



Fiscal Balance in Canada

The Honourable Stéphane Dion
President of the Privy Council and
Minister of Intergovernmental Affairs

Teamsters Canada
Conference on Government and Legislative Affairs
Ottawa, Ontario, October 30, 2002

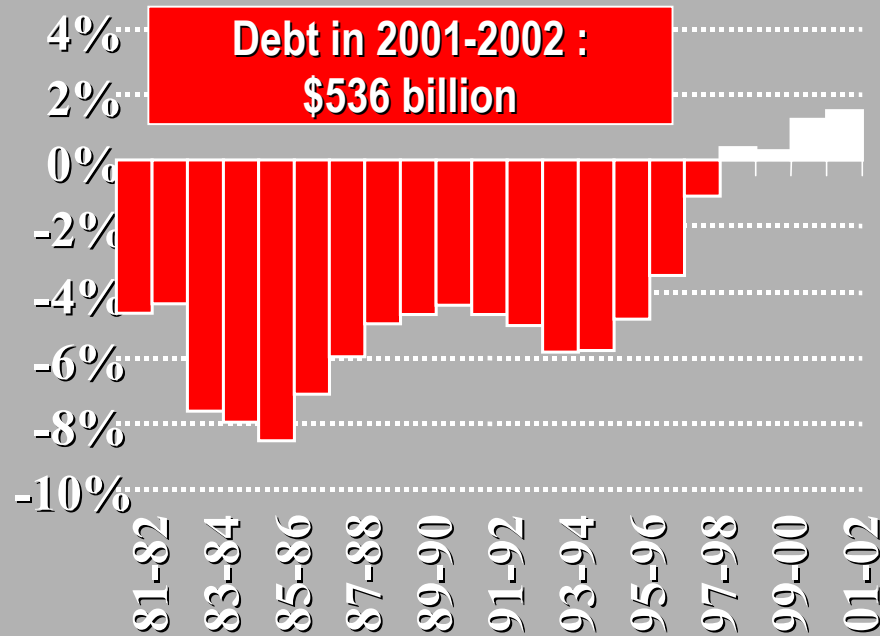
www.pco-bcp.gc.ca/aia

The debate on the alleged fiscal imbalance

- ➔ **Myth** : *“The money is in Ottawa, the needs are in the provinces”*
- ➔ **Reality** : *There are needs for both orders of government, which are duty-bound to help each other meet those needs within their means*

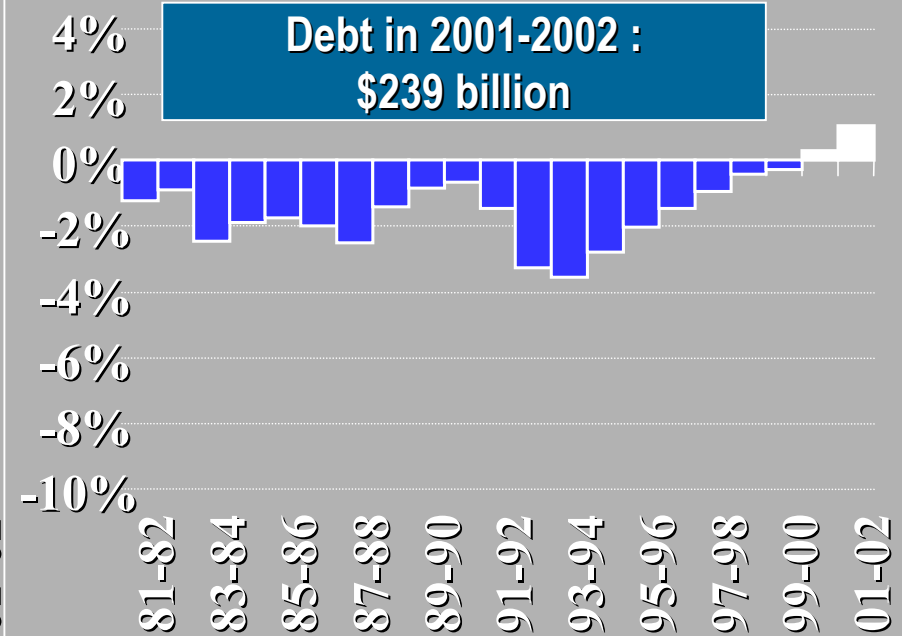
Dynamic of the budget balance and debt

Federal budget balance (% of GDP)



Source : Public Accounts

Provinces' budget balance (% of GDP)



Source : Public Accounts

Federal surpluses are recent and small compared with the deficits that preceded them...

