REDISTRIBUTIVE FEDERALISM

Redistributing Wealth and Income in the Canadian Federation

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This paper examines certain federal government spending programs and their redistributive impact on individual provinces and territories, even in cases where those programs may be presented to the public as having nationwide applicability and not being designed to meet the needs of any one province. It is the contention of this paper that the federal government is engaged in a massive redistribution of wealth and income from some provinces, usually British Columbia, Alberta and Ontario, to other provinces and territories and that these federal spending programs are part of the way this redistribution is accomplished.

This paper is concerned with ***explicitly*** redistributive transfers from the federal government to the provinces and territories, namely Equalization and Territorial Formula Financing (TFF), that are used to address the horizontal fiscal imbalance by moving financial resources from some parts of the country, through the federal government, to other regions. The paper also deals with ***implicitly*** redistributive transfer programs, including the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), which are designed to support specific, provincial expenditure needs but which also allow the federal government to transfer wealth between the various regions in Canada.

This redistribution is also carried out through dozens of less well known transfers to provinces and territories for things like labour market development and infrastructure spending and through the direct use of the federal spending power in areas like immigration and regional economic development. It is also accomplished through direct transfers to individuals through programs like Employment Insurance (EI), old age security (OAS), and the National Child Benefit (NCB).

The reasons for this redistribution are explored and include economic considerations, like equity and growth, and political considerations like national unity, system maintenance, and partisan politics. Support for this redistribution appears to be imbedded in the belief system of many Canadians such that scholars have referred to “Canada’s long-standing belief in the importance of equality of economic opportunity and development and social justice between peoples, regions, and provinces….”(Doern and Stoney 2009, 308). However, the degree of redistribution may be accentuated, in some small measure, by the imbalanced distribution of seats in the House of Commons and the Senate of Canada.

This is not to say that, in comparison with other federations, Canada is more centralized or that the Canadian central government raises a particularly large share of all government revenues, resources that it is then able to redistribute. In Australia, the United States, Belgium, and Germany the federal government collects a greater share of total government revenue than in Canada. Of the major federal countries, “the federal government’s share of total own-source government revenues is smaller in Canada than in any other federation but Switzerland….”(Dion 2005).

However, as tax collector for the nation, the Canadian central government is able to redistribute the resources that result, in accordance with its own policy priorities. It has developed a sophisticated system of consultation with provinces and territories on how those resources are to be distributed (Johns et. al. 2007), but in the end it is the federal government’s decision as to what arrangements will be offered to the provinces and territories. Canada has not gone as far as other jurisdictions, like Australia, in giving the central government control over the purse strings, but it does hold the balance of these resources close at hand.

A Typology of Policy

Some years ago, Theodore Lowi formulated a typology of policy outputs and then argued that each of the three policy categories of his typology, distributive, regulatory and redistributive, indicated a different kind of policy process in action (Pal 1987, 120). Distributive policies emanate from highly individualized settlements arranged between a few policy makers and a particular interest. Regulatory policies involve a more overt decision to meet some demands and not others.

Redistributive policies involve broad categories of individuals or groups and are the result of conflict among major groups or class interests (Lowi 1964, Lowi 1972). Redistributive policies are among the most difficult for governments to deal with because providing resources to one recipient usually means taking away resources from someone else. “In game-theory terms, outcomes are described as either positive-sum (distributive) or zero-sum (redistributive)” (Bakvis, Baier and Brown 2009, 65) and zero-sum outcomes mean there are losers as well as winners.

Redistributive policies may also be viewed as a means of determining the allocation of resources within a federation, with states or provinces serving as the broad categories and the federal government determining what policies it will implement and how those policies will affect individual states or provinces (Banting 1995, 176). This paper “examines the redistribution of income and economic opportunities across the regional communities of Canada”(Gibbins 1985, 132).

This is not to say that distributive and regulatory policies cannot determine how the federal government allocates resources among provinces and territories. Distributing patronage to individuals, companies, or communities may alter their attitude toward the federal government and may contribute toward nation building. Regulatory policies can certainly favour certain regions and interests over others. However, distributive and regulatory policies are not the main focus of this paper.

Balance of Confederation

Some have claimed that taxpayers in their particular regions or provinces are contributing more to the federal government than they are receiving in benefits from the federal government. There are also those who suggest that such claims are unfounded because it is virtually impossible to make accurate calculations and, in any event, it is inappropriate to view Confederation as a zero sum game. In the words of Donald J. Savoie:

> The problem is that, even if one could measure total federal taxes collected from a region and total spending, including tax expenditures, it would still not be sufficient to conclude whether the region has benefited from Confederation or not. There are many non-spending policies that have a direct impact on the economic structure of the regions. These include tariff policies, energy price controls, human resources policies (Savoie 1990, 268).

