduct that would, without prohibiting the federal government from using tax measures for balanced national economic development, impose a degree of self-restraint on provincial and federal governments, also seems desirable.

Such a code of tax conduct would not preclude the use of provincial government expenditure policy or regulatory devices to achieve particular economic or social objectives, but it might at least help to maintain reasonable administrative and compliance costs. (The experience of the western provinces in attempting to negotiate such a code of tax conduct among themselves might be particularly relevant here.)

Because there exists a broad range of instruments that provincial governments may employ in pursuit of provincial objectives and that may have adverse consequences for other provinces, the Task Force favours the establishment of a forum for regular consultation on the possible impacts of economic or fiscal measures taken or proposed by provincial governments. The development of a general code of economic conduct could be considered one goal for this body.

Recommendations on these matters may therefore be summarized as follows. *The Task Force recommends that*

the federal government encourage continuation of the present tax collection agreements (as provided in Part III of the current fiscal arrangements legislation), subject to the three general guidelines set out by the Minister of Finance to determine whether proposed tax measures will be administered by the federal government under the tax collection agreements;

and that

the federal government continue, in the new arrangements, the provision for "Provincial Personal Income Tax Revenue Guarantee Payments" contained in Part IV of the current fiscal arrangements legislation;

and that

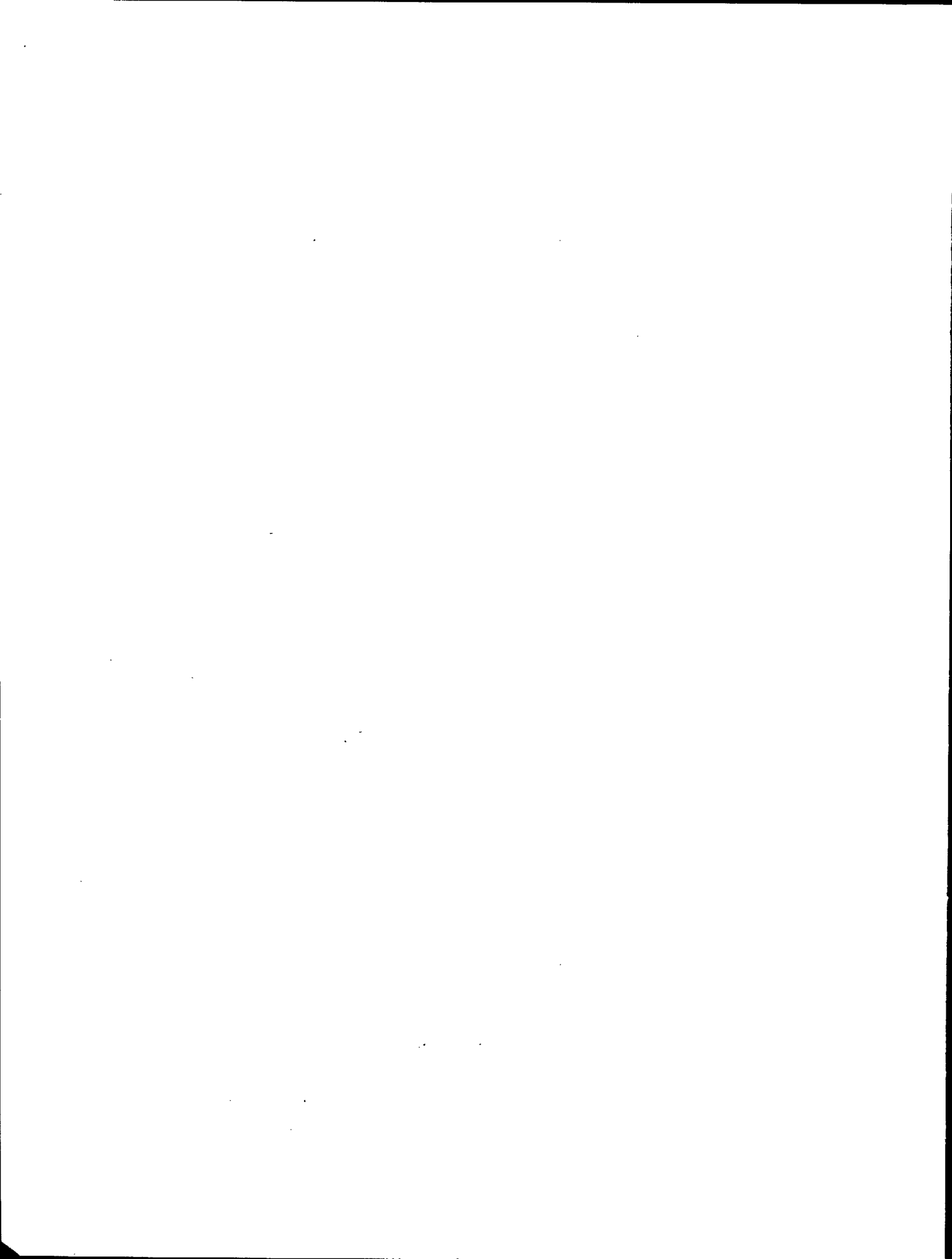
the federal government actively pursue agreement with provincial governments on a 'code of tax conduct';

and that

the Minister of Finance propose to his provincial counterparts the establishment of an intergovernmental committee to examine and report on a regular basis to federal and provincial Ministers of Finance on the 'state of the economic union'. This committee would be concerned with the overall issue of fiscal harmonization and might consider the establishment of a broad 'code of economic conduct' encompassing taxation, expenditure and economic regulation.

Notes (Chapter VIII)

- ¹ Hon. Allan J. MacEachen, *Federal-Provincial Arrangements in the Eighties* (Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangement, April 23, 1981).
- ² Wayne R. Thirsk, "Tax Harmonization and Its Importance in the Canadian Federation", in *Fiscal Dimensions of Canadian Federalism* (Toronto: Canadian Tax Foundation, 1980).
- ³ Charles M. Tiebout, "A Pure Theory of Local Government Expenditures", *Journal of Political Economy* (October, 1956). Tiebout argued that the location choices of individuals would result in optimal local budget patterns.
- ⁴ Robin Boadway and Frank Flatters, "The Case for Equalization Payments", paper presented to the Annual Meeting of the Canadian Economics Association, Halifax, N.S., May 24-27, 1981.
- ⁵ *Report of the Royal Commission on Dominion-Provincial Relations*, Book II (Ottawa: King's Printer, 1940), p. 113.
- ⁶ *Ibid.*, p. 134.
- ⁷ Hon. Hugh M. Curtis, *British Columbia Budget*, March 1981, p. 31.
- ⁸ *Manitoba Submission to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, May 1981, p. 23 (quotation from joint statement of Western Finance Ministers).
- ⁹ Hon. Allan J. MacEachen, *op. cit.*, p. 54.
- ¹⁰ *Ibid.*
- ¹¹ *Ibid.*, p. 14.



Chapter IX

EMERGING ISSUES IN THE CANADIAN FEDERAL SYSTEM

Introduction

In previous chapters we have reviewed existing problems and existing fiscal arrangements in order to develop recommendations for the structure to prevail for the period 1982-87. It is important, however, not to lose sight of the fact that much will change over that period. This chapter notes three major emerging issues that should be kept in mind in appraising proposed changes to current arrangements. Although this discussion is necessarily more speculative and more abbreviated than that in previous chapters, this does not diminish the potential importance of these topics.

In the next section, some response to several submissions from Native groups is set out. Although these questions are both too large in scope (embracing as they do some major constitutional questions relating to provisions for self-government by Native peoples) and too distant from the Task Force mandate (being a concern of individual federal ministers and departments rather than a matter for intergovernmental negotiation), the Task Force was nevertheless struck by the importance of the issues raised and the problems arising from divided jurisdiction in this sensitive area.

In particular, the possibilities for an extension of the block-funding Established Programs Financing (EPF) model to federal financial support of some activities of Indian organizations, in conjunction with other initiatives in the direction of Indian self-government, is a matter the Task Force believes warrants the attention of federal officials and representatives of Native groups. Other problems in the delivery to Native peoples of services normally covered under EPF are also dealt with in the next section.

Questions of relations with territorial governments are closely related to those of relations with Native organizations. In the third part of this chapter we review a few issues bearing on financial relations with territorial governments and again note particular difficulties in the delivery of programs normally funded under EPF.

