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Fiscal Policies and Regional Development in Canada*

by

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The Interregional Incidence of Public Budgets in Federations: Measurement Issues, Evidence from Canada, and Policy Relevance Conference on the *Spatial Aspects of Federative Systems*, Speyer, Germany, February 2005

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The presentation follows the following order:

- Brief presentation of Canada ;
- Fiscal policies-Federal
 - Overall transfers
 - Specific transfers to provinces
 - Specific transfers to individuals
 - Specific transfers to businesses
 - Tax expenditures transfers-individuals
 - Price control transfers
 - Taxation policy
- Fiscal policies-Provincial
 - Taxation policy
 - Specific transfers to businesses

Canada TABLE 1

Key Demographic, Economic and Geographic Features of Canada's Provinces and Territories, 2003

| | Canada | NFD | PEI | NS | NB | QUÉ | ONT | MAN | SASK | ALTA | BC | YU | NWT | NU |
|-------------------------------|---------|--------|-------|-------|-------|---------|---------|--------|--------|--------|--------|--------|---------|---------|
| Area (Km ²) | 9984670 | 405212 | 5660 | 55284 | 72908 | 1542056 | 1076395 | 647797 | 651036 | 661848 | 944735 | 482443 | 1346106 | 2093190 |
| Population ('000) | 31630 | 520 | 138 | 936 | 751 | 7487 | 12238 | 1163 | 995 | 3154 | 4147 | 31 | 42 | 29 |
| Density – population | 3,2 | 1,3 | 24,4 | 16,9 | 10,3 | 4,9 | 11,4 | 1,8 | 1,5 | 4,8 | 4,4 | 0,1 | 0,0 | 0,0 |
| % population anglophone 2001 | 59.3 | 98.4 | 93.9 | 93 | 64.7 | 8 | 71.6 | 75.8 | 85.7 | 81.8 | 74.1 | 87.1 | 78.1 | 27.6 |
| % population francophone 2001 | 22.7 | 0.4 | 4.3 | 3.8 | 32.9 | 81.2 | 4.4 | 4.1 | 1.9 | 2 | 1.5 | 3.1 | 2.6 | 1.5 |
| GDP (\$000 000) | 1214601 | 18015 | 3883 | 28813 | 22358 | 254263 | 493416 | 38078 | 36778 | 170631 | 142418 | 1310 | 3332 | 916 |
| GDP per capita | 38400 | 34644 | 28138 | 30783 | 29771 | 33961 | 40318 | 32741 | 36963 | 54100 | 34342 | 42258 | 79333 | 31586 |
| % Area | 100 | 4,1 | 0,1 | 0,6 | 0,7 | 15,4 | 10,8 | 6,5 | 6,5 | 6,6 | 9,5 | 4,8 | 13,5 | 21,0 |
| % Population | 100 | 1.6 | 0.4 | 3.0 | 2.4 | 23.7 | 38.7 | 3.7 | 3.1 | 10.0 | 13.1 | 0.1 | 0.1 | 0.1 |
| % GDP | 100 | 1.5 | 0.3 | 2.4 | 1.8 | 20.9 | 40.6 | 3.1 | 3.0 | 14.0 | 11.7 | 0.1 | 0.3 | 0.1 |

Sources: Authors using Statistics Canada data (Cansim II 384 0013) Census 2001, Statistics Canada, "Mother Tongue, 2001, Counts for Both Sexes for Canada, Provinces and Territories" Area is from <http://www.statcan.ca/english/Pgdb/phys01.htm> Notes: NFD: Newfoundland; PEI: Prince Edward Island; NS: Nova Scotia; QUÉ: Québec; ONT: Ontario; MAN: Manitoba; SASK: Saskatchewan; ALTA: Alberta; BC: British Columbia.

