Policy Forum: Editor’s Introduction—Provincial Finances

Long-range projections of fiscal sustainability in Canada by the parliamentary budget officer emphasize differences across the levels of government.\(^1\) While federal debt is on a sustainable track over the long term, provincial debt is projected to rise drastically if current trends continue. Demographics largely explain these trends. Federal spending on the elderly is primarily for pensions, and spending on federal old age security as a percentage of gross domestic product is projected to peak quite soon, in 2032.\(^2\) In contrast, provincial spending on the elderly is primarily for health care, and these expenditures will continue to rise until the 2040s. How provinces manage these expenditure needs in the future will be in large part determined by how well they plan for their fiscal situation now.

In this policy forum, we have gathered three contributions that examine provincial fiscal challenges, each focusing on an individual provincial case study. Two of the cases are provinces facing substantial short- and medium-term shortfalls, while the third province has made substantial progress on improving its fiscal outlook.

The forum begins with the situation of Newfoundland and Labrador. This province has seen a substantial drop in its fiscal balance, owing in part to the drop in global oil prices. But Wade Locke and Douglas May point out in their article that per capita spending and revenues are higher in Newfoundland and Labrador than in other provinces, so the overall size of the public sector may be hard to sustain even if oil revenues recover. Compounding these issues are demographic factors that are leading to further population declines. Locke and May do see possibilities of higher oil revenues in the future, if more development projects come on line in the 2030s and beyond. However, sustained oil revenues will mean that Newfoundland and Labrador will not receive equalization, so solutions to fiscal imbalances may need to be found inside the province rather than coming from Ottawa.

The next article examines New Brunswick. Richard Saillant and Herb Emery argue that in the last decade there has been persistent erosion of New Brunswick’s fiscal sustainability, resulting from poor economic growth, a decrease in the labour force, and smaller growth in federal transfers. With provincial tax rates at or near the highest in the country and further demographic impacts on the way, the path

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forward seems bleak, and the province may require substantial federal assistance to maintain national standards in its public services.

Finally, Luc Godbout writes about Quebec. Godbout argues that fiscal rules have played a large role in turning around Quebec’s fiscal situation. Like some other provinces, Quebec adopted a balanced budget law starting in 1997-98—and deficits have been much smaller since. More uniquely, since 2006, dedicated revenue sources have been sequestered in the Generations Fund. So far, $11 billion from the Generations Fund has been used to retire provincial debt, with more to come. Godbout argues that these fiscal institutions could be a model for other provinces seeking a way out from the burden of large accumulated debt.

The other provinces in Canada face varying challenges. For example, Alberta has a relatively young population, low debt, and substantial resource revenues, but expensive public services. In contrast, British Columbia’s population is already older, but the budget is currently in balance. However, these differences across provinces in resource revenues, demographics, and fiscal management will be putting a sharply increasing amount of stress on our fiscal federation in the years to come. While the success of fiscal rules in Quebec provides some hope that home-grown solutions can be found within the provinces, these are unlikely to be enough in all cases. The best way forward would be to develop strategies encouraging broad-based and vigorous economic growth so as to reverse the effects of demographic decline and create new sources of revenue to fill provincial coffers. Failing that, it is hard to see a solution that does not involve increased federal assistance—which may further antagonize western provinces. Canada needs strong leadership to work on these challenges, starting now.

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