We explore briefly a different sort of problem — but one with some significance for both fiscal balance and the equalization program — in the fourth section. This is the problem of taxation of Crown corporations. Section 125 of the BNA Act appears to preclude federal taxation of provincial Crown corporations and provincial taxation of federal Crown corporations. But the importance of resource revenues now flowing, or potentially directed in the future through Crown agencies, either federal or provincial, is sufficiently great that federal-provincial arrangements may not be able to ignore the consequences of changes in organization form. One may speculate that debate about provisions having the effect of rendering taxable 'commercial' as opposed to 'governmental' activities of Crown enterprises will become sharper in coming years.

If our deadline had permitted, Task Force members would have wished to comment on aspects of the 'aging society' problem in Canada. Beyond the obvious changes in the balance of expenditures—a declining proportion of expenditures directed to post-secondary education and a rising share to health—questions may also arise as the financial flows associated with pension plans turn around and provincial governments are called upon to repay earlier borrowings. It would be worthwhile to explore the adequacy of existing fiscal arrangements under these circumstances.

Similarly, some of the issues associated with the changing structure of the Canadian economy and its impact on federal-provincial or interprovincial financial flows (and real flows of goods, labour and capital) warrant exploration. Will the structure of fiscal arrangements be dramatically affected by a period of unbalanced resource-driven growth in the Atlantic provinces, by adjustment problems in Quebec, by de-industrialization or re-industrialization in Ontario, by a dramatic swing of economic influence to the west? Will revenue prospects or fiscal balance be substantially affected by more rapid transition to a service sector-oriented, post-industrial society? These are questions of some importance.

Finally, Task Force members are aware that there must be other major changes whose seeds are already germinating and that might flower in time to upset the elaborate arrangements currently being recommended. But every study must stop somewhere, and the limits of what can be done in six weeks of discussion following public hearings have now been reached. These issues are left to be resolved by the next generation of politicians.

Native Peoples

Several Native organizations appeared before the Task Force to discuss the fiscal arrangements in relation to Canada's Native peoples. An important argument made by Native organizations was that provinces were receiving money on behalf of Native people through the Fiscal Arrangements and Established Programs Financing Act but that they were not providing services to Native people. Further, because the provision of services to status Native people is in any event a federal responsibility, it was argued that more direct arrangements should be established. These points were well summarized by the Federation of Saskatchewan Indians:

The Indian factor appears in the formulas used in calculating the transfers in the following ways:

- (a) Indians are part of the population statistics used in calculating equalization payments and established program funding;
- (b) Indians' level of economic development is an intrinsic part—smaller in some provinces than others—of ways used to determine the fiscal gap which equalization payments are intended to bridge; and

- (c) Indians' rate and level of participation in social services are reflected in the way CAP transfers are calculated.

At this time, it is not known how removal of the "Indian factor" would affect fiscal transfers to the provinces—probably to a minor extent only given the nature of the formulas and associated arrangements now in the Act.

The Saskatchewan Federation of Indians argues further that:

The current fiscal relationship between Canada and Indian people violates three sets of principles:

- (a) It violates the Treaties, in that Treaty obligations for various services are not met or are underfinanced and not met adequately, and that Indian governments are subjected to severe external regulation and externally determined expenditure priorities.
- (b) It violates the trusteeship and constitutional responsibility which Canada has for Indians in that fiscal arrangements with the provinces have transferred a responsibility, however undefined, for Indians to provincial jurisdiction.
- (c) It violates even the fundamental principles of public finance and public administration in that it results in overly complex program arrangements, unstable and unpredictable fiscal flows, inefficiency, and a lack of accountability, not by Indian governments and organizations, but by the Government of Canada itself.

Some Native organizations have requested that the fiscal transfer to the provinces on behalf of Native people be paid instead to Native governments.

The Task Force is sympathetic to Native peoples' concern that their inclusion in provincial population counts may be viewed as an attempt to devolve services for Native peoples to the provinces. It is our understanding when the current agreements were being negotiated this question was raised by the government of Saskatchewan, which questioned the wisdom of any agreement that might appear to lessen federal obligations to Native peoples. However, Saskatchewan was assured that estimates of total provincial population, including Native people, were being used only for ease of statistical computation and that this inclusion would not be taken in any way to imply any responsibility in the province to provide services for which they had not previously been responsible.

Nevertheless, until the point was raised by Native organizations, this agreement was not widely known. *The Task Force therefore recommends that*

the appropriate federal Minister(s) establish clearly that fiscal arrangements shall not in any way prejudice the existing constitutional responsibilities of the federal government for Native peoples.

The question of whether population counts should be adjusted in future fiscal arrangements is more complex. To the extent that costs for services to Native people were borne by the federal government rather than by provincial governments, the original 1976-77 base year costs for the EPF did not include them. Thus, including Native people in the provincial population counts did not increase the total costs for the federal government—rather it meant that the estimated base year per capita transfer was a little lower than if Native people had not been included. What this implies is that provinces with more than an average percentage of Native people are getting some 'bonus' in their EPF payments, and provinces with fewer than average Native people are losing a small amount. Thus, although Native organizations are essentially correct in arguing that provinces such as Alberta and Saskatchewan are getting 'extra' fiscal transfers for Native people, the extra amount is not the average per capita transfer to the province multiplied by the number of Native people. It is somewhat less than this.

The Native organizations are also correct in pointing out that some provinces may be receiving some additional equalization payments because of the inclusion of Native people with economic conditions usually below those of the province as a whole. However, the implications of excluding Native people from the various estimates—and it is not clear how this could be done—are not evident. If this reduced variation in provincial tax bases, the result would be to decrease the overall federal fiscal transfer for equalization. Moreover, in any case, the three western-most provinces do not receive equalization payments. Thus it would be very difficult to calculate any estimate of financial flows attributable specifically to the inclusion of counts of Native people—or any other group with members in all the provinces—in the computations.

The Task Force recognizes that at the heart of this issue are some fundamental questions—who is responsible for the cost of services to Native people, status and non-status, Métis and others, and how should the services be delivered? Native people believe that the federal government remains responsible for the costs of services to status Indians, on or off reserves. The federal government seems uncertain whether to accept responsibility for status Indians off the reserve. Native people want to assume responsibility for delivering their own services through their own governments (or possibly by contract with other governments) and want a fiscal transfer to enable them to do so. The resolution of these issues clearly falls outside the Task Force mandate, but it seems evident that continued intergovernmental manoeuvring over responsibility for services leads to serious problems. The Task Force brings this matter to the attention of the federal government and urges efforts to bring about speedy resolution of the issue. The appropriate adjustments to fiscal arrangements may then follow logically from this resolution.

The Territories

Although they are not provinces, the Yukon and Northwest Territories (NWT) governments are responsible for many services that provinces and their local governments deliver in the rest of Canada. Moreover, they receive most federal transfer payments on the same basis as provinces. The main exception in this regard is equalization, for which, under the current formula, they do not qualify.

Yukon has travelled further along the road toward 'responsible government' than has the Northwest Territories. Yet their problems as outlined to the Task Force by representatives of the two governments are quite similar. They arise from the difficulty of delivering a reasonable level of public services—education, health, welfare—to widely-dispersed populations made up of disparate economic and cultural groups. The witnesses appearing before the Task Force reported that many individuals and groups are experiencing grave social problems.

The Task Force received submissions from the governments of Yukon and the Northwest Territo-

ries. Only a few representatives of the public, including representatives of Native peoples, appeared before the Task Force. Nevertheless, it was notable that many of the concerns expressed about the need for more health, welfare and education services were similar to, though in some cases much more pressing than, those heard in other parts of the country, including the Atlantic region. It is clear that the needs are considerable for the disadvantaged people among the population.

The territorial governments are obviously working hard to discharge their responsibilities and meet the difficult challenges of their frontier societies. It seems to the Task Force, however, that although progress is undoubtedly being made, success may have been limited, in part, by a system of financing that is frustrating to the territorial governments and that moreover does not allow them to be held accountable for serving their people adequately.

The territorial governments go through an annual budgetary exercise, estimating what is required for the next fiscal year. EPF and other federal transfer payments as well as revenues from local sources are deducted and the federal government contribution of the balance is negotiated with the Department of Indian Affairs and Northern Development (DIAND) (actually a group of officials from DIAND, the Treasury Board and the Department of Finance). In this process, federal officials do not make judgements about the levels of services being provided. However, there are discussions about the appropriateness of the tax levies that are to be applied to residents of the territories.

