FISCAL REFORMS of STATES in CANADA
KANADA EYALETLERİ'NDEKİ MALİ REFORMLAR

Selçuk BALI [1]

Abstract

Canada has long-been a supporter of tax reform and actively cutting taxes since the late 90s, in a context of government surpluses. Today, all governments have a large fiscal challenge as they are accumulating debt at a rate that most Canadians consider unacceptable. This paper focuses on two recent proposals for restructuring of federal-provincial economic roles, both based on purely economic factors. In other words, the two proposals we studied were made to solve the current problems resulting from poor distribution of revenues between the first two levels of government. One is very centralized, based on the bailout of deficit provincial governments, before they give in return virtually all economic stabilization powers to the federal government. The other proposal is diametrically opposed because the new division of taxation powers and taxation and the elimination of vertical fiscal gap it plans would allow provincial governments to become much more independent in the conduct of their tax affairs.

Keywords:*Fiscal reform,Canada,Provincial government,Centralized*

Özet

Hükümetin sermaye fazlası bağlamında 1990'ların sonlarından itibaren Kanada, aktif olarak vergi reformlarını destekleyerek vergileri indirmektedir. Günümüzde birçok Kanadalının borçlanma (faiz) oranlarının kabul edilemez olduğunu düşünmeleri nedeniyle yerel hükümetlerin tamamı finansal-mali zorluklarla karşı karşıyadırlar. Bu çalışma, sadece ekonomik faktörlere bağlı olarak gerek federal gerekse yerel hükümetlerin ekonomik rollerini yeniden inşa etmek için önerilen iki yaklaşıma odaklanmaktadır. Diğer bir ifade ile söz konusu önerilerle hükümetlerin ilk iki seviyesinde görülen gelir dağılımı problemlerine çözüm üretilmesine çalışılmaktadır. İlk öneri oldukça merkezidir, çünkü

[1] Doç. Dr., Giresun Üniversitesi, İİBF, İşletme Bölümü, selcuk.bali@giresun.edu.tr

kaynakların federal hükümete aktarılmadan önce eyalet yönetimlerinin finansal açıklarını kapatmaya yöneliktir. İkinci öneri ise ilkinin tersi bir yapıda olup; verginin, vergilendirme gücünün bölümlendirilmesi ve dikey finansal boşluğun ortadan kaldırılması konularında yani kendi vergi hareketlerini yönetme noktasında eyalet yönetimlerine çok daha fazla bağımsızlık vermektedir.

Anahtar Kelimeler: *Mali reform,Kanada,Yerel hükümet, Merkezileşme*

Introduction

Canada has long-been a supporter of tax reform and actively cutting taxes since the late 90s, in a context of government surpluses. Competitiveness gains that result in terms of corporate taxation should attract foreign investment and boost capital. A more uniform structure of the income tax of individuals-associated with better targeting of tax cuts has globally increased incentives to work and helped increase women's participation rates. Short-term Economic Slowdown Prevents new tax cuts, while the imminent increase in public spending due to population aging will require additional tax revenues. This is why tax reforms must now combine measurements down rates and broadening the tax base that are no great impact on revenue and optimize growth (Behnke & Benz, 2009: 213-240). In this context, it is necessary to continue the consolidation of taxes to mitigate the effects of distortion by a neutral treatment of economic choices. The revision of the tax policy in that could boost savings, investment and innovation, and should play a vital role in national productivity efforts. Furthermore, Canada must work to reduce the high tax burden on low-skilled to encourage them to join the labor market, offsetting the effects of aging. One might think that tax policy is the main instrument available to Canada to address growing inequalities in income distribution centre individuals and regions. This study will examine the solutions to accomplish achieve it.

1. Background

In Canada, the division of powers has not remained static, even if the constitutional changes have been few and difficult. As the economic and political conditions have changed and that citizens have called for more public goods and services, the relative size of the provincial governments and the federal government has changed. Thus, at the end of World War II, the federal government received about 80 percent. 100 of all government revenues in Canada; its share has declined since, to the point that now affects less than half of all government revenues (Beland & Myles, 2005: 559-583).