Statistics Canada does publish an annual Provincial Economic Accounts which identifies which provinces and territories contribute financially to the rest of the country, and which provinces receive more financial benefits from the federal government than their citizens contribute as taxpayers (Statistics Canada 2010).

These Provincial Economic Accounts almost always demonstrate that, as long as the federal government manages to balance its books, taxpayers in British Columbia, Alberta and Ontario receive less in federal spending (and their share of payments on the federal debt) than they pay in taxes to the federal government. Only when the federal government goes into a deficit position – and so is borrowing money instead of taxing its citizens - do any of these three provinces receive more benefits from the federal government than they contribute.

Table 1 provides recent data, for 2007, and comparative data for 1997 and 1987. They show that, at least for the past three decades, taxpayers in none of the seven other provinces (or the territories) have ever contributed more to the federal treasury than they have received in federal spending.

The Quebec government has argued that it is not the main beneficiary of the redistribution of federal resources because, on a per capita basis, Quebec's taxpayers receive less than taxpayers in Manitoba, Saskatchewan or any of the Atlantic provinces (Quebec 2010, E11). In terms of total dollars being moved around, however, Quebec is the largest recipient.

Table 1
Balance of Confederation, Net Federal Spending Per Capita By Province, 1987, 1997, 2007
(2002 dollars per capita)

Province or territory	BC	AB	SK	MB	ON	QC	NB	PEI	NS	NF	CANADA
1987	-1,158	-401	-4,793	-3,632	895	-1,806	-5,288	-6,979	-6,286	-7,322	-1,197
1997	1,074	2,317	-1,481	-2,307	1,816	-558	-3,769	-4,918	-4,555	-5,584	407
2007	1,215	4,998	-1,280	-3,093	1,500	-570	-4,480	-5,493	-5,293	-6,068	623

Source: *2010 Quebec Budget* ; Statistics Canada, *Provincial Economic Accounts.*
Note: Net federal spending represents the amount the federal government raises through taxation in each province minus the amount it spends in each province, including each province's share of federal debt interest payments. A negative number in this table means that the federal government is spending more than it is raising; a positive number means that it is spending less than it is raising in taxes. Note that in years when there is a federal surplus, the federal government will spend less than it will raise (showing a positive overall balance), but in years when there is a federal deficit the federal government will spend more than it will raise (showing a negative overall balance).

The Ontario government has claimed that about $20 billion is raised each year by the federal government in Ontario and then spent in other provinces (Ontario 2008). On two successive occasions, the Ontario legislature has passed all-party resolutions decrying this $20 billion fiscal gap.

Alberta claims that even more money is raised by the federal government in Alberta, on a per capita basis, for spending in other provinces and territories (CBC News 2010). In an address to the C.D. Howe Institute, Premier Stelmach "estimated that Albertans contributed 36.3 billion dollars to the federal treasury, and received back about 18.5 billion dollars in federal services. That's a net contribution by Albertans of almost 18 billion dollars…or nearly five thousand dollars per capita" (Stelmach 2009).

MAJOR TRANSFERS

Much of the redistributive impact of federal fiscal policy is a function of the tax system, particularly the progressive income tax (Smiley 1972, 124). Even a flat tax like the Goods and Services Tax (GST) will raise more revenue in provinces where citizens have a higher than average disposable income, but a progressive tax like the personal income tax will accentuate this impact.

A major contributor to the interprovincial redistribution of resources is the federal spending power. Sometimes this redistribution of resources is in the form of major transfer payments like Equalization, TFF, the CHT, or the CST.

Equalization Payments

The most explicit means by which the federal government moves resources from one part of the country to another is through the Equalization program. The federal government's "attempts to reduce regional disparities through payments to the provinces are usually rationalized in terms of fiscal equity" (Ibid, 122). The program is in place because the federal government recognizes that not all provinces have an equal ability to raise fiscal resources and meet the needs of their citizens. It then steps in and uses its own taxing power to raise funds that can be distributed to provinces viewed as most in need (James and Krieckhaus 2008, 192).

Initiated in 1957, the Equalization program bases its payments to provincial governments on their tax capacity, their ability to collect revenues relative to the tax capacity of every other province. In 1982, the Constitution of Canada was amended to ensure, through Section 36(2), that "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" (Constitution Act 1982). Section 36(2) does not enshrine the current Equalization program in the Constitution, it merely commits the federal government to make equalization payments. The magnitude of those payments and which provinces will receive them is entirely left up to the federal government.