The size of the federal 'balancing' contribution to some degree becomes one of the products of the whole budgetary process in Ottawa, with results that at times seem arbitrary, even capricious, to the territorial governments.

In effect, budget officials in territorial governments lack certainty about the levels of resources that eventually will be provided. By contrast, their provincial counterparts are able to forecast, with a reasonable degree of confidence, both their total revenues and total expenditures. The territorial governments must compete with other demands

within the federal government, both within the Department of Indian Affairs and Northern Development and with other departments financed from the Social Affairs envelope. The eventual decision may or may not take full account of the real needs in Yukon and the Northwest Territories.

In Yukon, accountability for the territorial budget is clearly in the hands of the elected executive. The financial relationship with the federal government is relatively well-defined and uncomplicated. In the Northwest Territories, the territorial government has a dual responsibility, on the one hand to the Legislative Assembly and on the other to the federal government. This creates confusion and adds to the uncertainty. Under these circumstances, it is difficult to see how the territorial government can be expected to discharge its responsibilities satisfactorily when it is accountable simultaneously to its electors and to the federal government.

It seems to the Task Force that the grave social problems affecting many in the territories need more priority attention. But where can responsibility be fixed for remedying the situation? It cannot rest exclusively with the territorial governments, given the present budget system, which frustrates any long-term planning of programs. Nor can it rest exclusively with the federal government, since Yukon and the NWT deliver the services in question.

The Task Force has not had the time or the detailed information that would be needed to develop anything more than some suggestions on the resolution of the problems briefly and inadequately described above. However, we do believe that better results could be obtained if the fiscal arrangements between the federal and territorial governments were to be placed on a cycle longer than the current year-by-year budgeting process.

In this connection, the presentation from the government of the Northwest Territories referred to the expectation that a federal cabinet submission will be proposing that territorial governments be financed on a formula basis to facilitate longer term financial planning.

The Task Force believes that although federal-territorial government fiscal arrangements based

on a longer-term formula approach might appear to lessen accountability to Parliament in the short run, in fact, it could be increased in the longer term by coupling the periodic renegotiation of the new arrangements with a requirement for a specific report to Parliament on their effectiveness. Accountability would be further enhanced if there were to be a requirement for this report to be referred to a parliamentary committee for review and assessment.

Taxing Crown Corporations

An issue that may be of increasing importance in coming years is the tax treatment of the incomes of federal and provincial Crown corporations. As was noted in Chapter VIII, section 125 of the BNA Act states that "No Lands or Property belonging to Canada or any Province shall be liable to Taxation." This means that provincial hydro-electric utilities and firms such as the Potash Corporation of Saskatchewan pay no income taxes. Combined with the implicit backing of the provincial governments, the advantageous tax treatment available to some provincial Crown corporations could make them formidable competitors. In addition, tax exemption for Crown corporations provides an incentive to convert profitable private industry firms to this status. In some instances, the federal government has tried to offset these advantages or incentives by providing similar benefits to private firms. An example is the Public Utilities Income Tax Transfer Act. Under this legislation, the federal government agreed to transfer to the provinces 95 per cent of the federal income tax paid by investor-owned utilities engaged in the sale to the public of electrical energy, steam and gas. The Hon. Mitchell Sharp, Minister of Finance at the time, stated that "...while the federal transfers to the provinces would continue to be unconditional...[it was] expected that the provinces would ensure that the benefit of the transfer would be passed on to consumers in the form of reduced rates."¹ As it turned out, Alberta is the only province that continues to return the income tax rebate to the private utility companies. Other provinces retain the transfer in general revenues.

In today's climate of uncertainty in federal-provincial relations, the issue of Crown corporations

takes on a different meaning. The great quantities of natural resources in the west (and particularly Alberta) provide all governments with what is potentially a very attractive revenue base. The provinces have taken advantage of this opportunity by levying royalties, lease rentals and provincial corporate tax. Until recently, the federal government has limited itself to the use of the federal corporate income tax. However, the National Energy Program contained in the 1980 federal budget placed an eight per cent tax on all petroleum and gas production revenues as well as an excise tax on pipeline gas. There is some question about the constitutionality of this scheme (contained in Bill C-57, an Act to Amend the Excise Tax Act) insofar as provincially-owned resource production is concerned, as it may contravene section 125 of the BNA Act.

Although it is not appropriate to speculate on how the Supreme Court might ultimately rule on the relevant sections of Bill C-57, discovering the extent of the protection offered the provinces under section 125 is important, as it could have a substantial impact on the balance between public and private enterprise in Canada in the future. The real issue is the extent to which a large portion of what is now private property may become immune from federal taxation.

It has been suggested that if the provinces' position vis-à-vis section 125 is fully supported by the courts (including the Supreme Court of Canada), the producing provinces could turn major portions of their oil and gas industries into Crown corporations. This would enable these provinces to shelter a large part of their oil and gas revenues from federal taxation. Since all property of provinces is immune from federal taxation, it may be worthwhile for the provinces generally to 'nationalize' other industries so as to pre-empt the federal government from deriving revenues it believes it is justified in collecting.²

Another important aspect of an increase in the number of provincial Crown corporations is the effect on the equalization program. At present, the profits of Crown corporations are included in the equalization formula as a part of a province's share of "revenues from business income". However, Crown corporations are generally subject to different constraints and pursue different objec-

tives than private enterprises. Rather than record profits, Crown corporations may offer goods and services to the public at cost or below-market prices. Although equity between citizens of different provinces demands that this should be considered in the equalization formula, the practical problems of imputing profits to particular provincial Crown corporations makes it difficult to do so. Therefore, if provinces set up more and more Crown corporations and these organizations distribute their 'profits' to provincial residents through subsidized prices, the 'representative tax system' in the equalization formula may become less representative. This would be the only serious loophole remaining in the equalization system if the Task Force's recommendations in Chapter VII are implemented.

A subsidiary issue is illustrated by Quebec's recent decision to require Hydro-Québec (a provincial Crown corporation) to pay a royalty on its income. By taking a portion of Hydro-Québec's profits in this way, the Quebec government will affect the province's equalization entitlement. This is because revenue that would ordinarily be counted as part of the province's business income will be shifted to another category. It appears that this

new policy might reduce Quebec's equalization entitlements very slightly.

Although there is no suggestion that Crown corporations or government enterprises are *a priori* less or more desirable than private enterprise, they are subject to different constraints and pursue different objectives, features that may change along with governments. These characteristics make the determination of Crown corporations accounting profits very difficult. The extent to which the federal government can rebate income tax or take other steps to place private firms on a more equal footing with public firms is limited. Should provincial or federal Crown corporations become much more common, governments may at some point have to reconsider the application of section 125 of the BNA Act. An amendment to the Constitution permitting taxation of Crown corporations may be appropriate. Alternatively, the federal and provincial governments could agree to reciprocal taxation of Crown corporations. No doubt both courses of action would be highly controversial. Nevertheless, the implications of a potentially large expansion in the number of Crown corporations would seem to be a matter for federal-provincial and public discussion.

Notes (Chapter IX)

¹ Canada, House of Commons, Debates, June 23, 1966, p. 6823.

² Much of this analysis is due to Sheridan Scott, "Federal and Provincial Control over Natural Resources" (unpublished paper, May 1981). See also Anthony Scott, *Natural Resource Revenues: A Test of Federalism* (Vancouver: University of British Columbia Press, 1976).

Chapter X

SUMMARY: FISCAL ARRANGEMENTS, 1982-1987

Proposals for Renewal

It has become traditional in Canada to undertake an intensive review of federal-provincial fiscal arrangements every five years. This is the first time that such a review, normally conducted in private by representatives of federal and provincial governments, has been preceded by public consultations and detailed appraisal by a parliamentary committee. We believe this initiative should be repeated and indeed extended to provide adequate time for a full inquiry.