Canada

TABLE 2

Provincial and Territorial Governments, Revenues and Expenditures, Canada, 2003

| | Canada | NFD | PEI | NS | NB | QUÉ | ONT | MAN | SASK | ALTA | BC | YU | NWT | NU |
|---|-------------|-------|-------|-------|-------|--------|--------|-------|-------|-------|--------|-------|-------|------|
| | Provinces | | | | | | | | | | | | | |
| | territories | | | | | | | | | | | | | |
| Total revenues | 247470 | 4761 | 1129 | 7531 | 6236 | 66702 | 81154 | 9681 | 8533 | 28402 | 30999 | 667 | 969 | 1024 |
| % revenues from own sources | 82.61 | 62.19 | 64.48 | 69.83 | 67.96 | 83.71 | 85.73 | 71.99 | 82.61 | 88.31 | 86.49 | 19.79 | 1.24 | 9.86 |
| Personal income taxes % of own sources | 25.5 | 24.8 | 22.7 | 26.9 | 22.5 | 31.2 | 26.9 | 25.4 | 17.7 | 18.6 | 18.6 | 26.5 | 716.7 | 28.7 |
| Corporate income taxes % of own sources | 5.6 | 4.8 | 4.1 | 5.1 | 2.6 | 5.0 | 7.3 | 4.5 | 4.4 | 7.2 | 3.1 | 6.1 | 0.0 | 4.0 |
| General sales taxes % of own sources | 14.9 | 21.1 | 23.5 | 18.7 | 18.8 | 13.9 | 20.5 | 16.3 | 12.1 | 0.0 | 14.7 | 0.0 | 0.0 | 0.0 |
| Fuel taxes % of own sources | 3.7 | 4.6 | 5.1 | 4.7 | 5.5 | 3.1 | 4.2 | 3.3 | 5.0 | 2.4 | 4.1 | 5.3 | 150.0 | 3.0 |
| Property taxes % of own sources | 1.6 | 0.0 | 6.7 | 0.0 | 7.2 | 0.0 | 0.0 | 3.1 | 0.0 | 4.6 | 5.9 | 1.5 | 91.7 | 3.0 |
| Payroll taxes % of own sources | 4.2 | 3.0 | 0.0 | 0.0 | 0.0 | 8.1 | 5.4 | 3.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deficit/surplus | -10 517 | -368 | -94 | 181 | -110 | -2 727 | -6 943 | -277 | -339 | 2 949 | -2 501 | -18 | -220 | -49 |

Sources : Authors using Statistics Canada data (Cansim II 385 0001). Total revenues, expenses and surplus - deficits are in \$000 000.

GDP: Department of Finance Canada, Fiscal Reference Tables 2003, Various Tables.

Canada TABLE 3

Spending % by Type for Each Level of Government and by Level for Each Type, Canada, 2003

| | General Services | Protection of Persons & Property | Transport. & Communication. | Health | Social Services | Education | Transfers to Other Governments | Debt Charges | Other | Total \$000 000 |
|-----------------|-----------------------|----------------------------------|-----------------------------|--------|-----------------|-----------|--------------------------------|--------------|-------|--------------------|
| | % Type for Each Level | | | | | | | | | |
| All governments | 3.4 | 8.0 | 4.3 | 19.3 | 26.1 | 14.8 | – | 10.8 | 13.1 | 463431 |
| Federal | 3.73 | 10.61 | 1.14 | 3.06 | 37.90 | 2.42 | 14.64 | 12.05 | 14.45 | 50027 |
| Provincial | 1.6 | 3.5 | 3.8 | 33.4 | 16.9 | 22.7 | 0.5 | 9.0 | 8.5 | 257987 |
| Municipal | 8.9 | 16.1 | 16.1 | 2.0 | 5.3 | 14.5 | – | 5.7 | 33.2 | 51395 |
| | % Level for Each Type | | | | | | | | | |
| % Federal | 46.1 | 56.2 | 11.2 | 6.7 | 61.8 | 7.0 | 95.9 | 47.5 | 46.8 | 50027 |
| % Provincial | 26.5 | 24.2 | 48.7 | 96.2 | 36.1 | 85.4 | 4.1 | 46.6 | 36.1 | 257987 |
| % Local | 28.7 | 22.3 | 41.3 | 1.1 | 2.2 | 10.9 | – | 5.8 | 28.0 | 51 395 |