Particularly problematic has been the impact of resource revenues on provincial tax bases and revenues. Discussions among provinces and the federal government have led to various solutions. However, the underlying problem is that, "to the extent that revenues go to provincial governments in the form of royalties, they are not accessible to Ottawa through personal or corporate taxes even though Ottawa is still faced with the bill for equalization" (Gibbins 1985, 168).

Largely as a result of federal tinkering with the program in response to high oil prices, beginning in 2009 Ontario began receiving Equalization payments even though it is generally considered one of the wealthiest provinces.[1] At the same time, Newfoundland and Labrador and Saskatchewan, traditionally among the least wealthy provinces, do not currently receive Equalization payments because of their non-renewable resource revenues.

Equalization has become a program to assist the "have-nots" at the expense of the "haves", but only within a rather narrow focus. The "have" provinces are those that have extensive non-renewable natural resources, the "have not" provinces are those that do not. The current recipients of the program, Ontario, Quebec, Manitoba, and the three Maritime provinces are defined as "have-not provinces" only because they do not receive extensive royalties from oil and natural gas production.

As a recipient of Equalization payments (Finance Canada 2010), in effect, Ontario is financing its own payments as the federal government collects revenues in Ontario and then feeds a relatively small part of them back to the

[1] Ontario was eligible to receive Equalization payments in the late 1970s, but the federal government adopted special measures to ensure that no funds were received by the Province.

provincial government. Until recently, the same could have been said for BC when it was both a net fiscal contributor to Confederation and a recipient of Equalization payments.

When the Equalization program fails to meet the demands of provinces or the political needs of the federal government, other programs or adaptations of existing programs explicitly transfer additional resources to certain jurisdictions. After often-bitter debates, the federal government reached Offshore Accords with Newfoundland and Labrador and Nova Scotia to transfer additional revenues to those provincial governments. Similarly, because the Equalization program applies only to provinces, the federal government uses the TFF program to make transfers to the Yukon, Nunavut and the Northwest Territories.

Health and Social Transfers

The federal government has a long history of making transfer payments to provinces and territories in policy fields within provincial jurisdiction. The federal government began with financial support for postsecondary education (Cutt and Dobell 1992, 16) and followed up with funding for hospital insurance in 1957, the Canada Assistance Plan (CAP) in 1966, and medical insurance in 1968. In 1977, these evolved into two major transfer programs, the Established Programs Financing (EPF) transfer for health and postsecondary education and the Canada Assistance Plan (CAP) for social services and income maintenance.

The EPF arrangements involved a transfer of cash and a transfer of tax points from the federal government. However, the latter – the transfer of tax points – ensured that certain provinces, mainly BC, Alberta and Ontario received less of the cash, on a per capita basis, than the other provinces and territories. Similarly, in 1990, the design of the CAP program was altered to limit the transfers made by the federal government to BC, Alberta and Ontario, the so-called "cap on CAP", such that those provinces received reduced federal funding.

In the 1995 federal budget, as part of the attempt to eliminate the federal deficit, the EPF and CAP programs were merged into the Canada Health and Social Transfer (CHST) (Courchene and Wilson 1995). The amount of funding for health care, postsecondary education and social programs was significantly reduced. In effect, the federal government was transferring its deficit onto the backs of the provinces at the expense of social programs (Torjman 1995, 153).

The formula for distributing cash transfers among the provinces and territories was largely unchanged from that involved in the EPF transfers. Certain provinces would receive more in the way of cash transfers, on a per capita basis, than other provinces. This meant that Ontario, Alberta and BC – but especially the largest province – would continue to complain about the design of the CHST program. It was not until after the CHST was split into the CHT and the CST, that each province began to receive the same cash transfers, on an equal per capita basis, as every other province. Under the Harper government, and with a former Ontario Minister of Finance serving as the federal Minister of Finance, first the CST and then the CHT was put on a more or less equal per capita basis.

SOCIAL SPENDING PROGRAMS

While large-scale federal block transfer programs either explicitly or implicitly redistribute resources from some provinces to others, the federal government has other redistributive mechanisms in place. Foremost of these are the large-scale social spending programs administered by Ottawa.

Employment Insurance (EI)

One of the largest programs for redistributing wealth and income among the provinces is EI (Finance Canada 2010). Section 91, 2A, of the Constitution Act of 1867, as amended in 1940, gives the federal government exclusive jurisdiction over unemployment insurance.