Such a review is not obligatory at this time. Only the legislation governing equalization payments lapses in March 1982. In the absence of any initiative by the federal government, arrangements governing Established Programs Financing (EPF)—including hospital insurance, medical care, extended health care and post-secondary education—would continue as at present. So, too, would the Canada Assistance Plan (CAP) legislation. In line with the tradition of review every five years, however, the Task Force order of reference dictated examination of established programs and CAP, as well as tax collection agreements, equalization payments and the other provisions of the federal-provincial fiscal arrangements.

We hope that the general message of this long and complex report is clear, however. *We are agreed that the programs examined in the course of our work are serving vital social needs and merit undiminished support.* Overall funding of these programs should, in our view, be maintained at no less than current levels. In our appraisal of the programs falling within our order of reference, we identified none in which reductions in overall levels of funding could be undertaken without a serious risk that important program goals and standards would be jeopardized.

We are all agreed, therefore, that federal-provincial negotiations should be directed toward the goal of undiminished funding for both the health and post-secondary sectors supported through EPF and the social security programs financed in part through CAP.

It seems clear to us that levels of federal funding in these programs to date have been adequate to initiate and sustain them through early development phases. But since 1977, within the discretion that was deliberately made part of the arrangement negotiated at that time, most provincial governments have significantly restricted program funding under EPF and under CAP. It is our view that there is now, for the most part, no fat left in the system—no fat in post-secondary education, no fat in the health system, no excess spending in social assistance, little redundancy in social services. We accept the representations of those who argued before the Task Force that serious cuts in program funding would cut into muscle and sinew, not fat. Unless one could presume that federal reductions in funding would automatically be matched by corresponding increases in provincial expenditures—a presumption that may not be considered altogether plausible—then in order to maintain present standards, programs would have to be privately financed to a greater extent than at present. In health, this would mean greater appeal to user charges and more extra-billing; in education, higher fees. In either case, basic national objectives of equity and equality of access would suffer.

Thus, we recommend no lessening or withdrawal of federal interest in the results of these programs administered by provincial governments. Indeed, while we recommend sustained support of these

programs, we also recommend clearer definition of the purposes of that support and of the results sought through it, and tighter mechanisms of accountability along the lines drawn by the Royal Commission on Financial Management and Accountability. In turn, this enables us to recommend more explicit accounting by the Parliament of Canada to the people of this country for the use of federal revenues directed to these programs.

Clearly, the final determination of relative federal and provincial shares in financial support of post-secondary education, health and social assistance or social services will emerge from negotiations between federal and provincial governments. But in order to assure realization of adequate levels of provincial support, a continued federal financial commitment will also be required.

The extent of present federal support and its relation to overall program funding are described in Chapter II.

In our review of the history of fiscal relations in Canada, we were impressed by the depth and resilience of the structure that has been developed to date. In every dimension, that structure has been able to balance contending concerns for national interests and provincial autonomy; for central co-ordination and regional diversity; for participation (achieved through cost-sharing) and flexibility (achieved through block-funding).

Overall, the system has worked well. It has permitted a degree of harmonization and joint action between orders of government that has bridged changing fiscal positions without compromising constitutional divisions of responsibility; it has supported the development of a network of programs toward agreed national standards, while offering a greater degree of support to provinces with fewer resources. Figure X-I illustrates the extent to which the present system of federal-provincial transfers achieves a substantial degree of redistribution.

* They imply the necessity for specific amendments in the current Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977. These will in most cases be clear from the text of our recommendations. Because specific provisions must emerge from joint federal-provincial discussions, we have not considered that our role is to spell out in detail the technical content of any such amendments at this time.

Our proposals for renewal of these arrangements for the period 1982-87 are set out in this report and our recommendations are collected at the beginning of the document.* On the basis of the evidence we heard, we see the need to define more precisely the federal presence; we reject the notion of further federal withdrawal from, or diminished interest in, health, post-secondary education or social security.

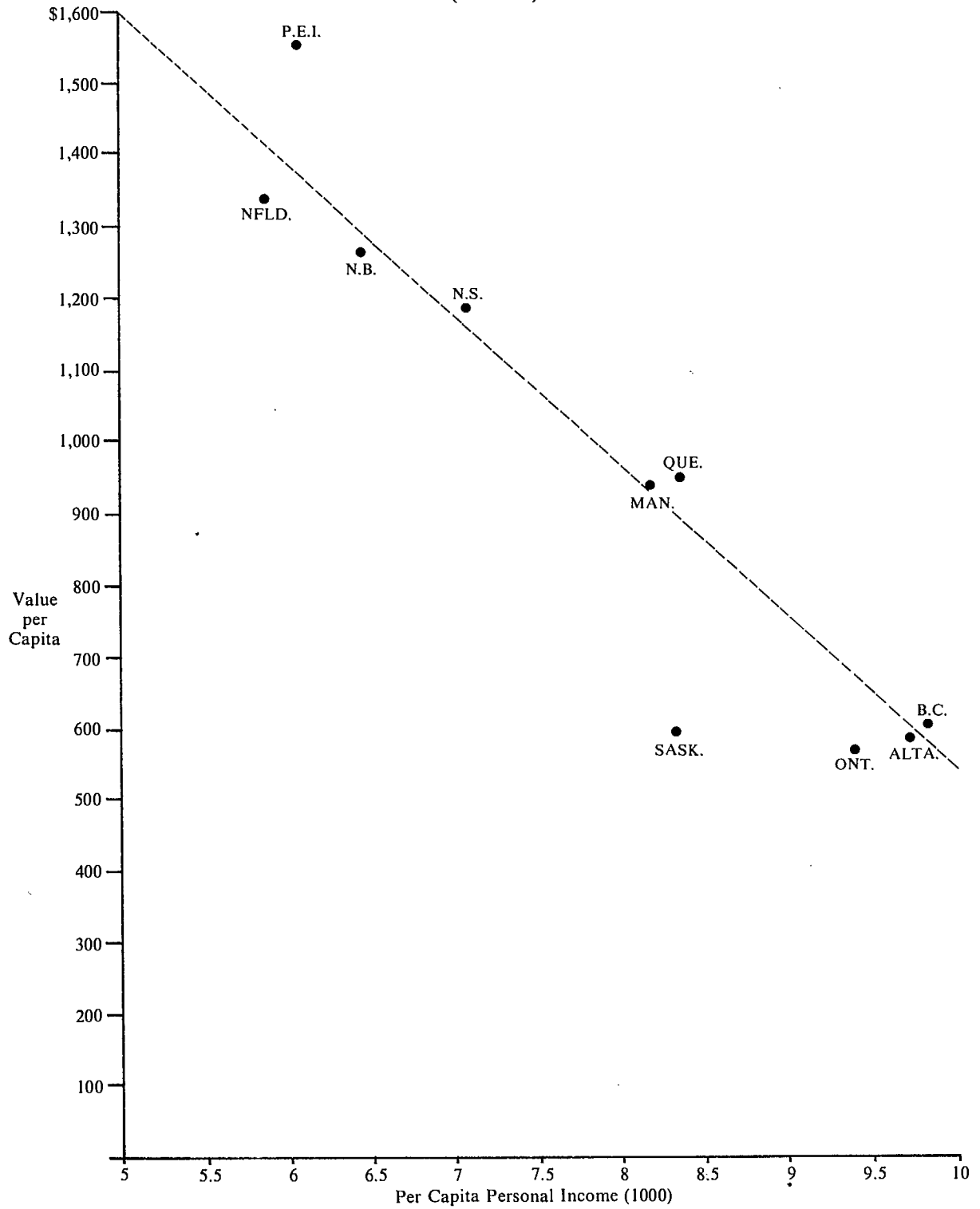
If the decade or two preceding 1976 are viewed as periods of an active federal role in initiating and supporting the network of basic programs we have examined, and the EPF arrangements negotiated in 1976 (along with proposals for block-funding CAP) as the beginning of a period of ensuring provincial discretion, flexibility and responsibility in these same program areas, then the proposals we advance must be viewed as re-affirming and re-adjusting the federal role in those arrangements to meet national needs while respecting provincial jurisdiction.

Visibility and Accountability

In the first few pages of this report, we sounded a theme that has echoed through almost every chapter. The idea of accountability is not easy to express precisely; it is a fuzzy concept and a great many empty generalities extolling its virtues have been spun out. In this report, we have tried to be more concrete; we have tried to spell out why we believe accountability is important in particular programs and how it might be achieved in each.

