

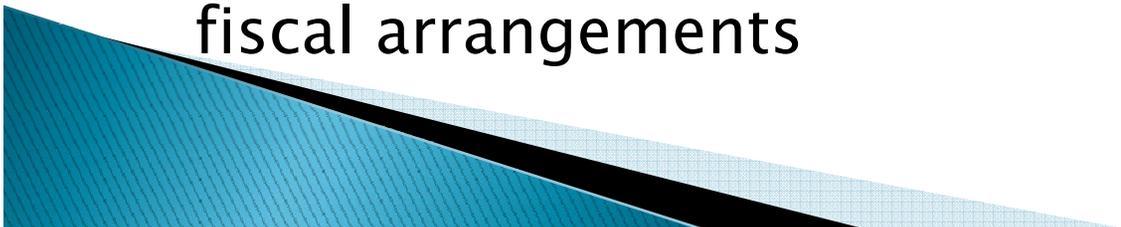
Cost sharing and Federal–Provincial Fiscal Relations

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The 2009 Federal Budget: Challenge, Response and Retrospect

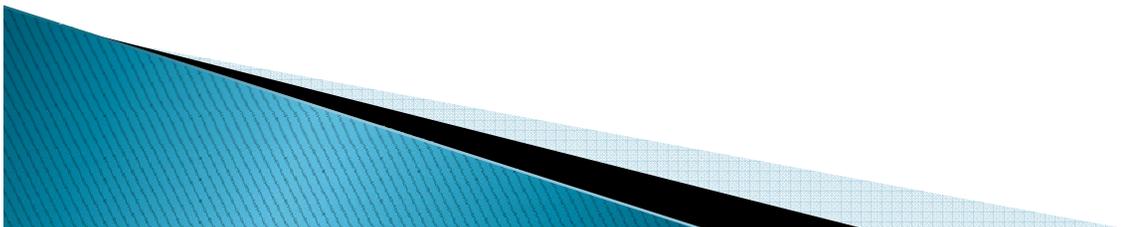
Introduction

- ▶ From mid 1970s to mid 1990s, gradual shift away from cost-sharing to conditional, lump-sum (block) grants
- ▶ With Harper's infrastructure initiatives, cost-sharing transfers have once again become a key feature in federal-provincial fiscal arrangements
- ▶ Indeed, we argue that given their magnitude and scope, cost sharing infrastructure grants can be characterized as a new *fourth* pillar of Canadian fiscal arrangements



Outline

- ▶ Summary of recent initiatives
 - CHT & CST
 - Infrastructure
 - Gas Tax Fund
 - GST Rebate
 - Building Canada Plan
- ▶ Discussion
 - Rationale for a fourth pillar
 - Role in fiscal arrangements

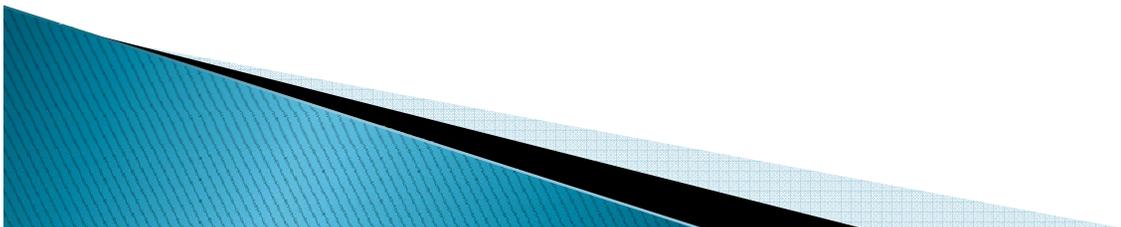


Health & Social Transfers: a checkered past

	Now
Health	CHT Conditional, lump-sum (block) grant 6% escalator (Budget 2005) equal per capita total (cash plus tax); moving to equal per capita cash in 2014 (Budget 2007)
Social	CST (welfare/post-secondary education) Condition, lump-sum grant 3% escalator begins in 2009 (Budget 2007) equal per capita cash in 2007

A new fourth pillar?

Infrastructure Initiatives	
Building Canada Plan – Includes	Harper Budget 2007 \$33 B over 7 years
1. Municipal Base Funding – Gas Tax Fund – GST Rebate	New partner in fed–prov fiscal arrangements GTF (Budget 2008) conditional, lump–sum grant Equal per capita basis
2. Provincial/Territorial Base funding	Closed–ended, matching grants Maximum allocations determined on an <i>equal per jurisdiction</i> basis
3. Build Canada Fund – Major Infrastructure – Communities	Closed–ended, matching grants Maximum allocations determined on an equal per capita basis Variable matching rate (50% vs 33.3%)



A new fourth pillar?