The provincial governments' deficits have been much smaller ²

The \$8.9 billion surplus in 2001-02 is not a sign to let down our guard

1

Only 5% of federal revenues

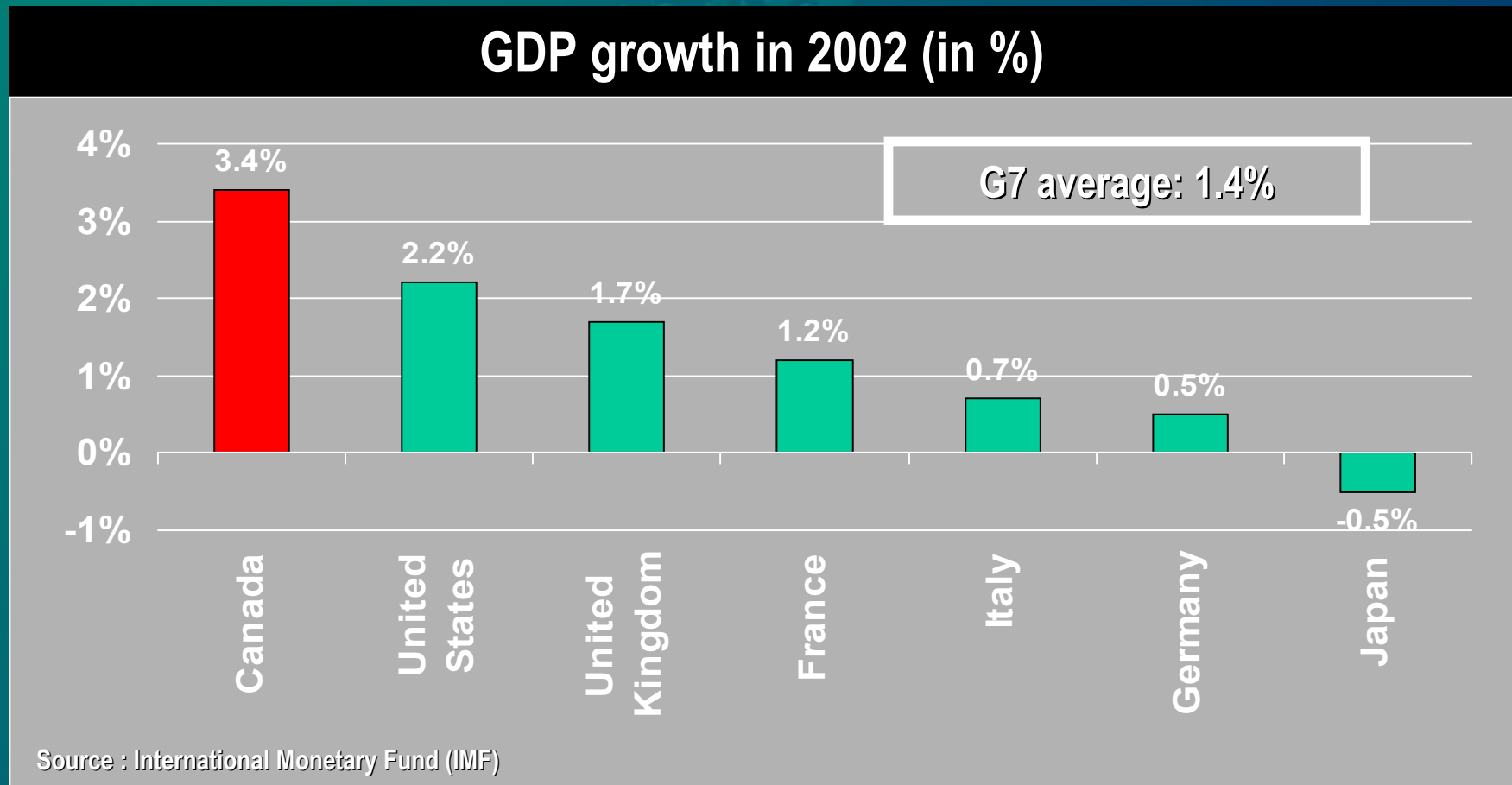
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\$536 billion debt would take 60 years to pay down at that rate