We began with the observation that it is futile to attempt to return to a legendary past in which every tub stood on its own bottom and every government answered directly to its own electorate for all the revenues necessary to fund all the programs serving that electorate. Even were it politically feasible, it would not be in the interests of the people of Canada to seek a watertight separation of government roles and responsibilities. It is necessary to start, therefore, with procedures to enable the Parliament of Canada to account for funds allocated to provincial programs that are financed through statutory arrangements negotiated by federal and provincial governments.

FIGURE X-1
Federal Cash and tax transfer per capita
in relation to provincial personal income
per capita
(1981-82)



Our simple principle is that the responsible federal ministers must answer in Parliament for the disposition and use of funds transferred to provincial governments. Two requirements follow directly from that principle:

1. the arrangements governing transfer programs must provide a means to ensure that sufficient information is forthcoming from provincial governments to enable the responsible federal ministers to discharge the obligation to answer in the House of Commons for the disposition of the transfers; and
2. the arrangements must provide for a clear definition of the objectives to be achieved through transfer programs along with criteria, where appropriate, against which the extent of achievement of these objectives, or of the satisfaction of program conditions, can be measured and, if necessary, enforced through withholding some portion of the transfer.

In line with this principle, we recommended in Chapters IV (health), V (post-secondary education) and VI (social assistance and social services) provisions for explicit objectives, clear program conditions or criteria, mechanisms for monitoring,

reports to the House of Commons by the responsible ministers and referral of those reports to parliamentary committees.

The question of visibility is a little more difficult. It is not, as is sometimes alleged, simply a matter of political posturing, a search for the limelight and the ribbon-snipping ceremonies. It is also answerability to the electorate. Federal spending without federal presence, or participation in provincial programs without visibility in the provinces, is not just frustration for the politician, it is also a denial of the citizen's right to see the government's work and to judge it. When the federal role is not evident, it cannot be assessed. Visibility involves a search for the chance to take the credit, but at the same time, a willingness to shoulder the blame. As politicians, therefore, we reject the simplistic view that a concern for visibility is no more than public relations for its own sake. Answerability of federal MPs to the public is the other side of the coin from accountability of ministers to Parliament, and a government that is not visible cannot be answerable.

We believe that the recommendations we have put forward offer a promise of progress in both respects.

Appendix I

Witnesses at Public Hearings

Organizations and individuals are listed separately. The number of the printed issue of the Minutes of Proceedings and Evidence of the Task Force meeting at which they appeared is indicated within brackets.

Organizations

Age and Opportunity Centre (13)

Dr. B. Bendor-Samuel, President
Bob Stewart, Executive Director

Alberta Friends of Medicare (19)

Don Aitken, Alberta Federation of Labour
Bob McKean, Social Justice Commission Catholic Archdiocese
Dr. Richard Plain, Consumers' Association of Canada (Alberta)
M. Martin, Edmonton Voters' Association

Alberta Medical Association (19)

Dr. Robert Cooper, President
Dr. T. A. McPherson, President-Elect
Dr. Robert F. Clark, Executive Director
J. E. Suvianiarski, Co-ordinator, Economics

Alberta Public Health Association (19)

Dr. Helen Simmons, President
Dr. G. Preddy, President-Elect
Karen Mills, Past-President

Alberta Social Credit Party (19)

Dwight Bliss, Executive Assistant to Mr. Ray Speaker,
House Leader of the Official Opposition

Association des Centres de services sociaux du Québec (25)

Gilles Lacroix, General Director,
CSS Quebec Centre
Darcy Coulson, General Director,
CSS Ville-Marie
J. B. Robichaud, General Director,
CSS Metropolitan Montreal

Association for Children (and Adults) with Learning Difficulties (23)

Beulah Phillpot

Association of Atlantic Universities (18)

Dr. P. M. Meincke, Chairman,
AAU and President, University of Prince Edward Island

Professor W. A. MacKay, Chairman-designate AAU and
President, Dalhousie University
Dr. E. M. Fulton, President,
Mount Saint Vincent University
Dr. G. R. MacLean, President,
Mount Allison University
Dr. K. Ozman, President,
St. Mary's University
Dr. J. R. Keyston, Executive Director, AAU

Association of Municipalities of Ontario (12)

Marianne Wilkinson, Member of the Board of Directors and
Co-Chairperson of Fiscal Policy Committee, Mayor of Kanata
Peter Clute, Deputy Executive Director
Marlene Catterall, Member of the Executive Committee and
Board of Directors, Alderman, City of Ottawa
William Rice, Member, Fiscal Policy Committee,
Commissioner of Finance, City of Nepean
Arthur Pope, Member,
AMO/ACRO Community and Social Services Committee, Commissioner of
Social Services, Regional Municipality of Ottawa-Carleton

Association of Universities and Colleges of Canada (3)

Dr. Alan Earp, President,
Brock University and President of AUCC
Dr. Lloyd Barber, President,
University of Regina and Vice-President of AUCC
Allan Gillmore, Executive Director, AUCC
Dr. Edward Monaghan, Executive Director,
Council of Ontario Universities
Dr. John Keyston, Executive Director,
Association of Atlantic Universities
Robert Patry, Assistant Director,
Information A.U.C.C.
Dr. Peter Meincke, President,
University of Prince Edward Island

Association of University of New Brunswick Teachers (16)

Dr. John Thompson, President
Professor John R. Williamson, Vice-President
Dr. Allan Sharp, Chief Negotiator
Professor Gerald Clarke
Professor Israel Unger

British Columbia Association for the Mentally Retarded (20)

Elise Clark, President
A. Etmanski, Executive Director
Pat Colbert, Executive Committee Member

British Columbia Federation of Labour (21)

David Rice, Director of Research and Legislation

British Columbia Health Association (21)

A. Paterson, Vice-President
P.M. Wadsworth, Executive Director
E.M. Tomesky, Assistant Executive Director

- British Columbia Health Association* (21)
 Dr. Ray March, President
 Dr. John O'Brien-Bell, Member of the Board of Directors
- British Columbia Students' Federation* (20)
 Rhonda Lavigne, BCSF Executive Member;
 Douglas Fleming, External Relations Officer,
 Simon Fraser Student Society
 Steve Shallhorn, BCSF Executive Officer
- Canadian Association for Adult Education* (9)
 Ian Morrison, Executive Director
- Canadian Association for the Mentally Retarded* (25)
 Paul Mercure, President
 Diane Richler, National Institute on Mental Retardation of the
 Canadian Association for the Mentally Retarded
- Canadian Association of Social Workers* (4)
 Dr. Richard Splane, President
 Gweneth Gowanlock, Executive Director
- Canadian Association of University Teachers* (9)
 Dr. James Foulks, President
 Dr. Ken McGovern, Vice-President Internal
 Dr. Israel Unger, Past-President
 Dr. Donald Savage, Executive Secretary
 Richard Bellaire, Professional Officer
- Canadian Bar Association* (12)
 A. William Cox, Q.C., President
 David Matis, Chairman,
 Constitutional and International Law Section
- Canadian Chiropractic Association* (24)
 J.P. Bergeron, President
 R.K. Elder, President-Elect
 Alan H. Adams, Dean, C.M.C.C.
 J.L. Watkins, Executive Director
- Canadian Council on Social Development* (12)
 Terrance Hunsley, Executive Director
 Geoff Norquay, Director of Programs
 Dr. David Ross, Consultant
- Canadian Health Coalition* (12)
 Jim MacDonald, Chairman
 Margaret Vowles, Vice-Chairman,
 National Pensioners and Senior Citizens Federation
 Patrick Johnston, Director,
 Canadian Council on Social Development
 Patrick Jamieson, Director,
 Catholic Health Association of Canada
 Emile Vallée, Director,
 United Steel Workers of America
 Steven Jelly, Secretary,
 Consumers' Association of Canada

