A comparison of federalism in Canada and Australia

May 2006
Contents

1 Variations on a (familiar) theme

2 Key differences

3 Current issues in intergovernmental relations
Provinces and territories and % share of 2005 population of 32.3 million

A quick overview of Canada
A quick overview of Australia

States and territories and % share of 2005 population of 20.4 million

- Northern Territory: 1.0%
- Queensland: 19.5%
- New South Wales: 33.3%
- Victoria: 24.7%
- South Australia: 7.5%
- Western Australia: 9.8%
- Tasmania: 2.4%
- Australian Capital Territory: 1.6%
Variations on a (familiar) theme
Parliamentary systems with strong executives

- Westminster systems of government both federally and in States and provinces
- Executives are particularly dominant in Canada, given that:
  - Canada’s elected House of Commons is seen as more legitimate than the unelected Canadian Senate
  - provincial legislatures are all unicameral
- By contrast, all Australian jurisdictions (except Queensland) have retained elected upper houses that:
  - are often not controlled by their respective governments
  - exert substantial checks and balances on governments
Autonomy of senior orders of government

- Independent constitutional basis of authority of both federal and state/provincial governments
- Few / no **formal** constraints on:
  - spending power of federal and state/provincial governments
  - taxation powers of federal and state/provincial governments
  - federal and state/provincial governments’ ability to **borrow**

- Limited overlap of **legislative / regulatory** powers *in theory*…
  … but substantial entanglement *in practice*
Both are highly **urbanized** societies...

**Resident population by size of metropolitan area**

**Canada**
- Metropolitan (over 1 million): 37.2%
- Under 100K: 33.8%
- Large urban (250k to 500k): 7.6%
- Small urban (100k to 250k): 8.3%

**Australia**
- Metropolitan (over 1 million): 60.8%
- Under 100K: 25.6%
- Large urban (250k to 500k): 9.5%
- Small urban (100k to 250k): 4.0%
... despite different size of local governments

- Canada and Australia are comparable in terms of degree of urbanization and size of major metropolitan areas

- But: Australian and Canadian metropolitan areas are organized very differently:
  - in Australia, almost all large urban centres are divided into multiple local government jurisdictions
  - by contrast, Canada has many larger urban municipalities that achieve greater “critical mass” – but also many smaller (mostly rural) municipal governments
... despite different size of local governments

Many larger urban jurisdictions in Canada...

Distribution of population by size of local government jurisdiction (%)

- Australia
- Canada

Size categories:
- < 500
- 500-1000
- 1.2 K
- 2.4 K
- 4.6 K
- 6.8 K
- 8 K
- 8-10 K
- 10-15 K
- 15-20 K
- 20-30 K
- 30-40 K
- 40-50 K
- 50-100 K
- 100-150 K
- 150-200 K
- 200-250 K
- 250-500 K
- 500-1 M
- > 1 million
... despite different size of local governments

... but many smaller (rural) jurisdictions in Canada as well

<table>
<thead>
<tr>
<th>Average population (thousands)</th>
<th>Australia total: 728 (avg population: 25,700)</th>
<th>Canada total: 3,849 (avg population: 7,545)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tas</td>
<td>29</td>
<td>289</td>
</tr>
<tr>
<td>NT</td>
<td>69</td>
<td>109</td>
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<tr>
<td>SA</td>
<td>74</td>
<td>74</td>
</tr>
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<td>Vic</td>
<td>79</td>
<td>256</td>
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<tr>
<td>WA</td>
<td>142</td>
<td>417</td>
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<td>Qld</td>
<td>157</td>
<td>203</td>
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<tr>
<td>NSW</td>
<td>178</td>
<td>765</td>
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</table>

<table>
<thead>
<tr>
<th>Average population (thousands)</th>
<th>NF</th>
<th>PE</th>
<th>NS</th>
<th>NB</th>
<th>QU</th>
<th>ON</th>
<th>MB</th>
<th>SK</th>
<th>AB</th>
<th>BC</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.2</td>
<td>1.6</td>
<td>1.2</td>
<td>12.2</td>
<td>2.8</td>
<td>5.6</td>
<td>27.2</td>
<td>5.2</td>
<td>1.2</td>
<td>9.8</td>
<td>22.3</td>
</tr>
</tbody>
</table>
Modest role for local governments in both countries

• In both countries:
  • local governments are “creatures” of the states / provinces
  • “weak mayor” system predominates
  • local councillors usually act as “independents” (i.e. with diffuse, if any, party affiliations)

• Local governments are highly dependent for their finances on a limited range of revenue sources, notably:
  • property taxes and user fees they levy themselves
  • transfers from senior levels of government
Modest role for local governments in both countries