3

Thanks to 3.4% economic growth rather than the 1.1% forecast by economists at the time of Budget 2001

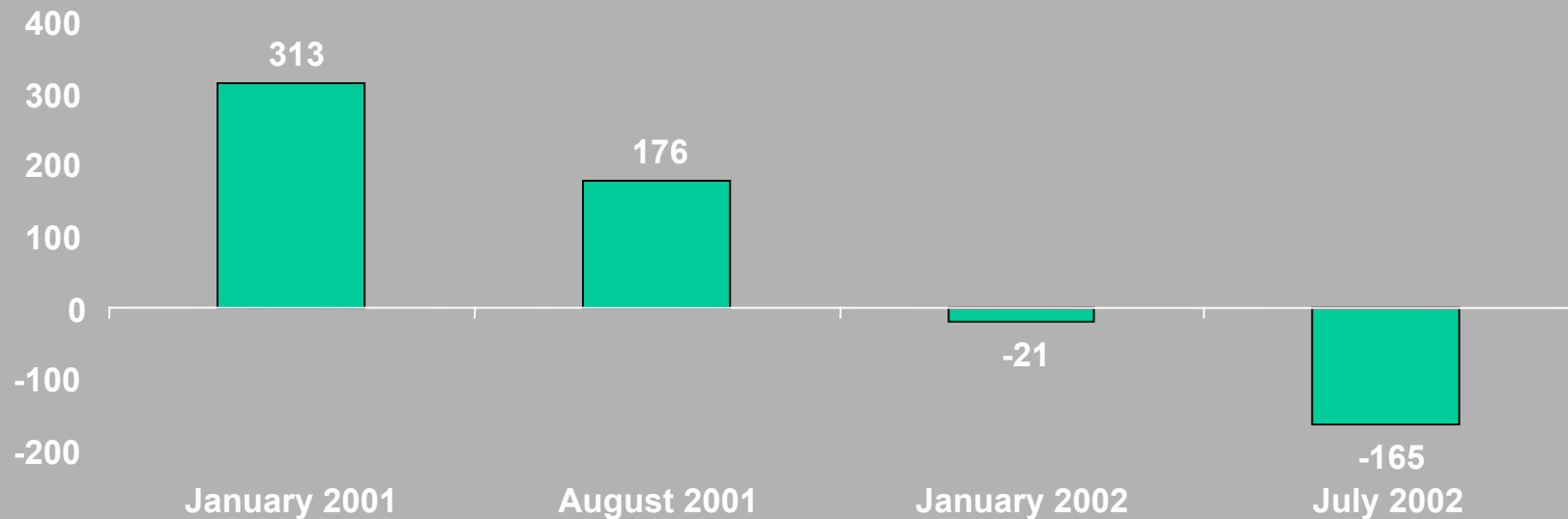
Canada's economic performance is exceptional in the circumstances



Canada will have the strongest growth among G7 countries, according to the IMF.

Pendulum effects have a considerable effect on budget

Projection of surpluses for 2002 in the United States according to the Congressional Budget Office (US\$ billions)