- Canadian Hospital Association* (11)
 Sister Lucy Power, Chairman of the Board
 J. C. Martin, President
 Paul Brown, Executive Vice-President
- Canadian Medical Association* (10)
 Dr. W. D. Thomas, President
 Dr. L. Richard, President-Elect
 Dr. D. L. Wilson, Past-President
 M. Baltzen, Chairman,
 CMA Council on Economics
 Dr. R. G. Wilson, Secretary-General
 B. E. Freaino, Executive Secretary
 D. Geekie, Director of Communications
 Dr. J. S. Bennett
 Dr. S. Laporte
 Dr. J. Charbonneau
 Dr. G. H. Isaac
 Dr. H. Arnold
- Canadian Nurses' Association* (19)
 Dr. Shirley Stinson, President
 Ginette Rodger, Executive Director
- Canadian Paraplegic Association* (7)
 Andrew C. Clarke, Director,
 Association Affairs
- Canadian Teachers' Federation* (4)
 Pascal Chisholm, President
 Norman Goble, Secretary-General
 Dr. Wilfred Brown, Director,
 Economic Services
- Canadian Union of Public Employees* (10)
 Gil Levine, National Research Director
 John Calvert, Researcher
 Gene Errington, Researcher
- Canadian Union of Public Employees-University of New Brunswick* (16)
 Marcel Langin, Recording Secretary
 David MacDougall
 John Scullion
- Catholic Family Services Bureau* (6)
 John Daley, Social Worker
- City of Fredericton* (16)
 Patricia Donihee-Darling, Co-ordinator Housing and
 Community Renewal, Neighbourhood Improvement Center
- Coalition of Provincial Organizations of the Handicapped* (13)
 Allan Simpson, Chairman
 Jim Derksen, Policy Planning Co-ordinator
- Committee of Social Planning Councils* (8)
 Ernie Ginsler, Executive Director,
 Social Planning Council of Kitchener-Waterloo

- Community Services Council* (5)
 Penelope Rowe, Executive Director
- Coordinating Committee of New Brunswick for the International Year of Disabled Persons* (16)
 Alan Beardall, Provincial Chairman
 Camille LeBlanc, Executive Director
 Bev Hallam, Secretary-Treasurer
- Council for Yukon Indians* (22)
 Joe Jack, Vice-Chairman,
 Special Programs
 Marilyn VanBebber, Health Advisor
 Dr. Ted Jackson, Director
 Adult Education
- Council of Ontario Universities* (8)
 Dr. Ronald L. Watts, Chairman,
 Principal of Queen's University
 Dr. James Ham, President,
 University of Toronto
 Professor D. Forster, President,
 University of Guelph
 Dr. Edward Monahan, Executive Director
- Economic Council of Canada* (28)
 Dr. David Slater, Chairman
 Dr. Peter Cornell, Senior Advisor
 Dr. David Sewell, Director of the Fiscal Studies Group
- Family Services of Eastern Nova Scotia* (18)
 Father Vern Boutilier, Executive Director
- Fédération des Associations de professeurs des universités du Québec* (24)
 Pierre Bélanger, Vice-President
 Gaetan Lavergne, Economist
- Federation of Alberta Students* (19)
 Ann McGrath, Field Worker
 Donna Baines, Executive Member
 Melanie Hofer, Executive Officer
- Federation of New Brunswick Faculty Associations* (16)
 Professor Claudia Whalen, President,
 FNBFA/FAPUNB
 Professor Charles LeBlanc, President,
 ABPUM (University of Moncton)
 Professor Arsène Richard, Past-President,
 FAPUNB
 Professor George DeBenadetli, President,
 MAFA (Mount Allison)
 Professor Jim Clair, Treasurer,
 FAPUNB
 Professor Sylvia Hole, President,
 FAUST (St. Thomas)
 Professor Jon Thompson, President,
 AUNBT (University of New Brunswick)

- Professor Israel Unger, Past-President,
CAUT/ACDU
Allayne Armstrong, Professional Officer,
FNBFA/FAPUNB
- Federation of Saskatchewan Indians* (10)
Chief Sol Sanderson, President
Pat Woods, General Manager,
SINCO Developments Ltd.
- Fédération québécoise Anti-pauvreté* (25)
Leonee Decheneaux, President
Robert Tremblay, General Director
Philius Poirier, Director
- Finance, Department of* (2)
The Honourable Allan J. MacEachen, Deputy Prime Minister and
Minister of Finance
Gérard Veilleux, Assistant Deputy Minister,
Federal-Provincial Relations & Social Policy Branch
J. Lynn, General Director,
Federal-Provincial Relations & Social Policy Branch
- Halifax Board of Trade* (18)
Graham Smith, Chairman,
Economic Development Sub-Committee
- Hope Environmental Group* (6)
Arthur Reddin
- Hu Harries and Associates* (19)
Dr. Hu Harries, Economist
- Institute for Research on Public Policy* (27)
Gordon Robertson, President
- Laval University Hospital Centre* (24)
Dr. Jacques Brunet, Director
- Legal Aid Lawyers' Association* (14)
Arnie Peltz, President
Sheila Rogers, Vice-President
Brenda Silver
- Manitoba Health Organization Inc.* (14)
Ted Bartman, Chairman of the Board
Peter Sloggett, Chairman,
Ad-Hoc Committee on Established Programs Financing Act
- Medical Association of Quebec* (25)
Dr. Louis-Joseph Roy, President
Dr. Gérald Caron, Director General
- Medical Society of Nova Scotia* (18)
Dr. Alan J. MacLeod, President
Dr. Margaret E. Churchill, Past-President
Dr. Murdoch A. Smith, President-Elect
Douglas D. Peacocke, Executive Secretary

Memorial University of Newfoundland (5)

Dr. M. O. Morgan, President and Former President of the
Association of Universities and Colleges of Canada
W. H. M. Selby, Vice-President,
Administration and Finance
Professor A. Chadwick, President,
Faculty Association
Dr. R. J. Rose, President-Elect, Faculty Association
Dr. G. P. Jones, Former President,
Canadian Association of University Teachers

Mental Health Association (15)

H. Schaller, Executive Director
Rev. Joeb Burkes

Metropolitan Toronto Department of Social Services (7)

Dr. Gordon Chong, Alderman
Ray Tomlinson, Commissioner
John Fleming, Deputy Commissioner

National Health and Welfare, Department of (26)

The Honourable Monique Bégin, Minister of National Health and Welfare
Dr. M. Law, Assistant Deputy Minister of Health Services and Promotion
Brian Iverson, Assistant Deputy Minister of Social Services

National Indian Brotherhood (11)

Del Riley, President
A. Campbell, Researcher,
Economic Development
Irvin Goodleaf, Director
Bill Badcock, Legal Counsel

National Union of Provincial Government Employees (20)

John Fryer, President
Bob Hatfield, Education Director
Gary Steeves, Research Officer,
British Columbia Government Employees' Union

National Union of Students (3)

John Doherty, Executive Officer
Jeff Parr, Researcher
Barbara Taylor, Ontario Representative of the Central Committee

New Brunswick Advisory Council on the Status of Women (16)

Anne Crocker, Member of the Advisory Council
Susan Shalala, Researcher

New Brunswick, Government of (16)

The Honourable Richard Hatfield, Premier
The Honourable F. G. Dubé, Minister of Finance and
Minister Responsible for Energy Policies
The Honourable Brenda M. Robertson, Minister of Health
The Honourable Charles G. Gallagher, Minister of Education
The Honourable Leslie I. Hull, Minister of Social Services

New Brunswick Health Coalition (16)

Bill Petrie, Chairman
John Murphy
Wendell MacVicar
Inaz Smith

New Brunswick New Democratic Party (16)

Tom Good, Financial Critic
Judy Wilson, Provincial Secretary
Elizabeth Weir, Policy Chairperson

New Brunswick Liberal Party (16)

Joseph Daigle, Leader of the Official Opposition
John McKay, M.L.A., Miramichi-Newcastle
Shirley Dysart, M.L.A., Saint John Park
Gerald Clovette, M.L.A., Madawaska Centre

Newfoundland Hospital Association (5)

Major Harold Thornhill, Administrator,
Grace General Hospital
Dr. Ian Tough, Medical Director,
St. Claire Mercy's Hospital

Newfoundland Medical Association (5)

Dr. R. Whelan
Dr. G. Hogan
Dr. Karl Misik, Honorary Secretary,
National Medical Association

Northwest Territories Council for Disabled Persons (23)

Gwynn Butler, Executive Director

Nova Scotia Confederation of University Faculty Associations (18)

Victor Cutano, President
Derek Wood, Past-President
Robert Rodger, Member,
Committee on Relations with Government

Nova Scotia Federation of Labour (18)

J. K. Bell, Secretary-Treasurer
Leo MacKay, Executive Secretary

Nova Scotia Health Coalition (18)

