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PRESS RELEASE

For immediate publication

## **RATHER THAN CALLING FOR AN INCREASE IN THE HEALTH TRANSFER, THE PROVINCES SHOULD FREE THEMSELVES FROM IT**

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**Montréal, May 20, 2021** – As the provinces engage in a tug of war with the federal government to demand an increase in the Canada Health Transfer, a study by the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) reveals that they would do better to free themselves from this dependency. “To help citizens better understand the issue of federal health transfers, we reviewed the historical context in which they were introduced,” explains CPP Director Robert Gagné, co-author of the study. “This sheds more light on why Ottawa is encroaching on provincial areas of jurisdiction today. Above all, though, it shows how the existing system has become a political football over time, and one that very ill serves the interests of users of the provincial healthcare systems and the taxpayers who finance all these systems in the final analysis.”

### **Longstanding problems**

More specifically, the study shows that the issue of healthcare funding in Canada is much more complicated than simply deciding on the amounts to be spent. “In fact it extends back to the very founding of the Canadian federation,” says Gagné. “Since federal and provincial powers were allocated long before the emergence of the Welfare State, many of the roles that today define Canadian society were assigned to the provinces because they were deemed to be of lesser importance at the time (health, education, social services). The result has been significant fiscal imbalances that appeared as the Canadian social safety net developed starting in the mid-20<sup>th</sup> century. And that is precisely the crux of the matter when governments talk about healthcare funding today.”

According to the authors, the **horizontal** fiscal imbalance that limits the ability of certain provinces to offer public services of comparable quality and quantity to those provided by their neighbours was largely corrected when the equalization system was introduced in 1957. The same is not true of the **vertical** fiscal imbalance, however, which stems from the fact that the provincial and federal administrations share the same tax bases, although they have clearly different responsibilities. “Despite the many efforts to improve the funding of Canada’s social safety net, this sharing of tax bases is still the hub of the problem,” observes Gagné. “And that is what explains the provinces’ new objections concerning health transfers.”

To redress this imbalance, the provinces have now joined forces to demand that Ottawa inject the \$26 billion they consider necessary to ensure sustainable funding of their healthcare systems. In their view, this solution would guarantee a balanced distribution of debt among Canadian governments, in the longer term. However, the authors feel that this approach would not solve

the provinces' dilemma. At best, it would simply defer a renewed debate on healthcare funding for a few years.

"In the end, this proposal is not viable because it doesn't address the structural problem afflicting healthcare funding," says CPP Executive Director Jonathan Deslauriers, co-author of the study. "Without complete control over the tax space they need to finance their systems, the provinces will remain at the mercy of the federal government, which can choose to direct its spending to other areas instead of healthcare. If the provinces are to settle this debate once and for all, they have to take a different tack."

### **A more lasting solution**

Two conditions must be met for effective reform of healthcare funding. "First of all, the system of federal health transfers must simply be abolished," says Gagné. "In return, since Ottawa will no longer have to make these transfers, it must proportionally withdraw from one or more of the tax bases it shares with the provinces. While this may appear to be a radical solution, it would make the Canadian federation run more smoothly. By efficiently and sustainably correcting a significant part of the vertical fiscal imbalance, it would ensure that the presence of the two levels of government in the different tax bases they share is more in line with their respective responsibilities."

In addition, the authors recommend that mechanisms be put in place to ensure proper accountability by the provinces. "As things stand, the users and taxpayers who finance healthcare systems across Canada are not only unable to evaluate in detail the performance of their respective systems, but moreover have no way of assessing whether their provincial governments' claims regarding financing are justified," says Deslauriers.

An accountability system could rapidly be created by amending the mandate of the Canadian Institute for Health Information (CIHI). With expanded powers, CIHI could serve as the regulatory organization for data, rather than just a partner of the provinces in the collection and dissemination of health data, as is now the case. It would then become the "citizen's watchdog," so that healthcare system users and taxpayers who finance them would not have to be constantly squeezed between the two levels of government arguing over their money. "For it is essential to remember that regardless of which level of government finances the additional expenditures, it is always the same taxpayers who foot the bill," concludes Gagné.

### **For more information:**

- Consult the report, entitled ***Federal Transfers to the Provinces: Setting the Record Straight***.
- Télécharger le communiqué [en français](#).

### **About the Centre for Productivity and Prosperity – Walter J. Somers Foundation**

The Centre for Productivity and Prosperity – Walter J. Somers Foundation has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec. The Centre then shares its research findings through knowledge transfer and educational activities.  
**[www.hec.ca/cpp](http://www.hec.ca/cpp) – [info.cpp@hec.ca](mailto:info.cpp@hec.ca)**

### **About the Walter J. Somers Foundation**

The Somers family established the Walter J. Somers Foundation in tribute to the founder of Walter Surface Technologies. Through different donations, the Foundation pursues the family heritage of

commitment to the community and contributes to the prosperity of Quebec society, firstly by helping to enhance its productivity but also by supporting excellence in youth education.

**Source:**

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