
CHAPTER 12

TRANSFERS TO PROVINCES

One of the most important concepts of the Canadian federation is the sharing of prosperity among Canadians regardless of where they live. Throughout our history, this sharing has been accomplished in good part through a relatively simple mechanism — the transfer of revenues gathered by the federal government from tax sources throughout Canada to provincial governments for use in serving the needs of their populations. At Confederation, the provinces surrendered their rights to impose indirect taxes and tariffs and excise duties. At the time, these were the principal sources of revenue, and the federal government was required to make payments to the provinces on a fixed amount per capita in order to enable the provinces to meet their constitutional responsibilities. Because the richer areas generated more of the income, but received only the same fixed per capita grant, this system acted in good part as an equalizing measure.

Over time, this per capita transfer arrangement has been supplemented by a wide range of programs of transfers from the federal to provincial governments, including an important and now constitutionally enshrined equalization system. Table 12-1 illustrates the present effects of this multitude of transfers. The second table shows provincial revenues per capita from all sources, per capita expenditures, and a comparison of the overall average tax rates levied by each province to obtain its own-source revenues.

These tables illustrate the importance of the equalization system and other federal transfers to provincial governments. Yet they also demonstrate that there are still considerable differences among the provinces in terms of their tax rates and revenue capacities. For example, without federal transfers, governments in Prince Edward Island would have revenues of just 54 per cent of the national provincial average; with equalization included, this value rises to 82 per cent of the average, and when other transfers are included, the provincial and local governments of PEI have available revenues equal to 96 per cent of the national average. When these transfers are all incorporated, Alberta still has revenues of over twice that national average, and the Nova Scotia government has just 81 per cent of the per capita revenues available to the government of British Columbia. On the taxation side, whereas Alberta imposed taxes at just 54 per cent of the national average, residents of Quebec were taxed at 22 per cent and Manitobans at 16 per cent above average. Thus,