NEWS RELEASE

Provinces risk their finances by relying on federal transfers for programs in areas of provincial jurisdiction

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CALGARY—As the federal government promises to increase spending in areas of provincial jurisdiction, including pharmacare, dental care, and childcare programs, provincial policymakers should remember that future transfers are not guaranteed, potentially leaving enormous costs to the provinces to continue those programs in the future, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"When the federal government makes spending commitments in areas of provincial jurisdiction, there is always the risk that when the federal government changes, or federal government priorities change, the provinces will be on the hook to finance those programs and their increasing costs," said Tegan Hill, a senior economist with the Fraser Institute and co-author of ***Repeating the Past: Provinces Accept Federal Money at Their Peril.***

The study draws on the experience of Canada's recent past—specifically the 1990s—when the federal government reformed and reduced transfers to the provinces to tackle the federal deficit and mounting debt.

In 1996-97, the then-existing federal transfers to the provinces (CAP and EPF) were combined into the Canada Health and Social Transfer, but those payments were $41.0 billion (51 per cent) lower over a three-year period compared to what the provinces expected based on previous transfers.

Currently, the federal government has committed $43.1 billion to support the provinces in delivering $10 a day childcare from 2021/22 to 2027/28 with the Canada-Wide Early Learning and Child Care Transfer. Additional monies have been committed to support the new dental program and more money is expected to be announced for pharmacare. All of these programs are in provincial areas of responsibility.

Any change in federal priorities or the finances of the federal government could result in marked financial pressure being imposed on the provinces. For instance, if the federal government lowered its commitment to supporting the provinces for $10 a day daycare, the financial implications to the provinces in the near term could be as much as an additional $3.5 billion in 2026/27.

"The experience of the 1990s shows that money promised today is not guaranteed tomorrow," Hill said.

"Provincial policymakers should be aware of the risk to their own fiscal positions when entering into funding agreements with the federal government for provincial programs, and the current federal deficit and debt problem only heightens this risk."

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