Although a national program, because of the distribution of the unemployed across the country and differential benefits from province to province, the EI program systematically moves financial resources from the four western provinces and Ontario to Atlantic Canada and Quebec. The EI program does this in two ways: 1) by collecting more in the way of premiums from workers and employers in provinces where wages and salaries are higher (predominantly the western provinces and Ontario); and 2) by paying out more generous regular benefits to workers in the Atlantic provinces and Quebec. This is accomplished by requiring workers in the West and Ontario to work more weeks before they are able to collect EI regular benefits and then providing EI benefits to those same workers for shorter periods.

Table 2

Employment Insurance Benefits-to-Contribution Ratio (2006) and Unemployment Rates (2006 and 2010)

Province or territory	BC	AB	SK	MB	ON	QC	NB	PEI	NS	NF	YK	NW	NU
Benefits to Contribution Ratio	0.64	0.31	0.73	0.64	0.65	1.84	2.93	4.01	2.03	5.74	1.47	0.66	0.83
Unemployment Rate (2006 %)	4.8	3.4	4.6	4.3	6.3	8.0	8.7	11.1	7.9	14.8	-	-	-
Unemployment Rate (2010 %)	7.9	7.5	5.1	5.2	8.8	8.0	8.7	10.8	8.5	15.5	-	-	-

Source: Human Resources and Development Canada, EI Monitoring and Assessment Report, Chapter 5, V. EI and the Economy, 1. Income Distribution, 2008.
Statistics Canada, Labour force characteristics, seasonally adjusted, by province (monthly), March 2010.

As Table 2 demonstrates, workers and employers in BC, Saskatchewan, Manitoba and Ontario received only 60 or 70 cents in regular EI benefits for every dollar they contributed in 2006. Workers and employers in Alberta received only about 30 cents. At the same time, the unemployed in the Atlantic provinces and Quebec received substantially more than they paid into the EI fund (Human Resources and Development Canada 2008).

Because of the size of the Ontario economy and its high unemployment rates in recent years, Ontario has more unemployed workers than any other province in Canada. The Ontario government has claimed that while only 30 per cent of unemployed workers in that province receive regular EI benefits, 52 per cent of unemployed workers in the rest of Canada receive regular EI benefits (Government of Ontario 2010). In some of the Atlantic provinces, virtually all of the unemployed receive regular EI benefits.

Labour Market Training and Development

The federal government has long been involved in training and other forms of labour market development (Dupre 1973). One could say, however, that the current era began in the late 1990s under Jean Chretien. Largely in response to the defeat of the Charlottetown Accord and the 1995 referendum in Quebec, the federal government moved ahead with Labour Market Development Agreements (LMDA) that were funded by EI premiums. Although the impetus for this initiative was asymmetrical, meant to meet some of Quebec's demands, agreements were to be reached with all provinces and territories.

However, instead or reaching an overarching agreement which treated all jurisdictions more or less the same, the federal government attempted to negotiate a bilateral and somewhat different agreements with each province and territory. "Thus began a series of bilateral negotiations, which culminated in 1997 in separate agreements with 11 of the 12 provinces and territories, including the province of Quebec. Only in the case of Ontario was Ottawa unable to come to an agreement" (Bakvis 2002, 198). In Ontario's case, there was no agreement negotiated at all until well into the 21st century and this lack of an agreement constituted a continuing source of conflict with the federal government.

The variations in the distribution of EI regular benefits were also reflected in the distribution of labour market training and development funds paid for by EI premiums. The Ontario government has calculated that while 42 per cent of Canada's unemployed live in Ontario, only 27 per cent of federal funding for worker training and support services is spent in Ontario (Government of Ontario 2010).

Immigration Policy

For many decades, federal and provincial governments have tried to use immigration policy to meet certain economic and social challenges within their respective jurisdictions. In 1991, the government of Brian Mulroney negotiated a unique agreement between the federal government and Quebec that enabled the provincial government to take a more active role in recruiting and settling immigrants in Quebec. It also provided more federal funding to Quebec than any other province (Citizenship and Immigration Canada 1991).

Conflict has arisen because of the arrangements that exist between the federal government and the provinces and territories and the allocations of federal funding for immigrant settlement agencies. Some provinces have not seen the allocation of federal funds as being appropriate, even taking into account the additional role played by the Quebec government.

The distribution of recent immigrants within Canada has meant that, until 2006, when Ontario's economic difficulties became apparent, more than half of all immigrants coming permanently to Canada settled in that province. Most of the recent immigrants settle in large cities like Toronto, Montreal and Vancouver. Far more immigrants settle in the Toronto region than in any province outside of Ontario. Most immigrants to Quebec settle in Montreal, most immigrants to BC settle in Vancouver, and more immigrants settle in either of those cities than in any of the seven other provinces (Leo and Enns 2009, 105).