Local government share of own-source revenues

Canada

- Federal: 44%
- Provinces: 48%
- Local: 8%

Australia

- Federal: 74%
- States: 22%
- Local: 4%
Modest role for local governments in both countries

Local government share of own-purpose expenditures

**Canada**
- Federal: 36%
- Provinces: 53%
- Local: 11%

**Australia**
- Federal: 59%
- States: 36%
- Local: 5%
Degree of local fiscal autonomy is similar...

Local government fiscal autonomy

Canada
- Own-source revenues: 84.1%
- Provincial transfers: 14.6%
- Federal transfers: 1.3%

Australia
- Own-source revenues: 88.0%
- State transfers: 7.4%
- Federal transfers: 4.6%
... as are local expenditure responsibilities

Local government expenditures

Canada

- Recreation & culture: 12%
- Protection of persons & property: 17%
- Transport & communication: 19%
- Housing, health, education and environment: 25%
- Social services: 10%
- General govt: 9%
- Debt service: 4%
- Public order & safety: 2%
- Other: 4%

Australia

- Recreation & culture: 15%
- General public services: 15%
- Transport & communication: 25%
- Housing & community amenities: 24%
- Social services: 6%
- Debt service: 2%
- Other: 11%
Indigenous issues also pose similar challenges…

- Education, health and other socio-economic challenges
- Small size / remoteness of many Indigenous communities
- Small overall population (2-3%) and corresponding small political weight federally and in most States / provinces
- Most indigenous people live in States / provinces – but much higher proportions in northern territories
- High (and rising) levels of indigenous urbanization
- Ongoing concerns over Indigenous governance
....but with different histories of Indigenous relations

**Canada**
- Historical “treaties of equals” with Indigenous allies (17th/18th centuries)
- Relationship grew less and less equal in 19th and 20th centuries
- Aboriginal rights in addition to same rights as other citizens
- Clear federal role (historically) as interlocutor

**Australia**
- No treaties
- Unequal relationship from first contact
- Formal equality, but with special Indigenous needs acknowledged
- Commonwealth role as prime interlocutor came late (1960s)
....but with different histories of Indigenous relations

<table>
<thead>
<tr>
<th><strong>Canada</strong></th>
<th><strong>Australia</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Constitutional recognition and treaty protection (since 1982)</td>
<td>• No constitutional recognition</td>
</tr>
<tr>
<td>• Modern treaties with First Nations</td>
<td>• No treaties</td>
</tr>
<tr>
<td>• Historical treaties also given new life by courts</td>
<td>• High Court acknowledgement of Indigenous land rights</td>
</tr>
<tr>
<td>• Indigenous interlocutors (usually) obvious</td>
<td>• Less clear who Indigenous “self” is in “self-government”</td>
</tr>
</tbody>
</table>
Key differences
Greater heterogeneity in Canada’s population

- Unlike Australia, Canada has:
  - two major languages and a long evolving French-English partnership (but also long-standing French-English tensions)
  - a complex historical relationship with First Nations
  - recognized collective rights (in addition to individual rights) in its Constitution Act, 1982

- To a greater extent than Australia, Canada is also home to significant regional identities…
  ... including long-standing regional “alienation” / grievances
Different intergovernmental institutional mechanisms

In Canada:
- The Council of the Federation is an inter-provincial/territorial body consisting of provincial Premiers only

In Australia:
- The Council of Australian Governments (COAG) is the peak intergovernmental forum in Australia: 
  
  ... comprising the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association (ALGA)
- COAG Secretariat is located within the federal Department of the Prime Minister and the Cabinet
Similar sources of **federal** government financing ...

**Federal taxes and other revenue sources**

**Canada**
- Personal income taxes: 48%
- Sales taxes: 15%
- Payroll taxes: 9%
- Corporate income taxes: 15%
- Other: 6%
- Excise taxes & duties: 7%

**Australia**
- Personal income taxes: 53%
- Corporate income taxes: 19%
- Excise taxes & duties: 14%
- Other: 11%
- Superannuation funds: 3%
... but Canada is much more fiscally decentralized
Canadian provinces are more **fiscally autonomous**

**Highly diversified provincial revenues in Canada...**

- **Consumption taxes** 24%
- **Income taxes** 29%
- **Federal transfers** 18%
- **Property taxes** 11%
- **Investment income** 4%
- **Payroll taxes** 3%
- **Sales of goods & services** 3%
- **Motor Vehicle Licences** 1%
- **Health & drug insurance** 1%
- **Other** 6%
Canadian provinces are more **fiscally autonomous**

...versus less diversified Australian States revenues

- **Federal transfers**\* 44%
- Interest income 4%
- Taxes on provision of goods & services 6%
- Taxes on property & financial / capital transactions 13%
- Payroll taxes 9%
- Sales of goods and services 9%
- Taxes on use of goods and performance of activities 5%
- Other 10%

\* Includes transfer of GST revenues to States
Larger horizontal fiscal disparities in Canada...