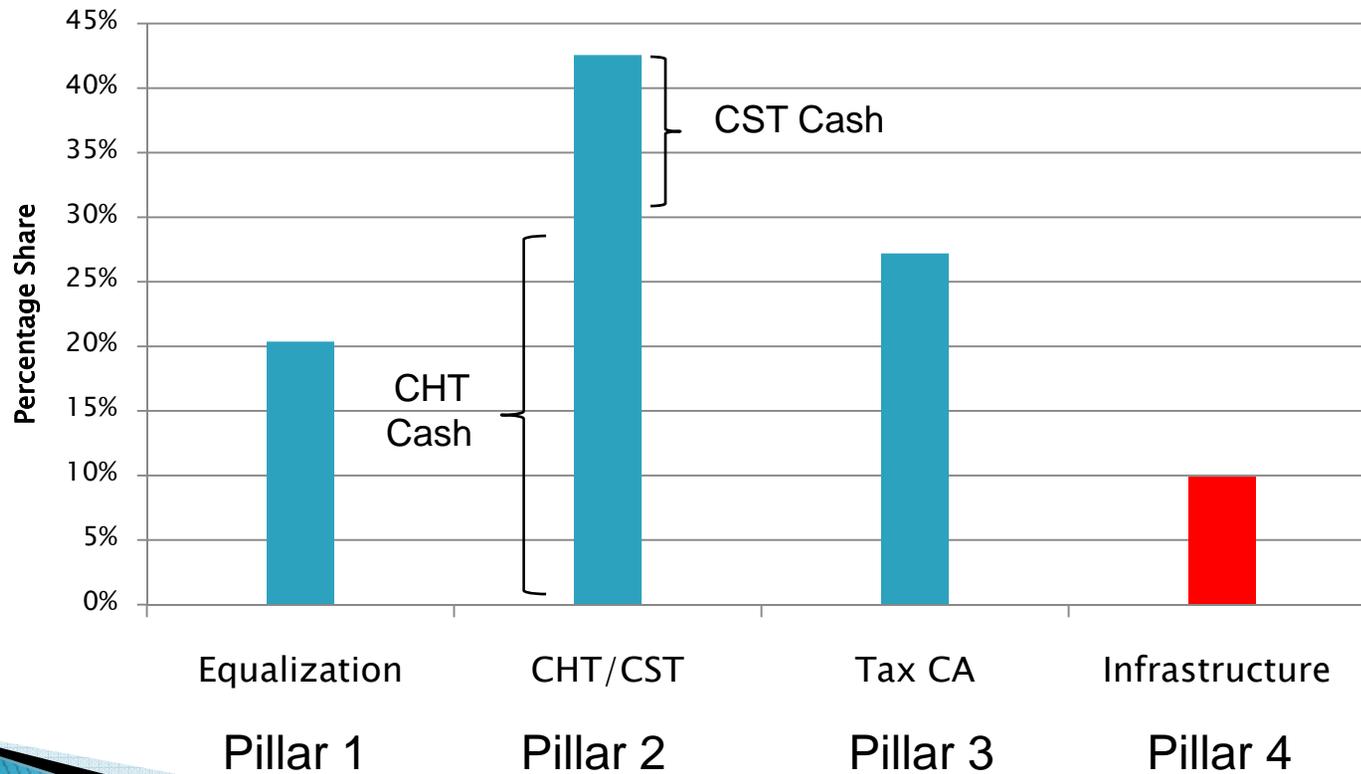
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Infrastructure Stimulus Fund	Closed–ended, matching grants (Budget 2009) Max allocations – equal per capita basis Variable matching rate (50% vs 33.3%) Additional/acceleration of funds (parts 2 & 3)

Cost-sharing Infrastructure initiatives

Millions	Budget measure	2007/08	2008/09	2009/10	2010/11
Build Canada Fund	2007	572	926	1186	1401
	2009			250	250
Provincial/Territorial Base Funding	2007	325	325	325	325
	2009			495	495
Municipal Base					
- Gas Tax Fund	2004	800	1000	2000	2000
	2008				
- GST Rebate	2007	715	750	790	830
Infrastructure Stimulus Fund	2009			2000	2000
Total		2412	3001	7046	7301

