



# CPRN Policy Brief

Canadian Policy Research Networks

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## Fiscal Federalism: Citizens Bring Politicians Back to Basics

Debate about transfer programs, equalization and whether Canada has a fiscal imbalance or balance has, for the most part, been off limits to average Canadian citizens. But since the last federal election, media coverage of politicians arguing and public policy experts and pundits weighing in with their advice have thrust these somewhat arcane issues into mainstream discourse.

Should we be surprised this issue is igniting such passion? Distilled to their essence, transfer programs are about how we define ourselves as a country, what we want to be and how we ensure equitable access to the basic needs for quality of life – health, education, social services, a clean environment, a strong economy. These are the real issues.

A welcome addition to the discourse of experts and politicians is the voice of citizens. Last winter, on behalf of the Council of the Federation's Advisory Panel on Fiscal Imbalance, CPRN brought together 93 randomly recruited Canadians in sessions across the country to reflect on how public funds are shared in Canada and to identify what principles they think should guide political decisions about how to share revenues across the country. These Canadians quickly cut to the heart of what should guide transfer payments – values shared by people whose lives are interconnected, regardless of politics or where they live in the country *and* the need to be competitive in a global economy.<sup>1</sup>

Dialogue participants drew a road map for our political leaders and experts to travel in the right directions. Reflecting the values of fairness, access, transparency, accountability, sustainability and efficiency, participants recommended a five point plan for our decision makers to follow:

- 1. First, create a national vision and define the same acceptable standards for all Canadians.**

Participants articulated a pan-Canadian perspective that reflects the reality of their lives. Canadians are a mobile bunch – many people spoke to that reality. Their sense of place isn't necessarily defined by geography, but often reflects multiple communities of interest from local to international. They want transfer payments to be designed to strengthen national unity, for both practical and normative reasons.

And so they were impatient with the barriers they experienced in accessing health services, education and work as they moved from province to province. They expect common acceptable standards – not the lowest common denominator – for key services across the country – with flexibility for provinces to move beyond the standard, if they choose, or to tailor programs for specific needs.

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<sup>1</sup> The Council of the Federation's Advisory Panel on Fiscal Imbalance engaged CPRN to lead a citizens' dialogue on fiscal imbalance to bring the public voice into the discussions about transfer payments. See the dialogue report on CPRN's Web site: "*Strengthening the Federation: Citizens' Dialogue on Sharing Public Funds for a Better Canada*," CPRN. [www.cprn.org/en/doc.cfm?doc=1422](http://www.cprn.org/en/doc.cfm?doc=1422).

## 2. Define the vision and standards in a collaborative way.

Participants called on governments to lead an inclusive process that will articulate a long-term vision for Canada and provide direction for our public programs that are critical to a strong economy and society. They are weary of intergovernmental bickering but are not advocating unilateral federal actions. On the contrary, they expect their federal, provincial and municipal governments to work together, in collaborative processes that engage stakeholders and citizens, with a common focus on the best interests of the public.

## 3. Set standards first and then determine the transfer formula.

Participants saw the current transfer program design as the tail wagging the dog. They want an alternative approach that first identifies what we want to achieve with our programs, and then determines how to pay for that. While recognizing the value of the equalization program, participants do not think it is the best vehicle to address the growing horizontal imbalance nor to achieve common standards across the country. They're looking for an approach driven by standards and a focus on outcomes (services and standards) rather than inputs (fiscal capacity). The strong preference for conditional transfers and direct transfers, over more equalization or tax point transfers, reflects their desire for standards and greater accountability.

## 4. Conditional transfers to provinces

Distrust of federal and provincial governments was evident in all dialogue sessions and contributed to participants' call for improved monitoring and more transparent reporting on achieving common national standards. It also contributed to their choice of conditional transfers to the provinces as the best way to achieve the same acceptable standards across Canada, recognizing some unique needs in different regions.

## 5. Direct federal spending to individuals and institutions to help address inequities

Participants think direct transfers are an attractive supplement to provincial transfers because they can help address the particular needs of individuals and institutions, regardless of where they are located. For instance, they assist poor people and institutions in need within provinces that are not eligible for Equalization. Direct payments facilitate mobility and portability for individual Canadians, especially for post-secondary education. However, participants insisted conditions for accountability and transparent reporting should apply to individuals and institutions who receive direct payments.

## A New Way to Work Together

Participants' diagnosis of what ails our fiscal federalism and the required prescription echoes many experts – to move beyond our current impasse, governments must fundamentally shift how they engage with each other and with Canadians. Recent rumblings from the Premiers and Ottawa are not encouraging. Despite good intentions, our government leaders think in terms of defending the interests of their jurisdictions and our governance systems encourage competition rather than collaboration. It is not surprising that common ground proves so elusive.

Our political leaders should be inspired by the work of dialogue participants who despite different provincial identities found common ground in defining a better approach to sharing our public funds. Their road map to strengthen our country is based on solid values and sound principles. It reflects the reality of their lives that cuts across geographic borders and constitutionally defined division of powers. It respects different needs across the country while seeking to strengthen our bonds. Those who inhabit the corridors of power must think beyond their traditional boundaries to work together and with Canadians for a stronger, more competitive country in the interests of all.



Interested in discussing this work or collaborating in research in this or a related area?

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