Table 3
Immigration of Permanent Residents by Province and Territory, 2008
Immigrant Settlement Funding Allocations for 2010-11

Province or territory	BC	AB	SK	MB	ON	QC	NB	PEI	NS	NF	YK	NW	NU
Permanent Residents (000's)	44.0	24.2	4.8	11.2	110.9	45.2	1.9	1.5	2.7	0.6	0.1	0.1	0.1
(% of total)	17.8	9.8	2.0	4.5	44.9	18.2	0.8	0.5	1.1	0.3	0.1	0.1	0.0
Settlement Funding Allocations ($ millions)	114.0	60.0	10.1	29.4	408.0	253.7	4.7	2.7	7.1	1.9	0.6	0.6	0.5
(% of total)	12.8	6.7	1.1	3.3	45.7	28.4	0.5	0.3	0.8	0.2	0.1	0.1	0.1

Note: Settlement Funding Allocations do not necessarily represent the amounts actually spent; the federal government may spend less than the amount allocated for any province or territory.
Source: Citizenship and Immigration Canada, *Facts and Figures: Immigration Overview, Permanent and Temporary Residents, 2008*, page 26; *Backgrounder: Settlement Funding Allocations for 2010-11.*

However, the provinces with the greatest need for federal immigrant settlement funds, because they receive the most immigrants, are not necessarily the provinces that receive the most federal funding. Ontario has felt particularly aggrieved by these arrangements and mounted a campaign to obtain a greater share of federal funding. As a result of this campaign and the discussions that followed, in 2005 the federal government agreed to reach a Canada-Ontario Immigration Agreement (COIA) and to increase spending in Ontario (Citizenship and Immigration Canada 2005).

Unfortunately, this does not appear to have been the end of the debate. At least in the first years of the agreement, the federal government has not spent most of the additional amounts allocated for immigrant settlement in Ontario.

ECONOMIC DEVELOPMENT POLICY

Federal redistributive policies have not been limited to large-scale social programs. They have also applied to programs dealing with economic and regional development.

Regional Development Agencies

The use of the federal spending power to foster economic development in certain regions has a long history in this country (Gibbins 1985, 168; Savoie, 2003). Most recently, the federal government has established regional development agencies that spend over $1 billion each year. They exist in each of the major regions of Canada:

- the Atlantic Canada Opportunities Agency (ACOA) in the four Atlantic provinces;
- the Economic Development Agency of Canada for the Regions of Quebec;
- the Western Economic Diversification Agency in the four western provinces; and
- FedNor, providing economic development assistance in northern and eastern Ontario.

Only recently has the federal government made a point of recognizing the lack of regional development agencies for southern Ontario and the North. After problems in the manufacturing sector pushed up Ontario's unemployment rate, a southern Ontario development agency was announced in the 2009 federal budget (Finance Canada 2009). The agency, FedDev Ontario, was provided with funding of $1 billion over five years. The 2009 federal budget also announced the establishment of the Canada Northern Economic Development Agency (CanNor). On a per capita basis, the amounts provided for CanNor are greater than for any of the other economic development agencies.

At least as far back as the days of the Department of Regional Economic Expansion (DREE), federal regional development programs were aimed at the territories and certain provinces and not at other provinces. In the case of DREE, Quebec may have received more funding than any other province, but on a per capita basis the federal government spent more regional development dollars in the Atlantic provinces, Manitoba, Saskatchewan and the territories (Gibbins 1985, 169). Relatively little was spent in BC, Alberta or Ontario.

Table 4
Federal Economic Development Agencies, 2010-11

Federal Agencies	Western Canada	FedDev Ontario	Quebec	Atlantic Canada	FedNor	CanNor
Financial Expenditures ($ millions)	429	206	246	382		250 over five years
Expenditures Per Capita ($)	51		33	169		N/A
Full Time Staff Equivalents (FTEs)	474	N/A	411	711		N/A

Source: Government of Canada, various agencies.

Currently, the largest amounts of these regional development funds, in per capita terms, continue to be spent in Atlantic Canada, with smaller but still substantial amounts in Western Canada. Most certainly, ACOA has the largest staff of any of the regional development agencies.