The evolution of the economic and financial situation leads some to call for a revision of economic roles of the two levels of government. The decisions they have taken - and they are taking - in the tax area have created challenges that require a new division of taxation and taxation powers. Furthermore, if we look at the current trends, the current arrangements are perhaps not optimal, or even viable (Beland & Myles, 2005: 559-583).

This paper focuses on two recent proposals for restructuring of federal-provincial economic roles, both based on purely economic factors. Neither one nor the other significantly alters the current distribution of spending authority. The first would only re-share taxation and taxation powers, while the other would consist of large loans from the federal government to the provinces and with conditions applicable to reductions in transfer payments and the funding of provincial deficits. The two proposals can be seen as responses to an impending vertical imbalance of resources available to the two levels of government (Singh & Rao, 2006).

2. Fiscal Reforms

Most Canadians do not like to pay taxes, even less if they consider unfair or do not feel they get their money. People do not like wasteful spending by government bureaucratized very well. However, about half of Canadians are willing to pay more taxes for a cleaner environment, better health care and better education and to help people in need (Lecours & Beland, 2010: 569-596).

Whatever level of government envisioned, we can define the structural imbalance in determining whether future increases in revenue and expenditure of current systems (i.e.d. Where the policy does not change) tends to fiscal balance, increasing the deficit or increase the surplus (Gruber & Wise, 2009). To conclude the vertical imbalance, against, it must be based on the structural balance of the two levels of government. If the federal level, there is a structural imbalance that evolves in one direction and at the provincial level, a structural imbalance which moves in the opposite direction, there are vertical imbalance. This simply means that the powers of taxation and taxation of both are poorly distributed, given the costs of which each is responsible (Lecours & Beland, 2010: 569-596).

It is believed that there is a vertical imbalance of its kind in Canada because the provinces are responsible for programs that focus on service to the public (health, education, social services, etc.), which have high intrinsic growth rate, then they have to finance their spending through a combination of taxes cannot increase in proportion of expenditures. For cons, the federal government has a set of fiscal measures to generate revenue growing faster than its programs require it to spend. These are the findings of a series of Ruggeri and other studies (1) , which provide a solution to what they see as the vertical imbalance of the tax structure in Canada (Lecours & Beland, 2010: 569-596).

A bad allocation of taxing and taxing powers can have a host of negative consequences. Provincial governments struggling with mounting deficits will have to impose the necessary program cuts or increase taxes. The federal government, meanwhile, might be tempted to look for new programs where spending due to the significant increase - which it does not need - of its revenues. The overall size of the government sector could therefore grow while the provincial government sector would be reduced to below the optimum. The authors are concerned that the fiscal imbalance rather than political and economic reasons is the engine of future decisions to spend (Lecours & Beland, 2010: 569-596).

3. Literature Review

Michael Mendelson, a senior Ontario public servant, also concluded that there is a structural imbalance at the provincial and federal levels, and believes that this imbalance is more pronounced at the provincial level. In a paper written in October 1993 (2) , he predicted that the federal and provincial governments will experience more intense than ever pressure to cut spending on programs because the cost of debt service continue to increase despite strict controls imposed on actual expenditures on programs. Mendelson predicted a very slow increase in revenue (three quarters of the revenue) for the coming years, unlike Ruggeri and others for which the total revenue would increase faster than production, largely due to the importance of revenue tax on personal income (Gruber & Wise, 2005).

The debt service situation varies widely by province. It is predicted that interest costs will represent an increasing share of revenues from Ontario and Nova Scotia governments but that this share will decrease in the other provinces. Nevertheless, it is the federal government that the problem is most critical (Gruber & Wise, 2005).