Source: Authors using Statistics Canada data (Cansim II 385 0001)

Fiscal policies-Federal Table 4: Federal revenues, expenses and surplus/deficit Canadian provinces, 2001, current dollars (millions)

| | Expenses | Revenues | Gross Net position | Deficit corrected Net position | Revenue corrected Net position | Expenditure corrected Net position | Debt corrected Net position | Gross Net position per capita | Deficit corrected Net position per capita | Revenue corrected Net position per capita | Expenditure corrected Net position per capita | Debt corrected Net position per capita |
|----------------------|----------|----------|--------------------|--------------------------------|--------------------------------|------------------------------------|-----------------------------|-------------------------------|---|---|---|--|
| Canada | 179558 | 189322 | -9764 | 0 | -9535 | -15166 | -14963 | - | - | - | - | - |
| Newfoundland | 4922 | 2113 | 2809 | 2918 | 2652 | 2554 | 2574 | 5381 | 5590 | 5081 | 4893 | 4931 |
| Prince Edward Island | 1414 | 683 | 731 | 766 | 702 | 546 | 698 | 5349 | 5605 | 5136 | 3995 | 5107 |
| Nova Scotia | 8945 | 4467 | 4478 | 4708 | 4257 | 2438 | 4210 | 4803 | 5049 | 4566 | 2615 | 4515 |
| New Brunswick | 6440 | 3362 | 3078 | 3251 | 2856 | 2445 | 2811 | 4105 | 4335 | 3809 | 3260 | 3749 |
| Quebec | 42750 | 39028 | 3722 | 5735 | 3776 | 3246 | 2382 | 503 | 775 | 510 | 439 | 322 |
| Ontario | 58976 | 83552 | -24576 | -20267 | -23087 | -23942 | -22179 | -2066 | -1703 | -1940 | -2012 | -1864 |
| Manitoba | 8629 | 5616 | 3013 | 3303 | 2683 | 2725 | 2704 | 2617 | 2869 | 2330 | 2367 | 2349 |
| Saskatchewan | 6931 | 4847 | 2084 | 2334 | 1856 | 2434 | 1809 | 2084 | 2334 | 1856 | 2434 | 1809 |
| Alberta | 14195 | 21785 | -7590 | -6466 | -7326 | -4939 | -6905 | -2483 | -2115 | -2397 | -1616 | -2259 |
| British Columbia | 20139 | 22734 | -2595 | -1423 | -3422 | -1538 | -3067 | -636 | -349 | -839 | -377 | -752 |

Fiscal policies-Federal Table 5: Canada 2001, distribution between provinces of four federal transfers to governments and individuals and population, GDP and income shares

| | Program shares | | | | Comparator share | | | |
|------------------|----------------|--------|---------------------|-----------------|-------------------|------------|------------------------|------------------------|
| | Equalization | CHST | Employment benefits | Old Age pension | Population shares | GDP shares | Personal income shares | Federal revenue Shares |
| Newfoundland | 10.41% | 1.94% | 7.09% | 2.08% | 1.72% | 1.28% | 1.35% | 1.12% |
| PEI | 2.52% | 0.48% | 1.59% | 0.54% | 0.45% | 0.32% | 0.36% | 0.35% |
| Nova Scotia | 12.85% | 3.32% | 5.51% | 3.55% | 3.03% | 2.30% | 2.68% | 2.40% |
| New Brunswick | 11.65% | 2.64% | 5.81% | 2.93% | 2.44% | 1.86% | 2.11% | 1.80% |
| Quebec | 45.74% | 26.94% | 30.97% | 26.80% | 23.84% | 21.06% | 22.25% | 20.53% |
| Ontario | 0,0%- | 33.03% | 24.87% | 35.24% | 38.20% | 40.55% | 41.18% | 44.00% |
| Manitoba | 11.70% | 4.01% | 2.97% | 4.23% | 3.70% | 3.23% | 3.44% | 3.10% |
| Saskatchewan | 3.86% | 3.43% | 2.40% | 4.09% | 3.27% | 3.05% | 2.77% | 2.70% |
| Alberta | 0,0% | 8.94% | 6.68% | 7.74% | 9.86% | 13.85% | 10.84% | 11.31% |
| British Columbia | 1.28% | 15.27% | 11.61% | 12.79% | 13.18% | 12.02% | 12.62% | 12.29% |