This is of some significance because, in addition to their economic development responsibilities, each of these federal agencies is expected to “lobby” the federal government for benefits for their particular regions. As ACOA indicates, “through its Ottawa office, ACOA ensures that Atlantic Canada’s interests are reflected in both the policies and programs developed by other departments and agencies of the federal government” (Treasury Board 2010, 4). In effect, ACOA is saying that their staff are being paid by the federal government to influence other federal officials, elected and unelected, on behalf of the Atlantic provinces.

Infrastructure

In recent years, the federal government has taken a great many initiatives to improve Canada’s physical infrastructure, its roads and bridges, buildings, water and sewer systems (Finance Canada 2009). A large part of these federal expenditures have been allocated among provinces and territories based on specific needs like border infrastructure or on a more or less equal per capita basis.

However, in discussions with the territories and some of the smaller provinces, it has often been the case that these smaller jurisdictions were able to obtain special treatment from the federal government in the allocation of funds. For example, the federal government’s Building Canada Plan for infrastructure renewal included a component that provided equal base funding for all provinces and territories. Nunavut and the Northwest Territories receive exactly the same amount of base funding as Ontario and Quebec (Infrastructure Canada 2010a). Similarly, the federal government’s Gas Tax Fund allocated a base amount to Prince Edward Island and each of the three territories. (Infrastructure Canada 2010b).

In the case of PEI and the territories, no attempt was made to allocate funding proportionate to their respective populations or to make any sort of strategic decisions about where this funding was needed most. The smallest jurisdictions argued successfully that they needed a minimum amount of funding, regardless of their population, and the federal government responded accordingly.

IMPACT OF FEDERAL POLICIES

Provinces and territories vary markedly in the degree to which they are dependent on the federal government for their fiscal resources (Finance Canada 2009). As shown in Table 5, at one end of the spectrum is Alberta, where only nine per cent of total revenues come from the federal government. At the other end of the spectrum are the three territories, where 71 to 91 per cent of all revenues come in the form of transfers, and the Atlantic provinces where between one third and one half of all revenue comes from Ottawa.

Table 5
Federal Transfers as a Percentage of Total Revenues, 2009

Province or territory	BC	AB	SK	MB	ON	QC	NB	PEI	NS	NF	YK	NW	NU
Transfers ($ billions)	6.1	4.0	1.9	3.8	15.9	15.3	2.6	0.5	3.4	3.9	0.7	1.0	1.2
Total Revenues ($ billions)	36.6	40.2	13.9	11.8	96.1	80.9	7.3	1.4	8.8	7.5	0.9	1.4	1.3
Transfers Share of Total (%)	16.8	9.4	13.7	32.1	16.6	19.0	35.5	38.5	39.0	51.5	78.7	71.4	91.7

Source: Statistics Canada, CANSIM, Table 385-0002.

The assumption is usually made that increased federal transfers will increase provincial spending and will improve the lot of the citizens of the recipient provinces. Critics have pointed to Quebec's low cost day care and low university and college tuition fees as examples of ways Quebec's citizens are favoured by high levels of federal transfers (Chung 2010, A4). Both Manitoba and Quebec have been accused of charging low electricity rates to their industries and homeowners and being able to do so because of Equalization payments from the federal government (Frontier Centre for Public Policy 2007).

Certainly, in its most recent budget, Quebec admitted to providing a high level of spending and services for its citizens. In the words of their Minister of Finance, in his 2010 Budget Speech:

> Over the years, Quebec has given itself the biggest basket of public services in North America. In fact, the Quebec government funds 26% more services than Ontario. That represents an annual amount of more than $17.5 billion, for an average of $2,250 per Quebecer – man, woman and child. That gap has more than tripled in the last 20 years. But our collective wealth, that is, our ability to

pay for those services, is 14% below that of Ontario (Quebec Finance 2010, 5).

Quebec claims that these higher spending levels are a result of higher taxes, rather than higher transfer payments (Ibid., E13).

In point of fact, provincial and territorial spending does appear to be related to at least two main factors: non-renewable natural resource revenues and federal transfers. As shown in Table 6, the three territories receive the largest federal transfers, on a per capita basis, and have spending levels far above those of any of the provinces. The highest spending provinces, Newfoundland and Labrador, Alberta and Saskatchewan benefit from revenue from non-renewable natural resources, usually oil and gas.

The lowest spending provinces, Ontario, BC and Nova Scotia, receive much less in the way of federal transfers and, particularly Ontario, have little revenue from non-renewable natural resources. The picture changes somewhat if local government spending is included. Ontario, BC and Nova Scotia continue to have the lowest spending, but are joined by PEI at or near the bottom (Statistics Canada 2009).

