

## Could B.C.-Alberta feud jeopardize Budget through transfer cuts?

There once was a time, now apparently long forgotten, when relations between the neighbouring provinces of British Columbia and Alberta were hospitable – warm and friendly, even.

But over the last several years – likely dating back to the summer of 2012 – Canada’s two western-most provinces often have seemed to be at each other’s throats.

Relations sank even lower last week when Jason Kenney – former federal Conservative cabinet minister, now leader of Alberta’s United Conservative Party – called on Ottawa to unilaterally slash federal transfer payments to B.C.

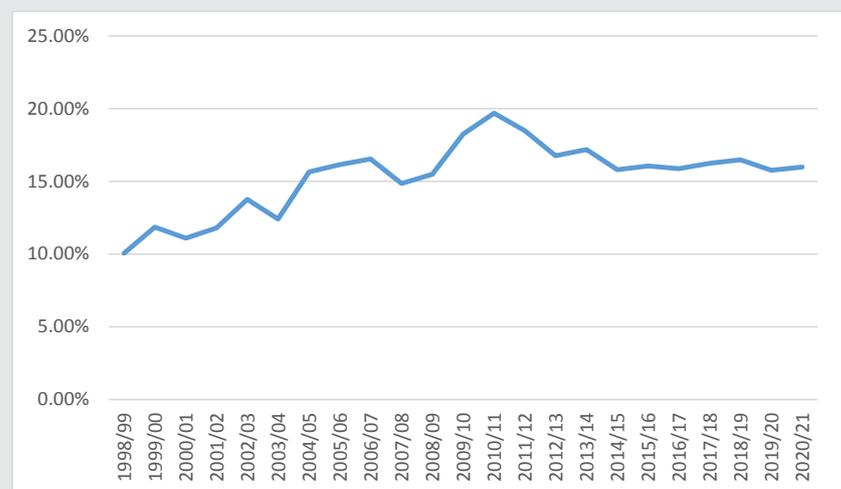
Federal transfers to B.C. were \$8.9 billion during the current fiscal year, Kenney wrote on Twitter – where else do politicians today make important announcements? – or almost 17 per cent of the province’s revenues.

“Even a small financial backlash from Ottawa could imperil the province’s balanced budget,” Kenney claimed.

It seems odd: a politician in one Canadian province calling upon the federal government to punish the residents (or, politicians) of another province. Still, it’s useful to remember that Albertans go to the polls in about a year, and office-seekers such as Kenney sometimes resort to silly stunts in a bid to obtain even fleeting moments of publicity.

Even more strange, however, is that Kenney is part of a political crowd – Tories like Stephen Harper, Ken Boessenkool, Ted Morton, et al – who

**Federal transfers as % of total GAAP revenues**



*SOURCES - BC Budget and Fiscal Plan, 2018-19 to 2020-21, and BC Financial and Economic Review, various years.*

not that long ago proposed to construct a “firewall” around their province to prevent Ottawa’s unwanted interference in Alberta’s public affairs.

No matter – that was then, this is now, and Kenney wants the feds to slash transfer payments to B.C.

Does he make a useful argument about the importance of federal transfers to British Columbia? How much would our province’s finances be hurt if Ottawa was to reduce the monies it sends every year to B.C.?

Kenney correctly noted the size of the federal transfers to B.C. in the current fiscal year.

According to the Budget and Fiscal Plan unveiled in February by Finance

minister Carole James, Ottawa will direct a total of \$8,930 million (\$8.9 billion) to the Provincial Treasury in fiscal 2018/19.

The Budget also outlines total GAAP revenues this year of \$54,193 million (\$54.2 billion), so federal transfers represent 16.48 per cent of the province’s total expected receipts.

The surplus forecast for the end of the fiscal year – March 31, 2019 – is a razor-thin \$219 million, so Kenney also is correct in his observation that a slight cut to federal transfers could threaten B.C.’s budgetary balance.

However, James’s Budget also contains a ‘forecast allowance’ of \$350 million, as well as ‘contingencies’ of \$550 million, so B.C. possibly

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could handle a cut of up to one-billion dollars in federal transfers before red ink started to transform the province's bottom-line.

Still, any reduction in the flow of monies from Ottawa to Victoria – or even a delay in transfers – probably would result in some cuts to provincial spending. Discretionary expenditures, such as government travel and advertising, or even some capital projects, might be cancelled or postponed.

That said, it's not likely that the feds would deliberately set out to inflict fiscal pain on British Columbia.

Prime Minister Justin Trudeau's Liberal Party took 17 seats in B.C. in the October 2015 general election – an historic high – and then added another in a December 2017 by-election, which means that any torment imposed on British Columbia might backfire and threaten the re-election hopes of 18 local Liberal MPs.

