

Jean Chrétien

Prime Minister of Canada

As Prime Minister of Canada, I am honoured to be here in St Gallen. I am pleased to see that the objective I initially set in 1999 at Mont-Tremblant has once again been achieved. Representatives of the world's federations, new and more traditional, have come together to share experiences and insights, and to gain a better understanding of the richness of the theory and the practice of federalism.

I would like to share a few thoughts with you today on current Canadian realities in respect of one of your three conference themes: fiscal federalism.

As a theory of government, federalism was always the first and best destiny for Canada. Indeed, I cannot imagine Canada as anything but a federation. Geographically large, with two founding languages and distinct regional cultures and economies, home to people from virtually every nation and culture on the planet, Canada needs both a national and provincial governments with balanced and important responsibilities. Only federalism allows us to enjoy the advantages both of unity and diversity.

Through good times and bad, in war and in peace, through the vast technological transformation that has characterised globalisation, federalism has given us the flexibility to adapt to changing times and circumstances, permitting us to develop into one of the most open, advanced and prosperous nations in the world, with an exceptional quality of life.

Don't get me wrong. Canada is not perfect. As in any democracy we have our tensions. We have made mistakes. We have had our disappointments and failures. But what is remarkable is how, over the long run, federalism has been a Canadian framework for exceptional social and economic development and a large measure of political harmony and partnership, in which the federal government plays an important role in leading and shaping major priorities with the provinces and territories.

At the time of confederation, Canada was conceived as highly centralised state. Today, Canada is perhaps one of the most decentralised federations in the world. Our constitutional arrangements have afforded us the flexibility for change. Our distribution of powers was slightly amended in 1940, 1951 and 1964. And in 1982, it was my singular honour, as Minister of Justice, to introduce a Charter of Rights and Freedoms that entrenched our most basic freedoms in law, including minority language rights. It also recognised the principle of fiscal equalisation, where our less prosperous provinces are helped, through transfers from the national government, to offer services that compare with the richer provinces.

In the 1950s and 1960s, the federal government played a leading role in shaping health, welfare and post-secondary education programs in Canada.

In the 1990s and into the twenty-first century, we have continued to jointly respond to tremendous challenges. We introduced an innovative new approach to reducing child poverty. In the context of the global knowledge-based economy, the federal and provincial governments have taken a number

of complementary measures to strengthen our advanced research infrastructure and broaden access to post-secondary education.

And we are working closely on the top priority of Canadians: a renewed and modernised public healthcare system for the twenty-first century.

The foundation for all of this creative progress has been the extraordinary work that both the federal government and the provinces have done, with the support of all Canadians, to clean up our balance sheets. Our government has tabled five straight surplus budgets. We have slashed our total public debt as well as the size of our debt relative to our economy. This was not easy. And it did not happen without some federal provincial friction. But we did it.

But it seems to be the case, in Canada at least, that managing a surplus can prove to be as challenging as managing a deficit – perhaps more. The focus and discipline that united all governments as we restored order to our public finances has, to some extent, and in some quarters, been replaced by rising expectations, and a tendency to look to the federal government as a treasure house awash in surpluses that will never end. We are currently having a very lively debate in Canada about the comparative financial resources of the federal and provincial governments.

Many of us here are in government. Our experience teaches us that social and economic needs always exceed available government resources.

Too often in federations one level of government wishes it had the resources that it perceives the other to have. The reality is that both levels of government have to be prudent managers of the public finances. But all levels of government have to make choices. Whether to make social and economic

investments or to cut taxes. In my view, it is illogical for one level to choose to reduce taxes and then claim that it lacks the fiscal resources needed for new investments.

So today I would like to shed a little light on the facts and principles that will guide the Government of Canada as this debate continues to unfold.

I will begin with the facts.

The Canadian provinces have both the necessary financial resources and the authority to address their social and economic priorities. Indeed, provincial revenues in Canada have long outstripped federal revenues. Federal program spending accounted for half of all government spending in the early 1950s. It now accounts for only one third.

Recent federal tax cuts totalling \$100 billion over five years will reduce federal revenues even further. And the huge deficits that preceded the new era of modest surpluses have saddled the federal government with debt servicing costs that are twice as high as for the provinces.

The federal government's share of total own-source government revenues is smaller in Canada than in any other federation but Switzerland.

And even in Switzerland, cantons do not have the fiscal weight our provinces do.

The provincial share of government revenues is higher in Canada than in other federations because both levels of government, federal and provincial, have access to the four main tax bases: individual income tax, corporate income tax, sales taxes and payroll taxes. Moreover, our provincial

governments, alone, have access to natural resource royalties, an important source of revenue in a country rich in natural resources like Canada. In the United States, for example, Washington collects such royalties. The exceptional fiscal weight of Canadian provinces is buttressed by the fact that they have the authority to set their own tax rates.

Having stated the facts, I would like to close with some key principles that will continue to guide the Government of Canada in the future.

The first principle is prudence. Not long ago Canada was in a deep fiscal hole. We got out of that mess through unswerving discipline and prudence. A prudence founded on an understanding of how swiftly a fiscal balance sheet can change, even in the short term. In the United States, for example, a projected \$300 billion surplus has evaporated in a matter of months.

Optimistic long-term revenue projections are just that – projections. Acting today on someone's forecast for 20 years from now could prove to be highly irresponsible for any national government.

The second, and overriding principle, is partnership. The facts of the fiscal balance in Canada are, in the end, less important than the spirit of partnership and common cause that must be the cornerstone of federal-provincial relations in Canada. That is the constructive spirit we have always offered our provincial partners. To meet current and future challenges we must unite our will and our resources to achieve the objective that all governments share: building long-term prosperity and a better quality of life for all of our citizens.