Fiscal policies-Federal Table 6 Provincial distribution and per capita amounts of five federal tax expenditures, Canada, 2001

| Province | Child tax benefits | Registered Pension Plan | Registered Retirement Savings Plan | Combine d Pension benefits | Child tax benefits, Per capita \$ | Combine d Pension benefits, Per capita\$ |
|----------------------|--------------------|-------------------------|------------------------------------|----------------------------|-----------------------------------|--|
| Newfoundland | 1.9% | 0.8% | 1.6% | 1.0% | 257 | 398 |
| Prince Edward Island | 0.5% | 0.2% | 0.4% | 0.3% | 266 | 400 |
| Nova Scotia | 3.2% | 1.7% | 2.8% | 2.0% | 243 | 475 |
| New Brunswick | 2.6% | 1.2% | 2.2% | 1.4% | 246 | 407 |
| Quebec | 23.5% | 20.7% | 21.7% | 21.1% | 223 | 618 |
| Ontario | 35.3% | 45.2% | 37.6% | 43.2% | 208 | 785 |
| Manitoba | 4.7% | 2.6% | 4.1% | 3.0% | 285 | 556 |
| Saskatchewan | 4.4% | 2.2% | 3.9% | 2.6% | 310 | 553 |
| Alberta | 10.4% | 12.6% | 11.3% | 12.4% | 239 | 880 |
| British Columbia | 12.9% | 12.8% | 12.4% | 13.1% | 223 | 694 |

Fiscal policies-Federal Table 7. Provincial Aspects of Milk Policy in Canada, 2001-2002

| | %MSQ | %Milk Consumption | Payment by consumer(\$million) | Amounts received by producers |
|----------------------|------|-------------------|--------------------------------|-------------------------------|
| Newfoundland | 0,1 | 0.4 | 10 | 2,5 |
| Prince Edward Island | 1,9 | 1.3 | 33 | 47,5 |
| Nova Scotia | 1,2 | 2.3 | 58 | 30 |
| New Brunswick | 1,3 | 1.8 | 45 | 32,5 |
| Quebec | 46,6 | 38.3 | 958 | 1165 |
| Ontario | 31,5 | 33.3 | 833 | 787,5 |
| Manitoba | 3,5 | 3.9 | 98 | 87,5 |
| Saskatchewan | 2,7 | 2.8 | 70 | 67,5 |
| Alberta | 6,1 | 8.1 | 203 | 152,5 |
| BritishColumbia | 5,1 | 7.8 | 195 | 127,5 |

Fiscal policies-Federal Table 8 Federal transfers to businesses, Canada, 2001

| Province \ | \$ per capita | % federal spending in province | % GDP | \$ total (000) |
|---------------------------|---------------|--------------------------------|-------|----------------|
| | | | | |
| Newfoundland and Labrador | 190 | 2,00% | 0,70% | 99 |
| Prince Edward Island | 577 | 5,52% | 2,30% | 79 |
| Nova Scotia | 173 | 1,80% | 0,62% | 161 |
| New Brunswick | 115 | 1,34% | 0,42% | 86 |
| Quebec | 71 | 1,25% | 0,23% | 526 |
| Ontario | 99 | 2,01% | 0,26% | 1180 |
| Manitoba | 230 | 3,06% | 0,75% | 265 |
| Saskatchewan | 537 | 7,52% | 1,61% | 537 |
| Alberta | 146 | 3,05% | 0,30% | 447 |
| British Columbia | 82 | 1,67% | 0,25% | 334 |
| Canada | 120 | 2,07% | 0,34% | 3719 |