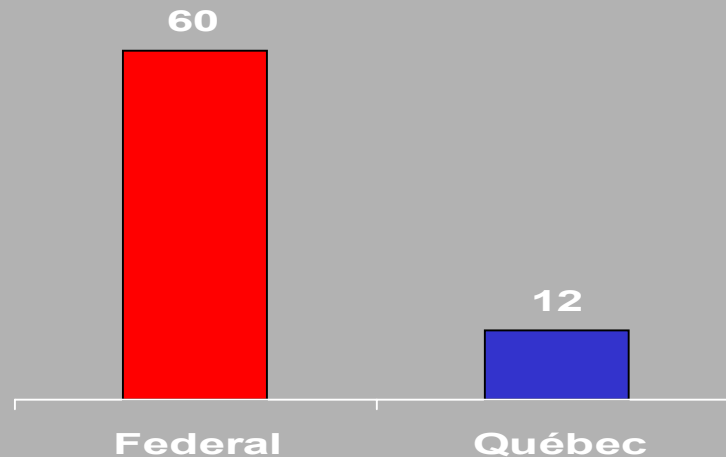
Source : Congressional Budget Office

**The US projections were revised sharply downward because of the economic situation and policy decisions.
This should encourage us to show prudence.**

Shaky projections to criticize the alleged fiscal imbalance

Budget balances in 2001-2002 according to the Conference Board's methodology (in \$ billions)

Budgetary balances that would have been recorded if no decision had been taken since 1997 (in \$ billions)

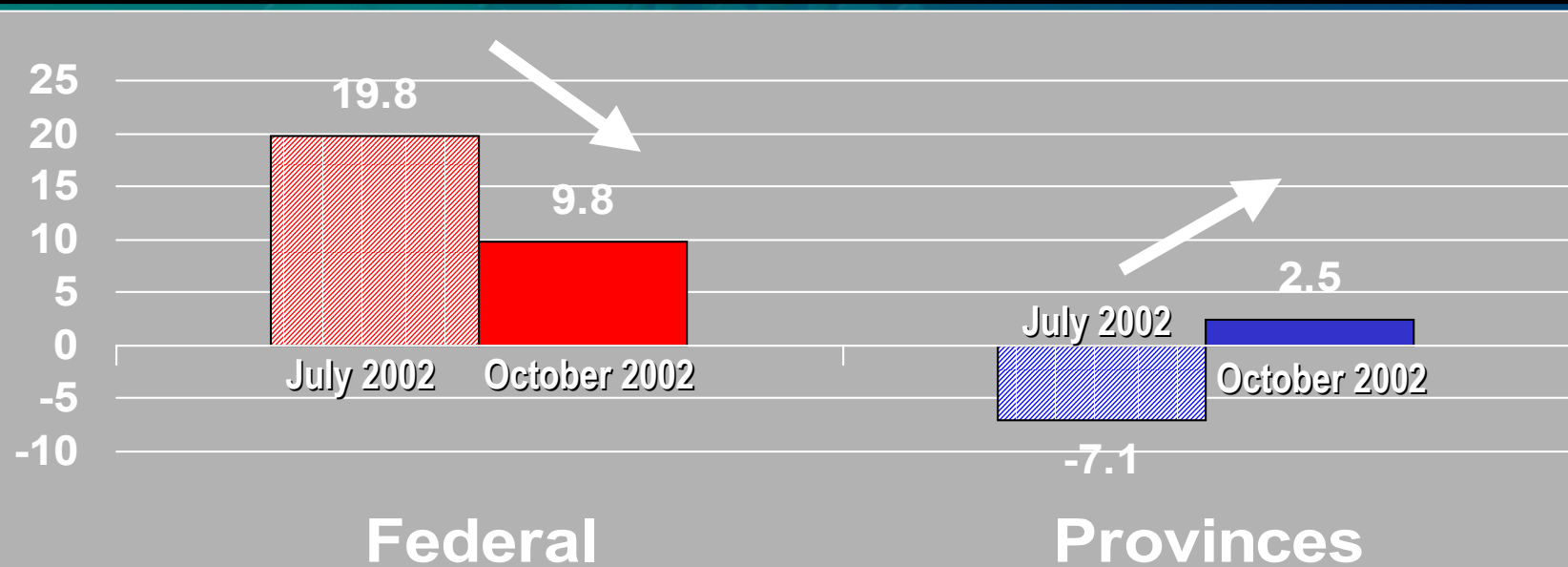


Sources: Finance Canada and Québec budgetary documents

If the simulation is redone with 1997 as the starting point, the results have nothing to do with the reality

Shaky projections to criticize the alleged fiscal imbalance

Budget balances in 2010 according to the Conference Board (in \$ billions)