4. New Division of Powers of Taxation and Taxation

According to the tax sharing proposals Ruggeri and other powers, the federal government would assume the sole responsibility of sales tax and the corporate income tax and capital gains. (Currently, the provinces of powers in both areas, in fact, they occupy the dominant position in the sales tax.) In return, the provinces would assume sole authority with respect to taxation on the income of individuals, area currently shared between the two levels of government, although the federal government is clearly dominant (Martens-Weiner, 2006).

According to several authors the tax on personal income generates both revenue; this reform would give the entire provincial sector more financial resources than it takes him to meet the expenditure of its programs. Ruggeri et al therefore propose that the provinces pay the federal government about 5 percent (Martens-Weiner, 2006).

This new division of powers would give the federal government the resources to finance its spending programs. The authors are convinced that the ratios stabilize the deficit and debt to GDP ratio of the two levels of government and lead to the end of the transfer payments from the federal government to the provinces under the Canada Assistance Plan and Established Programs Financing. In addition, according to them, the equalization program could be modified so that the "have" provinces can transfer their surplus tax revenue directly to the provinces "poor." (Martens-Weiner, 2006)

4.1. Benefits

This proposal would promote greater financial and fiscal stability. Moreover, it would eliminate the vertical fiscal imbalance. The provinces, that is to say, the bearing having the greatest need to increase its spending programs, have the means to generate the revenues needed to finance these expenditures (Beland, 2006: 559-583).

If the federal government should have exclusive powers with respect to taxes on corporations and on capital gains, it would no longer compete with the provinces in this area. The corporate tax could be harmonized and simplified, which would promote economic efficiency. The capital is the most mobile factor of production, and the adoption of a single tax on capital gains would support a distribution of capital and production based solely on economic factors rather than tax rules (Beland, 2006: 559-583).

Similarly, the existence of a single sales tax would reduce compliance costs and administration of the tax system and make possible the collection of the tax at the border by the federal authorities. All these factors are a source of controversy since the GST has been added to the nine provincial taxes on retail (Beland, 2006: 559-583).

Finally, proposals and other Ruggeri facilitate accounting of the tax system and taxation. With the elimination of duplication and overlap other Canadians would know better owed increases in taxes and tax. If the sales tax were to increase, they would know that it is the federal government that has so decided (Boychuk, 2008). And if tax personal income increased, they could blame the responsible provincial government. In addition, with the end of federal-provincial transfer payments, they would have less chance to hear one government accuse the other of having forced to raise taxes or taxes (Hauptmeier et. al, 2007: 293-342).

Each level of government would impose taxes or taxes to finance its own programs. Citizens and voters have a clearer view of the tax consequences that any claim of new programs that require government spending (Hauptmeier et. al, 2007: 293-342).

4.2. Challenges

The proposals are not without difficulties. The complete withdrawal of the Federal Government sector Tax on income of individuals, which is by far the largest of tax and taxation sectors in Canada, could lead to a disintegration of the very current harmonized tax system on personal income (Boychuk, 2008). This would result in increased enforcement and administrative expenses of this tax, and to a certain extent, misuse of resources. Although individuals are not as mobile as capital, harmonization has real economic benefits that might be lost. In addition, the tax is already causing some mobility of individuals, and this mobility may increase due to the regime change (Crossley & Jeon, 2007: 343-365).

Except with respect to corporate income tax, the proposals are contrary to the recognized principles of public finance (3). For example, we often say that sales taxes are well suited to provincial governments because they are supposed to taxing consumption and cause very little cross-border movements. (This is true despite what many people consider the effects of the GST.) It is said that, unless a tax or tax increases mobility, the higher the level of government that should be applied must be low. Yet Ruggeri's proposal and other give the federal government exclusive power of taxation in this sector (Crossley & Jeon, 2007: 343-365).