Table 6
Provincial-Territorial Spending Per Capita, 2009

Province or territory	BC	AB	SK	MB	ON	QC	NB	PEI	NS	NF	YK	NW	NU
Population (millions)	4.1	3.3	1.0	1.1	12.0	7.4	0.7	0.1	0.9	0.5	0.0	0.0	0.0
P-T Spending Per Capita ($000)	9.4	12.0	11.8	10.3	8.7	11.3	10.6	11.3	9.8	13.0	31.3	38.4	44.3
P-T-Local Spending Per Capita ($000)	12.6	15.1	15.0	13.3	12.3	14.5	13.0	12.5	12.5	14.2	33.7	42.1	47.8

Source: Statistics Canada, Provincial and territorial general government revenue and expenditures, by province and territory, 2009.
Consolidated provincial, territorial and local government revenue and expenditures by province and territory, 2009.
Canada Population, 2006 Census.

WHY DOES THE FEDERAL GOVERNMENT PURSUE THESE POLICIES?

A final set of questions that need to be answered revolve around why the federal government pursues a rather consistent policy of favouring some provinces – and all territories – over other provinces? Electorally, there would appear to be no partisan political benefit, the combined populations of the provinces and territories favoured being more or less equal to the combined populations of those provinces receiving no net benefit. About half the country’s people live in a province or territory that receives more than it contributes to the federal treasury; about half live in a province that receives less than it contributes.

Maldistribution of Political Elites at the Federal Level

One reason, although probably not as great a factor as might be thought, is the distribution of parliamentary seats in the House of Commons and the Canadian Senate.

The Senate has always over-represented the smaller provinces, especially the four Atlantic provinces, and currently also tends to over-represent Manitoba, Saskatchewan and the territories. With much less than one tenth of Canada's population, more than a quarter of all Senators come from the Atlantic provinces. Manitoba and Saskatchewan, with a smaller combined population than Alberta and a combined population a little more than half of BC, together have twice as many Senators as either of those two larger provinces. The territories, with three Senators among them, have half as many seats in the Senate as BC, which has a population about 40 times as great.

When it comes to the distribution of seats in the House of Commons, currently the only drama is when it comes time to determine how many seats will be awarded to BC, Alberta and Ontario. Short of some major demographic upward shift in the population of the other seven provinces or the territories, all of them pretty much have a fixed number of seats (Sancton 2010).

When the Harper government first introduced legislation to increase the number of seats from BC, Alberta and Ontario, it provoked an outburst from Ontario's provincial government which claimed that Ontario was not going to receive an additional number of MPs that recognized its growing share of the population (Government of Ontario, Office of the Premier 2007). Meanwhile, the Quebec government complained about any reduction in Quebec's share of federal MPs and passed an all party resolution in the National Assembly in response.

Some scholars have claimed that Canada's record in distributing seats in its lower chamber is worse than in other western, developed countries (Mendelsohn 2010). Other writers have claimed that the under-representation of MPs from BC, Alberta and Ontario is implicitly discriminatory, that those provinces plus Quebec are the major recipients of recent immigrants, especially visible minorities. This problem is exacerbated by the over-representation of rural areas within each province and the under-representation of cities like Toronto and Vancouver, where most visible minorities live and vote (Pal and Choudhry 2007).

If the under-representation of BC, Alberta and Ontario in the House of Commons does not seem as important a factor as it otherwise might, perhaps it is because the federal Cabinet does not necessarily reflect that under-representation. "The focal point for accommodation within the party in power is, of course, the federal cabinet" (McRae 1974, 251). Rather than being a representative sample of the entire House of Commons, federal cabinets often over-represent the provinces where the government party enjoys its greatest popularity and under-represent the provinces where it does poorly electorally.

Consensus in the Political and Bureaucratic Elites' Culture

A more likely explanation for the redistribution of fiscal resources to certain provinces and territories is the existence of a consensus among the political and bureaucratic elites within Canada. "Not surprisingly, Canadian policy always responds, at least to some degree, to the general public's felt need for some level of redistribution to preserve national unity by keeping the level of government services approximately the same from one province to the next, rich or poor…."(James and Krieckhaus 2008, 191).

It is a contention of this paper that this elite consensus exists at both the political level and the bureaucratic level of the federal government and that there is a consistency in the treatment of the various regions that continues from government to government and from department to department. Kenneth McRae pointed out some years ago that,

> While the cabinet is the main institution for elite accommodation in federal politics, one could pursue the question further by examining the working of other federal boards, departments, agencies and tribunals. In general we might expect to find patterns of accommodation similar to those pursued by the Cabinet….(McRae 1974, 253).