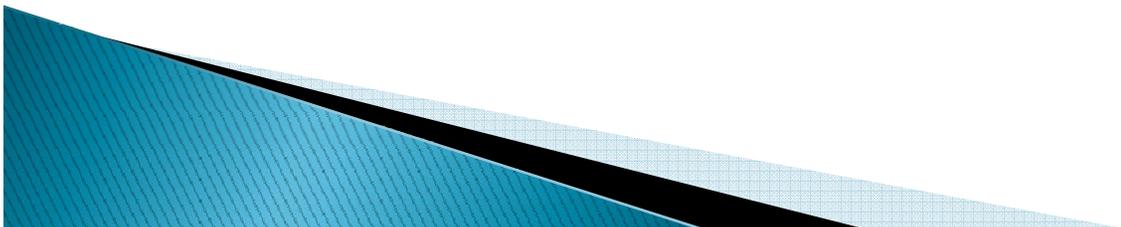
Four Pillars of Federal-Provincial Fiscal Arrangements

Share of Total Cash Plus Tax, by Pillar
2009/10



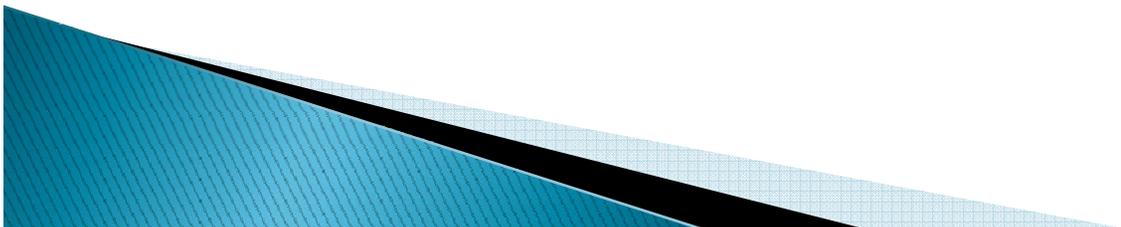
Discussion

- ▶ Why establish a “new” infrastructure pillar
 - Investment in infrastructure consistent with overall goal to improve competitiveness & national economic union
 - Economic rationale provides a argument for matching grants; provinces & municipal government may under invest



Discussion

- ▶ Why a matching grant?
- ▶ Choice of closed-ended matching grant rather than a block grant
 - accountability and transparency may be better for federal government
 - May stimulate more infrastructure investment as compared to a block grant
 - May allow federal government more control over spending commitments



Growth in CHT/CST

- Average annual growth in cash transfers for health and social programs

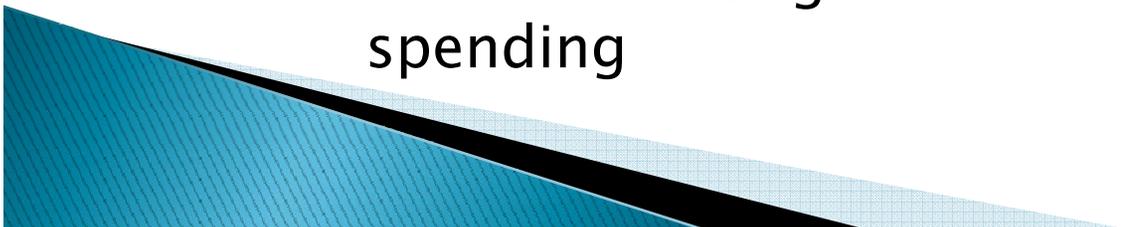
• Under Harper (2005/06 to 2009/10)	4.5%		
• Under Martin (2003/04 to 2005/06)	15.9%	} 13.1%	} 4.4%
• Under Chretien (1998 – 2003/04)	11.9%		
• Under Chretien (1992/93–1998/99)	-5.7%		

- This is “surprising”. When CHST was introduced, total transfer was set with little or no growth. Beginning in 2000, annual total would escalate at less than the rate of growth in GDP for the next three years.



Discussion

- ▶ Familiar complaints re choice of matching grant
 - Distorts provincial spending priorities
 - Costly to administer & time lags
 - uneven across jurisdictions in ability to take up the grants especially in current economic climate
 - This combined with move to equal per capita cash for CST and CHT raises some issues about the distribution of grants in support of social spending



Discussion

- ▶ Opportunity missed!
- ▶ Distorting provincial priorities in favour of infrastructure spending creates a disincentive to spend in other areas, particularly welfare
- ▶ A contemporaneous return to matching grants for welfare would mitigate this distortion plus put money in the hands of those who need it and would spend it
- ▶ Two proposals
 - Boadway and Hobson (1993) embed welfare spending as negative taxes in Equalization
 - A minimum expenditure matching grant system so above average welfare spending eligible for grant