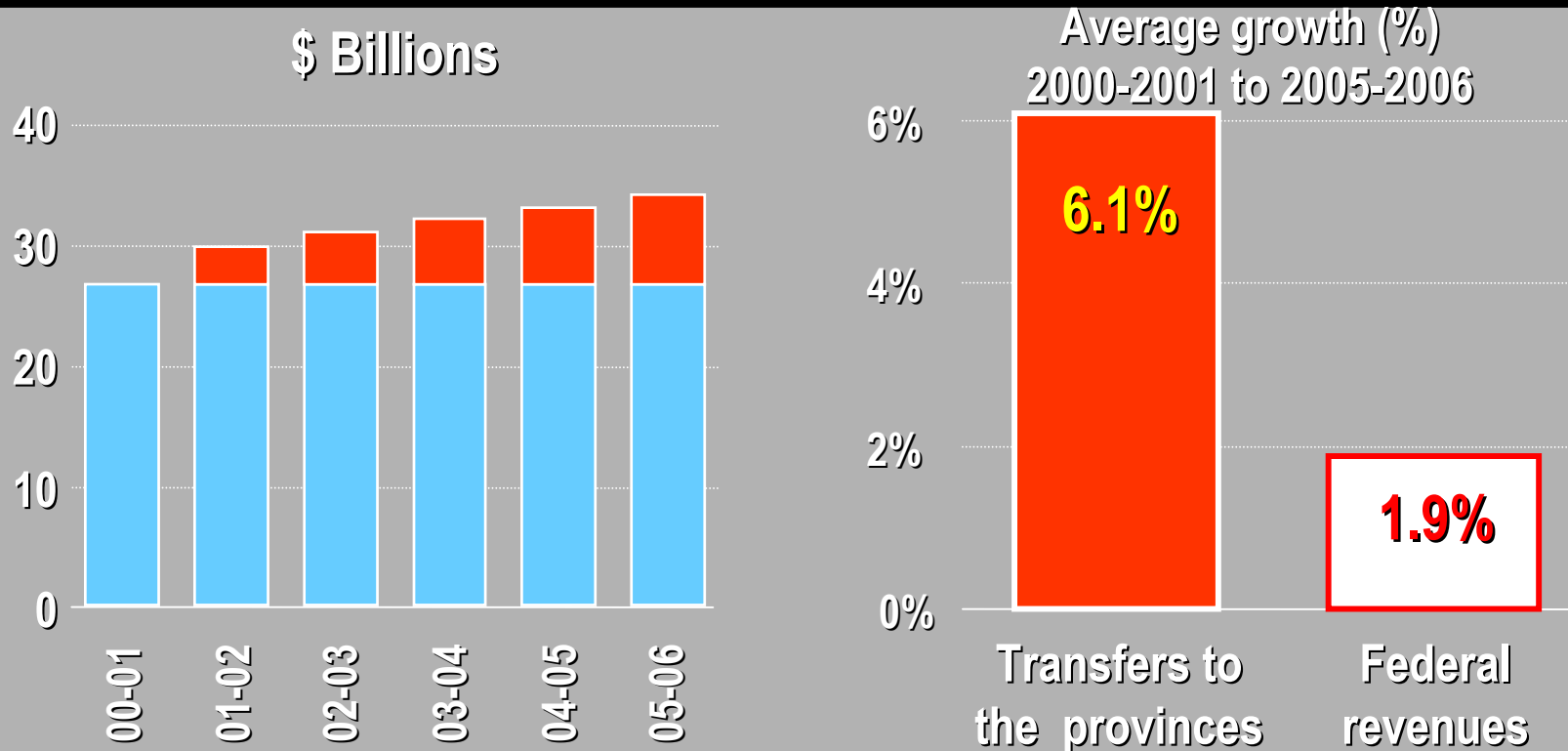


Source : Conference Board

That about-face in the space of 3 months shows how very volatile these types of projections can be

The federal government is supporting the provinces

Federal cash transfers



Source : Finance Canada

Average annual growth of 6.1% ...