Fiscal policies-Federal Table 9 Federal Economic Development Agencies Expenditures†
for 2000-2002 (thousands of dollars)

| Agency \ Fiscal year | 2001-2002 |
|--|-----------|
| Atlantic Canada Opportunities Agency | 318 005 |
| Economic Development Agency of Canada for the Regions of Quebec | 260 758 |
| Enterprise Cape Breton Corporation | 37 608 |
| Federal Economic Development Initiative for Northern and Rural Ontario * | 56 600 |
| Western Economic Diversification | 251 587 |
| Technology Partnerships Canada * | 319 657 |

*

Fiscal policies-Federal BRIEF DESCRIPTION of FEDERAL ECONOMIC DEVELOPMENT AGENCIES

Atlantic Canada Opportunities Agency: ACOA was created by the Government of Canada in 1987 as a full-fledged federal government department, totally focused on the economic development of Atlantic Canada. Thus, this federal agency is intended to support and promote new opportunities for economic development in Atlantic Canada, with particular emphasis on small- and medium-sized enterprises, through policy, program and project development and implementation, and through advocating the interests of Atlantic Canada in national economic policy, program and project development and implementation.

Economic Development Agency of Canada for the Regions of Quebec: The Economic Development Agency of Canada for the Regions of Quebec (EDACRQ) was operational only in 1997. EDACRQ objective is the Promotion of the economic development of the regions of Quebec, this activity includes in particular: the design and implementation of federal policies and programs, participation in the implementation of national economic development priorities in order to maximize the benefits for every region of Quebec, harmonization of federal activities in the province, establishment of cooperative relations with other public and private socio-economic stakeholders to better serve Quebec regions and SMEs, advocacy within the machinery of the Canadian government, promotion of federal programs and services.

Enterprise Cape Breton Corporation and the Cape Breton Growth Fund (CBGF) : Enterprise Cape Breton Corporation (ECBC) is the principal federal Government of Canada organization for economic development in Cape Breton and Mulgrave. The objects of the Corporation are to promote and assist the financing and development of industry on Cape Breton Island to provide employment outside the coal producing industry and to broaden the base of the economy of Cape Breton Island.

Federal Economic Development Initiative for Northern and Rural Ontario (FedNor): Launched in 1987, FedNor is an initiative of the Government of Canada aiming to address the economic development needs of Northern Ontario. FedNor was designed to promote economic growth, diversification, job creation and sustainable, self-reliant communities in northern and rural Ontario, by working with community partners and other organizations to improve small business access to capital, information & markets. While FedNor typically does not provide financing for private businesses, it administers the Community Futures Program, which is comprised of locally operated Community Futures Development Corporations (CFDCs) throughout Ontario..

Technology Partnerships Canada,: Technology Partnerships Canada (TPC) is a Special Operating Agency of Industry Canada, established in 1996 to contribute to economic growth, jobs and wealth creation, and to support sustainable development. TPC has advanced and supported government initiatives by investing strategically in research, development and innovation. Investments made by TPC are designed to encourage private sector investment and work to maintain and grow the technological capabilities of Canadian industry and our research and technology base.. Through two key programs — Research & Development (R&D) investment and the Hydrogen Early Adopters (h2EA) program — TPC invests in critical technology sectors, stimulating innovation, developing opportunity and supporting economic growth across Canadian industry, thereby benefiting Canada.

Western Economic Diversification A department of the Government of Canada, Western Economic Diversification Canada (WD) was established in 1987 under the provision of the Western Economic Diversification Act to promote economic diversification in western Canada in a manner that provides added influence for the West in national policy and decision-making, that improves client services in the West and that facilitates federal-provincial coordination.