Standard deviation of population weighted fiscal disparities (in USD per capita at PPP)

- Australia: $136
- Germany: $303
- United States: $463
- Canada: $1,020
- Switzerland: $1,510

Revenue disparities:
- Australia: $136
- Germany: NA
- United States: $392
- Canada: NA
- Switzerland: NA

Expenditure disparities:
- Australia: $303
- Germany: $463
- United States: $482
- Canada: NA
- Switzerland: NA
... are significantly **reduced** through equalization

**Revenue disparities:**

- **Pre-equalization**
  - Alberta: $2,410
  - Ontario: $307
  - British Columbia: -$1,73
  - Saskatchewan: -$482
  - Québec: -$690
  - Manitoba: -$1,007
  - Nova Scotia: -$1,324
  - New Brunswick: -$1,469
  - Prince Edward Island: -$1,683
  - Newfoundland & Labrador: -$1,784

- **Post-equalization**
  - Alberta: $2,410
  - Ontario: $307
  - British Columbia: -$150
  - Saskatchewan: -$150
  - Québec: -$150
  - Manitoba: -$150
  - Nova Scotia: -$150
  - New Brunswick: -$150
  - Prince Edward Island: -$150
  - Newfoundland & Labrador: -$150
Australia’s much smaller horizontal disparities...

Pre-equalization:

<table>
<thead>
<tr>
<th>State</th>
<th>Revenue Disparities</th>
<th>Expenditure Disparities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Australia</td>
<td>$146</td>
<td>$365</td>
</tr>
<tr>
<td>New South Wales</td>
<td>$94</td>
<td>-$158</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>$69</td>
<td>$747</td>
</tr>
<tr>
<td>Queensland</td>
<td>$36</td>
<td>-$95</td>
</tr>
<tr>
<td>Victoria</td>
<td>-$110</td>
<td>-$248</td>
</tr>
<tr>
<td>South Australia</td>
<td>-$134</td>
<td>$431</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>-$271</td>
<td>$4,207</td>
</tr>
<tr>
<td>Tasmania</td>
<td>-$552</td>
<td>$341</td>
</tr>
</tbody>
</table>
... are more fully equalized than in other federations

<table>
<thead>
<tr>
<th>Post-equalization:</th>
<th>Revenue disparities</th>
<th>Expenditure disparities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Australia</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>New South Wales</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>ACT</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Queensland</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Victoria</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>South Australia</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Tasmania</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>
Revenue disparities in part reflect oil & gas revenues

Canada’s oil & gas production is larger...

<table>
<thead>
<tr>
<th></th>
<th>Oil production (millions of barrels / day)</th>
<th>Natural gas production (trillions of cubic feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>3.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Australia</td>
<td>0.5</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Canada

Australia

31
Revenue disparities in part reflect oil & gas revenues...

... and its oil & gas revenues are regionally concentrated

- Most **Australian** oil & gas production is offshore, with most resulting revenues flowing to the **federal** government
  - e.g. virtually all revenues from production beyond the three-mile limit
- By contrast, most **Canadian** production is from provincially owned onshore resources...
  - ... whose revenues flow mostly to **provinces** (especially Alberta)
- Revenues from Canadian **offshore** oil & gas also accrue to provinces (pursuant to federal-provincial accords)
Current issues in intergovernmental relations
Modernizing and overhauling the delivery of health care:
- core issues of improving access to care services, improving the supply, flexibility and responsiveness of the health workforce

Promoting national competitiveness, including coordination of:
- national investments in postsecondary education and vocational training
- national investments in infrastructure and transportation

Net inter-regional transfers resulting from equalization and other federal policies are a recurring source of controversy
as well as some key differences

- High natural resource prices are placing significant stress on Canada’s Equalization program
- Provinces’ responsibility for most fast-growing health spending has raised growing concerns over vertical fiscal imbalance
- Australia’s highly variable and often scarce water resources have made the National Water Initiative a key issue
- Counter-terrorism and security issues are also significant recurring themes on the IGR agenda in Australia
Recent intergovernmental agreements

**CANADA**
- Early learning and child care agreements 2005
- Transfer of Federal Gasoline Tax 2005
- Equalization Framework Agreement 2004
- A 10 Year Plan to Strengthen Health Care 2004

**AUSTRALIA**
- Australian Better Health Initiative 2006
- GST Distribution Agreement 2006
- Agreement on National Energy Market 2006
- Intergovernmental Agreement on Surface Transport Security 2005