... which is appreciably higher than predicted federal revenues

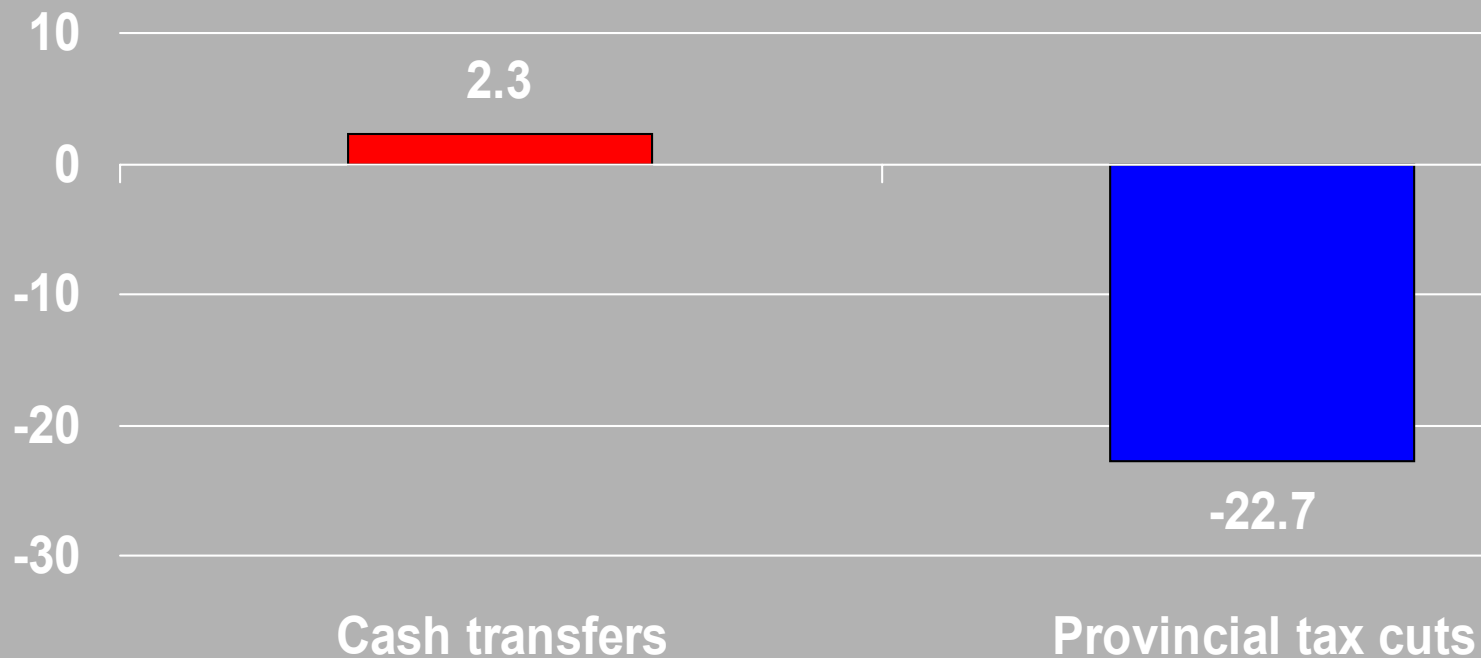
Throne Speech health commitments

“The Prime Minister will convene a First Ministers Meeting early in 2003 to put in place a comprehensive plan for reform, including enhanced accountability to Canadians and the necessary federal long-term investments, which will be included in the next budget.”

Throne Speech, September 30, 2002

Provincial tax cuts and increase in federal transfers

Federal cash transfers and provincial tax cuts
1994-95 to 2002-03 (\$ billions)