The tax on personal income tax system is the workhorse, and the one that is most conducive to achieving distributional objectives. Given that Canadians generally consider these objectives as national rather than strictly provincial, they normally feel that a strong federal presence is desirable in this sector. In addition, federal transfers to persons are increasingly structured as negative taxes (Crossley &

Jeon, 2007: 343-365). Conflicts and program incompatibilities are to be expected if they want the federal government out of the tax sector on the personal income while continuing to take responsibility for most transfers to these individuals.

4.3. Salvage Provincial by the Federal Government

For its part, Mendelson proposes a set of tax reforms in three parts. First, the federal government would assume a large part of the current debt of the provincial governments (from 100 to 200 billion). To this end, it would lend without interest to each province an equal amount per capita for a very long term. The loan amount to the annual transfer payments to the provinces, would allow them to pay much, if not all of the costs of debt service (Disney & Emmerson, 2005: 55-81). However, the loan would be for all purposes the full or partial repayment of the debt of each provincial government. It would be granted provided a full refund in the event that a province would withdraw from Confederation.

Second, provinces should undertake, under the Constitution, to balance their budgets in a short time and have balanced budgets each year thereafter. Mendelson does not specify whether the provinces are expected to total fiscal balance or if they should balancing the budget by course or another budget item, and it does not specify the time period they should follow to achieve the balanced budget. Third, a constitutional amendment would be adopted to limit drastically (if not completely abolish) the power of the federal government to unilaterally change the formulas of transfer payments (Disney & Emmerson, 2005: 55-81).

4.4. Advantages and Disadvantages

Because of their current financial problems, the provincial governments have enormous difficulties in financing the programs is the administering authority. The debt service absorbs a growing share of their income, including the increase was slowed by the recession, while demographic and economic pressures are increasing their spending programs. In short, the provincial governments would come much more easily to meet demand programs if the burden of debt service was not so heavy, which, of course, also applies to the federal government (Bosch & Duran, 2008).

Mendelson plane would not eliminate the burden of debt, but would merely transfer from one level of government to another. This transfer has a financial advantage because it's cheaper to borrow in the federal government and provincial governments. Therefore, through the transfer, total national resources devoted to interest payments could be reduced, so that it would be possible to channel a larger portion of tax revenues in programs (Bosch & Duran, 2008).

Mendelson is also concerned about the instability of provincial fiscal capacity. Migration from one province to another is as common as easy. However, mass migration can erode the tax base of a province and its much worse debt problems. Newfoundland and Saskatchewan are particularly vulnerable in this regard. Emigration is a much less serious problem nationally, and this explains why the costs of debt service are higher for the provincial governments and the federal (Bosch & Duran, 2008).

According to Mendelson, eliminating the high cost of debt service of provincial budgets would reduce this kind of inefficient migration; in reality, this is not entirely true. The provinces would continue to have different fiscal capacities. Some have lower fees and some would present greater benefits than others. These factors are likely to be still favorable to migration for tax reasons (Bosch & Duran, 2008). Furthermore, the fact to consider emigrating for not paying its share of the debt based on the premise that the province does not provide lasting benefits resulting from the policies that have debt. It follows that deficit budgets used to finance current consumption or the accumulation of private capital. Under these conditions, trends in migration may well reflect the poor quality of the financial policies of the governments involved.

Provincial governments are much more appeal for the federal government to outside funding sources. They pay interest to foreigners, while the federal government pays to Canadians who pay taxes and duties in Canada; the federal and provincial levels (Bakvis et. al, 2009). This is true, but irrelevant. Indeed, getting the debt burden on the federal government does nothing to reduce the external debt of the country. Canadians need to borrow abroad because their economy does not generate enough savings to meet the needs of the private and government sectors. If the industry was trying to pull a majority of its funding from the Canadian savings market, the private sector should look to foreign markets. In other words, the individual situation of debtors could change, but the overall debt situation would remain the same. The losses of the current account so do not decrease as claimed Mendelson (Bakvis et. al, 2009).

