Fiscal Stabilization

Issue

The Fiscal Stabilization program was designed to act as an insurance program for provincial revenues if a province experiences a drop in non-resource revenues of more than 5 percent, or a drop in resource revenues of over 50 percent. Payments are capped at $60 per capita. In 2015-16 and 2016-17, Alberta received about $250 million each year, despite seeing a revenue drop of $7 billion in 2015-16. (Government of Alberta Annual Report, Government of Canada FES 2020). The payment for both years reached the $60 per person cap.

Background

In the Government of Canada's 2020 Fall Economic Statement, changes to the Fiscal Stabilization formula were announced, with legislation to enact the changes expected in the 2021 budget. The Government of Canada proposes to increase the cap to $170 per capita. The Minister of Finance will still have the discretion to extend interest-free loans for revenue declines that exceed the cap. The Government plans to speed up the timeline for the funds to be available to the provinces and include revenues from transferred tax points in eligible revenues. Provinces will not be penalized for indexing their tax systems for inflation and the changes will repair an inconsistency in the treatment of revenue declines between 0 and 5 percent.

The province of Alberta experiences unique volatility compared to other provinces. Provinces are eligible for fiscal stabilization if there is a non-resource revenue drop of 5 percent. With the $170 per person cap, revenue reductions are covered up to a 7.5 percent decline. Analysis by Trevor Tombe[1] found that a province has exceeded the 7.5 percent decline only 3 times since 1981 – the province of Alberta in all three instances.

In September 2020, the Council of the Federation called for eliminating the cap and lowering the threshold of reduction of revenue to 3 percent instead of 5, and 40 percent rather than 50 for resource revenues. The Council also recommended that the changes be retroactive to 2015.[2] Following the changes announced in the November Fall Economic Statement, both the Alberta Government and Official Opposition publicly took the position that the cap should be lifted entirely and called for payments to be retroactive.[3]

The 50 percent threshold for resource revenues disproportionally impacts provinces with high resource revenues relative to their budgets, even as they already face volatility inherent with an economy that is significantly dependent on those resources. There is a concern that the same treatment for resource and non-resource revenues would have the effect of rewarding provinces for relying on volatile sources of revenue, but at the same time it can be argued that the fiscal stabilization program creates a

[1] https://policyoptions.irpp.org/magazines/december-2020/are-fiscal-stabilization-reforms-a-slap-in-the-face-or-a-modernization/
[2] https://www.newswire.ca/news-releases/canada-s-premiers-outline-priorities-896570169.html
[3] https://www.cbc.ca/news/canada/edmonton/alberta-politicians-unhappy-with-changes-to-federal-fiscal-stabilization-program-1.5824498

disincentive for a province to invest in natural resources. Since Alberta is an outlier in terms of its high proportion of revenues linked to resources, the structure of the program naturally exempts declines in Alberta's revenues.

Alberta's contribution to the Government of Canada's revenues through income taxes has been very high for decades, helping to support other transfer programs such as equalization. These higher income taxes have partly been the result of the resource development that contributes to the volatility of the provincial economy. The 50 percent decline required for resource revenues should be lowered to 40 percent, and the per capita cap on payments should be eliminated as recommended by the Council of the Federation.

Other Transfer Programs

Annual transfer payments made to every province, such as the Canada Health Transfer and the Canada Social Transfer, provide long-term predictable funding for provinces to deliver programs with shared responsibility, including healthcare, social services, post-secondary education, and early childhood development. Many Albertans have had long-standing questions about equalization, federal and provincial responsibility for seniors' care, funding services for Indigenous peoples, and for public services provided by municipalities. Many have called for revisions to Canada's equalization and transfers system and for alternative programs that more fairly reflect the unique realities of all provinces. It is important the Government of Canada undertake a comprehensive review of the fiscal stabilization program within a larger review of all federal transfers.

Review of provincial revenues

Along with the importance of calling for changes to federal transfer programs, the Government of Alberta should evaluate its taxation system. The 2019 Blue Ribbon Panel reviewing Alberta's spending was a strong first step, ensuring Albertans receive effective government service delivery for the taxes they pay. Given the impacts of the pandemic on government revenues, the Province should convene a similar panel to examine the opposite side of the ledger. This review cannot ignore the largest and most controversial question on tax in Alberta – that being the adoption of the Provincial Sales Tax or Harmonized Sales Tax, as other provinces have done. Both this type of review, and the related review on spending, should be conducted periodically to ensure that the impacts of any resulting changes to tax systems or spending can be measured and reported publicly.

The Alberta Chambers of Commerce recommends the Government of Canada:

1. Change the fiscal stabilization formula so Provinces are eligible for payments if the decline of resource revenues exceed 40 percent and non-resource revenues exceeds 3 percent;
2. Review the per capita cap on fiscal stabilization payments and index for inflation;
3. Apply the fiscal stabilization program retroactively to 2015;
4. Set a fixed schedule to publicly review and revise Canada's system of transfers and their administration, as informed by independent experts. This review must be done before the next scheduled renewal of the programs; and
5. Examine ways to improve transparency and education about how equalization and all federal transfers are delivered to provinces.