Ian Johnson, Chairperson
Dr. Linda Christiansen-Ruffman,
Bonding-Canadian Sociology and Anthropology Association
Deborah Kaetz,
Women's Health Education Network
Mary Morison,
Nova Scotia Women's Action Committee on the Status of Women
Father George Topshee,
St. Francis Xavier University
Frank Boyd,
North End Community Extension Health Department Association

Ontario Association of Children's Mental Health Centres (8)

Lynn Eakin, President
Cathleen Morrison, Executive Director

Ontario Federation of Students (7)

Mark Rosenfeld, Researcher
Ross Parry, Researcher
Peter Birt, Information Officer

Ontario Medical Association (7)

Dr. Robert MacMillan, President
Dr. Hugh Scully
Dr. E. J. Moran, General Secretary

Ontario Welfare Council (8)

Anne Barstow, President

Prince Edward Island Council of the Disabled (6)

Kevin Edgecombe, Executive Director

Prince Edward Island Medical Society (6)

Dr. J. R. Chiasson, President
Dr. Colin McMillan, Chairman,
Public Information
Dr. Douglas Cudmore, Chairman, Tariff
Dr. W. T. Hooper, Second Vice-President

PROACT (8)

Malcolm Stewart, Executive Director,
The Ontario Association of Professional Social Workers

Progressive Conservative Youth Federation (9)

Greg Thomas, President
Alister Campbell, Post-Secondary Director

Registered Nurses' Association of British Columbia (21)

Stephany Grasset, President
Marilyn Carmack, Executive Director
Gloria Parker, President-Elect
Margaret Lonergan, Nurses Consultant

Registered Nurses' Association of Ontario (10)

Shirley Wheatly, President
Maureen Powers, Executive Director

Regroupement des Associations étudiantes universitaires (25)

José Roy, General Secretary
André Paquette, Director of Information

Réseau d'Action et information pour les femmes (15)

Marcelle Dolment, Co-ordinator

Saskatchewan Coordinating Council on Social Planning (15)

Lois Borden, President
Geoff Pawson, Past-President
Catherine Day

Saskatchewan Health Care Association (15)

Jim Slimmon, President
Dan DeVlieger, Vice-President
Hewitt Helmsing, Executive Director
W. Pettit, Assistant Executive Director

Saskatchewan Medical Association (15)

Dr. Stewart McMillan, President
Dr. Graeme McIvor
Dr. Gordon Duke
Dr. E. H. Baergen, Executive Director
Ed Hobday, Administrative Director
T. Cosgrave, Communications Director

Saskatchewan Universities Commission (15)

Dr. W. M. Sibley, Chairman
Dr. D. Larder, Executive Director

School Councillors' Association of Newfoundland and Labrador and the Labrador Regional College Steering Committee (5)

Ernest Condon, President

Secretary of State, Department of the (26)

The Honourable Francis Fox, Secretary of State and
Minister of Communications
G. T. Rayner, Senior Assistant Under-Secretary
P. Hicks, Student Assistance Task Force,
Senior Advisor and Education Support
Jean-Pierre Mongeau, Senior Policy Advisor,
Office of the Secretary of State

Social Action Committee of the Roman Catholic Diocese of Charlottetown (6)

Mary Boyd

Social Planning Council of Metropolitan Toronto (7)

Dale Shuttleworth, President
Jeffrey Patterson, Senior Program Director
Judy Jordan, Vice-President and Chairman,
Policy and Program Committee
Edward J. Pennington, Executive Director

Social Planning Council of Winnipeg (14)

E. T. Sale, Executive Director

Social Planning Department, City of Halifax (18)

Harold D. Crowell, Director
Karen Traversy

Social Planning and Research Committee of the United Way and the Social Planning and Review Council of British Columbia (21)

Hugh Millar, Member of SPARC of British Columbia and of SPAR Committee of the United Way and Executive Director of the British Columbia Association of Social Workers
Arthur Kube, President of the United Way of the Lower Mainland, Chairman of the United Way Long Range Planning Committee, and Regional Director of Education, Canadian Labour Congress
Harold Moist, Board Member of the Social Planning and Review Council of British Columbia
Chris McNiven, Member,
SPAR/SPARC Joint Committee

Social Science Federation of Canada (9)

Professor Vaira Vikis-Freibergs, President
Grant Clarke, Vice-President and Chairman,
S.S.F.C. Task Force on University Funding
Professor John Trent, Executive Director
Professor Frank Innis

Social Services Department, City of Dartmouth (18)

Ron Stratford

St. Francis Xavier University (18)

Father McKinnon, President

St. John Board of Trade (16)

Lino Celeste, President
Lynda Heffernan, General Manager

Treaty Indian People (15)

Bert Johnson, Ambassador for the Victorian Commonwealth
Sydney Fineday, Executive Director,
Queen Victoria Treaty Protective Association
Gordon Woopsayus, Assistant to the Executive Director,
Queen Victoria Treaty Protective Association

Union of New Brunswick Indians (16)

Graydon Nicholas, President
Darrell Paul, Provincial Liaison Officer

University of Manitoba (13)

Dr. J.A. Hildes, Faculty of Medicine
Dr. John Horne, Faculty of Medicine,
Department of Social and Preventive Medicine
Professor Paul Thomas, St. John's College

University of Moncton (16)

Médard Collette, Vice-Chancellor, Administration
Réal Bérubé, Director of Development
Jean Guy Rioux, Assistant Chancellor,
Shippagan University Centre

University of New Brunswick (16)

Dr. James Downey, President

University of Prince Edward Island (6)

Dr. Peter Meincke, President
Dennis Clough, Director,
Administration and Finance
Professor Ivan Dowling, Dean of Science
Dr. Kenneth Grant, Chairman
Board of Governors
Philip Matheson, Vice-Chairman,
Board of Governors
Wilbur McInnis, Chairman,
Finance Committee of the Board of Governors
Professor P. Nagarajan

University of Prince Edward Island Students' Union (6)

Terry Palmer, President

Bill Pound, Student Adviser

University of Regina Students' Union, Union of Support Staff and Union of Academic Assistants (15)

Graham Dowdell, National Union of Students,
Saskatchewan Representative

Jacqui Barclay, University of Regina Students' Union

Eileen Dooley, University of Regina Students' Union and
Association of Student Councils

Don Rutherford, President,

University of Saskatchewan Students' Union

Trish Elliott, President,

University of Regina Students' Union

Voluntary Resource Council (6)

Eleanor Conway, Executive Director

Ann Sherman

Julie Dodd

Yukon Medical Association (22)

Dr. Allen Reddoch, President

Yukon, Government of (22)

The Honourable Chris Pearson, Minister of Finance and
Government Leader

John Ferbey, Deputy Minister of Intergovernmental Relations

Andy Johnson, Deputy Minister of Finance

Jim Davie, Deputy Minister of Health and Human Resources

Terry Weninger, Deputy Minister of Education

Individuals

Malcolm Brown, Professor of Economics, University of Calgary (19)

Thomas Courchene, Professor of Economics, University of Western Ontario (3)

R. Evans, Professor of Economics, University of British Columbia (20)

Ralph Garber, Dean, Faculty of Social Work, University of Toronto (7)

Bill Gibson, Chairman of the Universities Council of British Columbia (21)

John Graham, Professor of Economics, Dalhousie University (17)

John Helliwell, Professor of Economics, University of British Columbia (17)

Don Huggett, C.A., Coopers and Lybrand (25)

John Irwin, Mayor, Municipality of Crowsnest Pass (19)

Ron Kanter, Alderman Ward 5, City of Toronto (7)

Douglas Kenny, President, University of British Columbia (21)

George Pederson, President, Simon Fraser University (21)

T.L. Powrie, Professor of Economics, University of Alberta (19)

Denis Schellenberg, Regional Director, Medical Services Branch, Department of National Health and Welfare (22)