Fiscal policies-Provincial TABLE 10

Main Features of Provincial Taxes in Canada, 2003

| Provinces | Personal Income Tax ¹ | | Corporate Income Tax ² | | Sales Taxes ³ | | Payroll Tax ⁵ | Capital Taxes ⁶ |
|----------------------|----------------------------------|-----------|-----------------------------------|-------------|--------------------------|-------------------|--------------------------|----------------------------|
| | Federal and Provincial | | (Manufacturing) | | | | | |
| | \$10000 | \$200 000 | Provincial | Total | Rate | Type ⁴ | | |
| Newfoundland | 26.57 | 48.64 | 5 | 27.12 | 8 | HST | 2 | - |
| Prince Edward Island | 25.80 | 47.37 | 7.50 | 29.62 | 10 | Prov. | - | - |
| Nova Scotia | 16.00 | 47.34 | 16 | 38.12 | 8 | HST | - | 0.25/0.50 |
| New Brunswick | 16.00 | 46.84 | 13 | 35.12 | 8 | HST | - | 0.30 |
| Québec | 13.36 | 48.22 | 8.93 | 31.02 | 7.50 | GST+ | 4.26 | 0.60 |
| Ontario | 16.00 | 46.41 | 11 | 33.12 | 8 | Prov. | 1.95 | 0.30 |
| Manitoba | 27.90 | 46.40 | 16 | 38.12 | 7 | Prov. | 2.15 | 0.30/0.50 |
| Saskatchewan | 27.00 | 44.00 | 10 | 32.12 | 6 | Prov. | - | 0.60 |
| Alberta | 16.00 | 39.00 | 13/12.50 | 35.12/34.62 | 0 | - | - | - |
| British Columbia | 22.05 | 43.70 | 13.50 | 35.62 | 7.50 | Prov. | - | - |

Note : ¹ PIT rates are for a single taxpayer with assessed income of either \$10 000 or \$200 , ⁴ Sales taxes : HST: Harmonized Sales Tax / GST+: Base similar to GST / Prov.: Provincial

⁶ Capital taxes are general/Bank rates

Source: *Finances of the Nation*, 2003, Canadian Tax Foundation, Table 4.6

Fiscal policies-Provincial Table 11 Provincial transfers to businesses, Canada, 2001

| Province \ | \$ per capita | % provincial spending in province | % GDP | \$ total (000) |
|---------------------------|---------------|-----------------------------------|-------|----------------|
| | | | | |
| Newfoundland and Labrador | 88 | 1,07% | 0,32% | 46 |
| Prince Edward Island | 328 | 4,44% | 1,31% | 45 |
| Nova Scotia | 61 | 0,98% | 0,22% | 57 |
| New Brunswick | 76 | 1,04% | 0,28% | 57 |
| Quebec | 553 | 7,12% | 1,77% | 4092 |
| Ontario | 59 | 1,02% | 0,15% | 701 |
| Manitoba | 182 | 2,44% | 0,60% | 210 |
| Saskatchewan | 570 | 7,93% | 1,71% | 570 |
| Alberta | 1216 | 15,69% | 2,46% | 3716 |
| British Columbia | 196 | 2,82% | 0,60% | 801 |
| | | | | |
| Canada | 333 | 4,84% | 0,93% | 10316 |

Fiscal policies-Provincial Table 12 Existing provincial tax incentives for business-Some Examples

| Program \ province | N & L | PEI | NS | NB | Quebec | Ontario | Manitoba | Saskatchewan | Alberta | BC |
|---------------------------------------|-------|-----|----|----|--------|---------|----------|--------------|---------|----|
| Film and television industry | X | | X | X | X | X | X | X | | X |
| R&D tax credit | X | | X | X | X | X | X | | | X |
| Labour sponsored venture capital | X | | X | X | X | X | X | XX | X | X |
| Computer animation, interactive media | | | | | X | X | | | | X |
| Employee investment tax credi | | | | | X | | | | | X |
| No sales, payroll or capital taxes | | | | | | | | | X | |
| Tax holiday for new business | X | | | | X | | | | | |

2004-Ontario Automotive Investment Strategy (OAIIS). The provincial program specifically targets auto-industry manufacturing projects that involve a capital investment of at least \$245 million or create or retain at least 300 jobs

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Federal matching funds