A unilateral cut by Ottawa – and a Liberal government at that – to federal transfers would spark a bad case of *deja vu* for B.C. New Democrats.

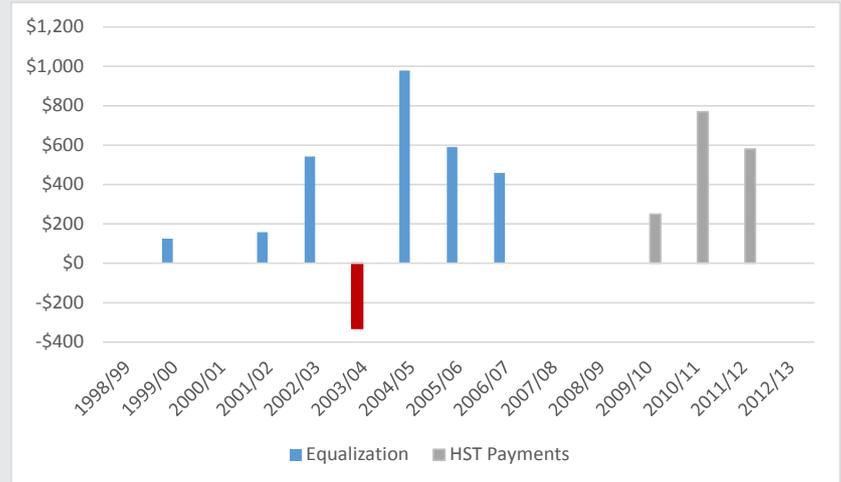
That's because the last time a federal Liberal administration imposed significant fiscal pain on British Columbia was in the mid-1990s, when Jean Chretien was the Prime Minister of Canada and the province was headed by NDP Premiers Mike Harcourt and Glen Clark.

On February 28, 1995, federal Finance minister Paul Martin – who earlier had declared his intention to eliminate Ottawa's fiscal deficit "come hell or high water" – delivered a federal Budget that abolished existing federal-transfer programs and replaced them with the much-reduced Canada Health and Social Transfer.

For B.C., the new program resulted in a significant loss of revenues as federal transfers dropped from \$2,462 million in 1994/95, to \$1,837 million in 1997/98 before resuming their annual upward trajectory once Ottawa had achieved its balanced-budget.

The total cost to British Columbia

## BC Liberals benefited from Equalization and HST payments (\$ millions)



SOURCE - BC Financial and Economic Reviews, various years.

over a four-year period was at least \$1.5 billion in foregone revenues, and possibly more than \$2.0 billion.

Pain for the NDP in the 1990s turned into joy for the BC Liberals after they took office in June 2001 and Ottawa's transfers soared skyward.

In 1998/98, measured under GAAP – generally accepted accounting principles – federal transfers represented a pitiful 10.1 per cent of Victoria's total revenues. (B.C. adopted GAAP in 2004, but the Finance ministry restated the province's books to the end of the previous decade.)

Three years later, in 2002/03 when Gordon Campbell and his BC Liberals introduced their first full-year Budget, Ottawa's transfers had climbed to \$3.8 billion, or 13.8 per cent of total revenues.

And then they exploded even higher.

By 2006/07, transfer payments from Ottawa had reached \$6.8 billion – or 16.5 per cent of total revenues – and in 2010/11 they surpassed \$8.0 billion and a record-high 19.7 per cent of B.C.'s total income.

Put another way, when Campbell resigned from office and made way for his successor, Christy Clark, transfers made up about one-in-every-five of B.C.'s revenue dollars.

The stunning growth in transfers is apparent in their rising share of the province's nominal GDP, nearly doubling from 2.2 per cent in 1998/99, to a whopping 3.9 per cent in 2010/11.

Briefly, there are four key reasons why Ottawa's transfers grew in importance for B.C.'s budgets.

First, federal transfers to the provinces after the turn of the century actually have grown in size.

Second, benefitting from soaring transfers, Campbell's government was able to drastically reduce B.C.'s 'own-source' revenues – mostly personal and corporate income taxes – which had the effect of increasing the federal share of provincial revenues.

Third, British Columbia received an incredible \$2,854 million in equalization payments between 1999/00 and 2006/07 – with nearly all of those monies (\$2.7 billion) flowing when the BC Liberals were in government, and a paltry amount (\$125 million) to the NDP.

And fourth, Campbell disastrously negotiated a Harmonized Sales Tax with Ottawa after B.C.'s 2009 general election. He intended to receive a windfall \$1.6 billion payment – spread over three years – but instead was forced from office and B.C. was obliged to repay the monies. 