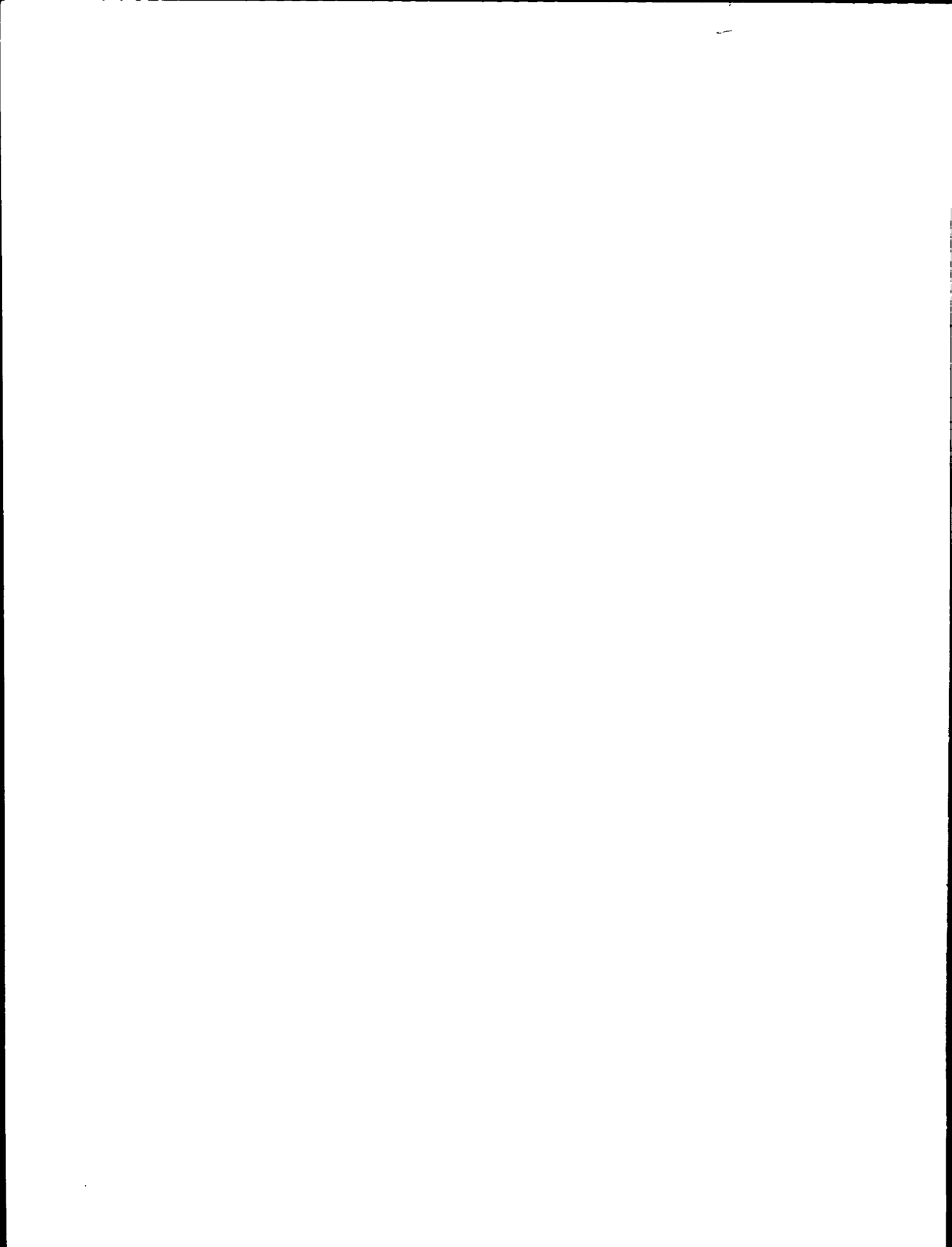
A.R. Scott, Professor of Economics, University of British Columbia (17)

T.K. Shoyama, School of Public Administration, University of Victoria (21)

Richard Simeon, Institute of Intergovernmental Relations, Queen's University (4)

David Stager, Professor of Political Economy, University of Toronto (8)

Wayne Thirsk, Professor of Economics, University of Waterloo (4)



Appendix II

Other Written Briefs Received

Alberta Hospital Association
G. P. Hennig, President

Alma Mater Society Inc. of Queen's University
David Duff, Vice President

Alma Mater Society Inc. of the University of British Columbia
James B. Hollis, External Affairs Co-ordinator

Annex Agencies Association
Carol Jones

Association of Canadian Community Colleges
J. P. Robert LaRose, Executive Director

Association "Femmes chefs de famille"
Raymonde Deschamps, President

Association of Nurses of Prince Edward Island
Marilyn Nicholson, Executive Director

Bayne, J. Ronald D.

Canadian Advisory Council on the Status of Women
Lucie Pepin, President

Canadian Association for the Mentally Retarded—New Brunswick Division
Lorraine Silliphant, President

Canadian Association of Radiologists
B. J. Reilly, President

Canadian Association of University Schools of Nursing
Amy E. Zelmer, President

Canadian Chamber of Commerce
G. Denton Clark, Chairman

Canadian Federation of Deans of Management and Administrative Studies
John Gordon, Chairman

Canadian Paraplegic Association—Saskatchewan Division
D. E. McFadyen, Executive Director

Canadian Rehabilitation Council for the Disabled
W. V. Messervey, Executive Director

Canadian Union of Public Employees—Local 1326
Carleton University Academic Staff Association
L. A. Copley, President
Carleton University Students' Association Inc.
Barb Zuchowicz, Director
Chiropractors' Association of Saskatchewan
G. A. Greenman, President
Coalition on Social Issues
D. L. Harris, President
Co-operative Health Centre
George Prosser, Chairman
Family Services Association of Metropolitan Toronto
Robert Couchman, Executive Director
Family Service Centre of Ottawa
Thomas C. Barber, President
Family Support Group of Winnipeg
Helga Berger, Member of the Board
Friendship in Action
D. Angelov, Chairman
Greater Winnipeg Indian Council Inc.
John T. James, Headman
Halifax-Dartmouth Metro Council on Continuing Education
J. E. Cochran, Chairman
Health and Social Services Working United—Division of Mission in Canada
Rev. Robert A. Burrows, Chairperson
INDEX NOW, Coalition Canada Committee
Arthur J. Campbell
Indian Consulting Group Ltd.
Don Moses, Chairman
Island Association of Rehabilitation Workshops
Joan Baird, President
Javad, Ick
Lay, Colin M., Manga, Pran and LeTouzé, Daniel
McGill University
David L. Johnston, Principal and Vice-Chancellor
National Action Committee on the Status of Women
Joan Wood, President
National Council of Welfare
Ken Battle, Director
National Council of Women of Canada
Ruth Hinkley, Resolutions Chairman

New Brunswick Development Institute
S. B. Benton, Executive Director

New Brunswick Medical Society

Ontario Health Coalition
Michael M. Rachlis, Representative

Ontario Hospital Association
Merritt Henderson, President

Private Career Education Council
Marguerite A. Service, Chairman

Regional Municipality of Sudbury
George Lund, Chairman

Robson, C. A.

Saskatchewan Association for the Mentally Retarded
W. J. Dolan, Executive Director

Saskatchewan Association of Special Care Homes
Bun Wasiuta, Executive Director

Saskatchewan Council for Crippled Children and Adults
Jim Wasilenko, Executive Director

Saskatchewan Dietetic Association
Marian Brown and Lynn Minja, Briefs Committee

Saskatchewan Nursing Assistants' Association
Ann Lalonde, Secretary-Treasurer

Saskatchewan Optometric Association
R. S. Gulka, President

Saskatchewan Pharmaceutical Association
R. J. Joubert, Acting Registrar

Saskatchewan Psychiatric Nurses Association
H. G. Beauregard, Executive Director

Saskatoon Community Health Services Association
J. G. McConnell, President

Senior Citizens Action Now
Delila Moriarty, Provincial President

Senior Citizens Provincial Council
Harry J. Mullens, Chairman

Sheffield, Professor Edward

Snedden, Linda

Toronto Jewish Congress
Wilfrid Posluns, President

United Way of Greater London
Casey Ready, Planning Director

University of Lethbridge
John H. Woods, President

University of Regina

E. B. Tinker, Vice-President

University of Regina, Faculty of Social Work

Graham Riches, Assistant Dean

University of Toronto Students' Administrative Council

Kathleen Crook, External Commissioner

University of Western Ontario Students' Council

Chris Sisam, Vice-President

Vernon Social Planning Council

Olive Woodley, President

York Sunbury Liberal Association

H. P. Gilbey, President

Doc # 2598933

Op # 2675646