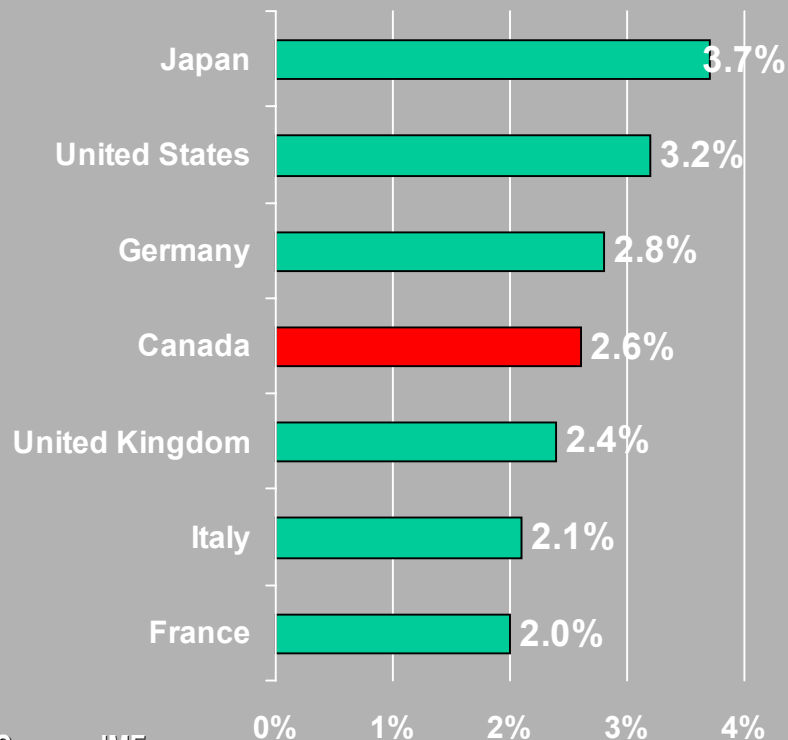
Sources : Finance Canada and provincial budget documents

Increase in federal cash transfers ...
and much bigger provincial tax cuts

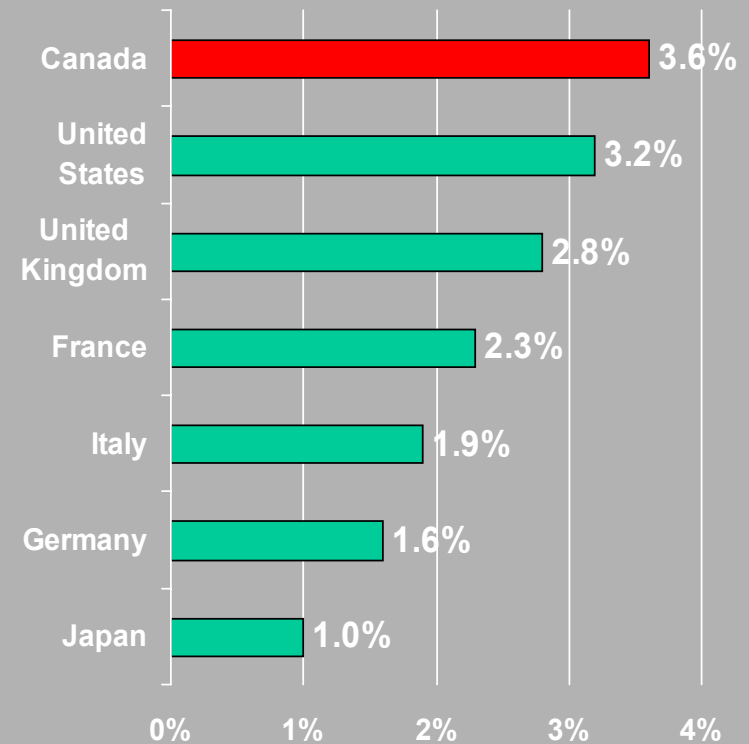
Canada's economic performance

Annual average GDP growth (in %)

From 1984 to 1993



From 1994 to 2003



Source: IMF

Government prudence and citizens' efforts have served Canada well in the last 10 years

Throne Speech commitments

- ➔ *Health*
- ➔ *Children and families*
- ➔ *Infrastructure*
- ➔ *Official languages*
- ➔ *Aboriginal peoples*
- ➔ *Environment and climate change*

“We will continue to be prudent and live within our means.” *Throne Speech, September 30, 2002*

Conclusions

- ➔ *There is no fiscal imbalance.*
- ➔ *The Government of Canada's good financial health is an asset, not a problem.*
- ➔ *Governments are duty-bound to help each other meet citizens' needs.*