This consensus among federal political and bureaucratic elites explains why the name of the party in office does not seem to matter very much to the way the federal government provides fiscal resources more generously to some provinces and territories than to others.

This consensus at the federal level is shared, to some extent, by provincial politicians and senior officials. Even provinces like Alberta and Ontario, that have complained about the magnitude of the federal government's redistributive policies and practices, have voiced their support for the Equalization program.

CONCLUSION

The federal government redistributes significant fiscal resources from BC, Alberta and Ontario to the seven other provinces and to the three territories. This paper has demonstrated how this redistribution has been done explicitly, through the Equalization and TFF programs.

It has also demonstrated how this redistribution has been done implicitly through federal transfer programs like the CHT, the CST, labour market development and infrastructure spending.

And it has demonstrated how this redistribution has been done implicitly through the use of the federal spending power in areas like EI, immigration and regional development programs.

The redistributive practices of the federal government discussed in this paper can be viewed as part and parcel of the public's support for governments' role in fostering equity in our society. It does this by transferring resources from high income people and the corporate sector to low income individuals. In the case of provinces, territories and regions, wealth and income are transferred, on the grounds of equity, from the have to the have-not provinces, just as the progressive income tax system attempts to achieve similar goals for individuals.

A problem with this process that has long been recognized is that intergovernmental transfers to provinces and territories and certain programs administered by the federal government may have the opposite effect. Such transfers and programs may end up redistributing wealth and income from poor people living in more prosperous jurisdictions to wealthy individuals and corporations residing in have-not jurisdictions (Oates 1999, 1127).

Others have "argued that fiscal equalization can stand in the way of needed regional adjustments that promote development in poorer regions" (Ibid., 1128), that individuals and businesses will respond more readily to economic pressures if the central government does not attempt to prop up the economies of those poorer provinces. These arguments most certainly fly in the face of the regional development programs discussed earlier in this paper.

The role of government in transferring wealth and income also can be discussed within the context of the current federal government's neo-liberal agenda, which includes tax cuts and cutbacks in spending, and whether that agenda poses a serious threat to redistributive programs. The current Harper government's open federalism "is consistent with the broader neoliberal approach to federalism which, among other aims, seeks to use institutional reforms to lock in more market-oriented public policies" (Harmes 2007, 418).

The question can also be raised as to whether these redistributive programs are necessary to the survival of Canada and whether any weakening of those programs will foster a weakening of national unity? Would a further reduction in the role of the federal government threaten Canada's very existence? Would that threat be accentuated if a majority of the provinces and territories were not so fiscally dependent on the federal government?

Certainly, the current Harper government would likely argue that a more decentralized form of federalism would strengthen Canada because it would permit the provinces, and Quebec in particular, to play a larger role. It could also be argued that an agenda of tax cuts and spending cuts will weaken the federal government to such an extent that it will be unable to respond to global and national problems.

There is some evidence that the role of the federal government in reducing economic disparities between provinces and territories is becoming redundant. In the words of one study, “provincial inequality is a problem that is taking care of itself…the poorer provinces of Canada have been growing at a rate significantly faster than the richer provinces…provincial inequality is largely a self-correcting problem” (James and Krieckhaus 2008, 199).

However, this has not stopped the federal government from continuing to redistribute wealth from the donor provinces to the recipient provinces. This may become less and less acceptable to the donor provinces in an era of freer trade and globalization. As Courchene has pointed out, referring specifically to Equalization:

> The equalization program was introduced and expanded to its present form within a framework where provincial trade largely flowed east-west and where the Canadian economy operated behind tariff walls. In this environment, Canada could engage in generous and comprehensive equalization transfers without much concern that this would affect Canada’s ability to remain competitive north-south. This world is no longer with us. (Courchene 2005, 12).

With less and less public support for its redistributive policies, especially in the donor provinces, the federal government may have to use other ways to further national unity.

However, as the past couple of decades have demonstrated, in an environment where the federal government runs fiscal surpluses, provinces and territories run active campaigns to obtain a share of those surpluses. They try to obtain a better deal for their respective jurisdictions while resisting federal incursions into areas of provincial responsibility. Each jurisdiction knows full well it is playing a zero-sum game where it is in competition with every other province or territory and with every other demand on federal resources.

In the current environment, where the federal government is running deficits, provinces and territories are likely to work together to try to protect federal redistributive programs from potential budgetary cuts. They will also try to maintain their constitutional jurisdiction over provincial areas of responsibility, resisting federal initiatives unless they are accompanied by generous financial benefits.

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