Local stabilization policy has long been recognized that are less efficient than national policies due to significant losses from one region to another. For example, when a province wants to stimulate local economic activity, much of the increased expenses incurred for this purpose is spent on goods and services imported from outside its territory. This phenomenon, however, is the same whether the stabilizing activity is undertaken by a provincial government or the federal government (Weingast, 2009: 279-293).

The extent to which local stabilization policies lead to capital flight outside the area that applies depends on the size of the region, its economic composition and nature of stabilization policies themselves. For example, while 75 percent. 100 multipliers tax effects of the Atlantic Provinces are confined in this region, the equivalent percentage for Ontario is 92 per cent. 100 (Beland & Lecours, 2005: 676-703). It also seems that capital losses are greater when fiscal policy is dominated by changes in the taxation or taxation when it is concentrated on spending.

Although federal transfer payments that advantage or disadvantage one region provide some degree of stabilization according to the regional situation, it may still room for other provincial initiatives. Professor Edward Gramlich argues in this regard that the traditional distrust of the sub-national fiscal policy is now an error. According to him, the source of business cycles now seems to be the real side of the economy and regional economies are quite different so it makes sense to adopt stabilization policies tailored to each region. In addition, capital flight declined as a result of the increased importance of local services that are not available commercially (Weingast, 2009: 279-293).

4.5. Effect on Total Deficits

If the federal government assumed per capita provincial debt on any equal basis, the effects would be very different from one province to another, since the provincial debt varies widely, whether expressed or per capita percentage of provincial GDP. In addition, some provinces have surplus budgets while others have operating deficits. In short, whatever the amount per capita assumed, some provinces have budget surpluses, while others remain in deficit. For example, although the federal government assumed the provincial debt to $ 200 billion, Ontario and Nova Scotia would still have a debt that would impose an annual deficit of more than $ 200 per capita (Beland & Lecours, 2005: 676-703). Other provinces have budgetary surplus, except Quebec, which would have a small deficit per capita. In some cases, the excess would be significant. According to Mendelson, they would raise, per capita, $ 200 in Newfoundland, $

300 in Manitoba, Saskatchewan and $ 400 to about $ 650 in Prince Edward Island (Poterba & Von Hagen, 1999).

Moreover, even if the federal government assumed all provincial debts, some provincial governments, such as those in Ontario and Nova Scotia continue to have deficit budgets because their current revenues are not the same sufficient to finance the cost of their programs (Beland & Lecours, 2005: 676-703).

For a provincial government can present later balanced budgets, how much of the provincial debt the federal government should take? For example, a total loan to the provinces equivalent to $ 100 billion would leave seven of the ten provinces with deficits of at least $ 100 per capita (Weingast, 2009: 279-293). The Nova Scotia exceeds $ 600 per capita and that of Ontario, $ 500 per capita. These provinces are they willing to comply with the constitutional obligation to balance their budgets?

If the federal government had a loan of $ 200 billion or more, some provincial governments would be left with substantial surplus. The total government deficit would remain stable if the provinces were required to keep their surplus over the years, for example by creating, in concert with the federal government, a fund to repay the entire loan. By cons, if the provinces reduced their taxes or taxes in proportion or that they were spending the surplus thus obtained, the total government deficit will increase, although the provincial government complied fully with all their obligations to submit balanced budgets. It follows that the proposed Mendelson could lead straight to the expansion of the government sector and increasing deficits (Beland & Lecours, 2005).

Deficit reduction is only possible thanks to government measures to control expenditures and increase revenues. In the past, provincial governments have adopted fiscal policies sensitive to economic cycles. Large provincial deficits were found to be more temporary than the federal deficit. In addition, two provinces, Alberta and New Brunswick have passed legislation mandating the filing of balanced budgets, and three other provinces predict they will have balanced budgets in a few years (Poterba & Von Hagen, 1999). And all this was done without sponge that their current debt.

The provinces already provide tax policies that are needed to reduce the deficit; if past experience is repeated, they will probably do better than the federal government. They may have less need to take steps to improve their finances if their debt should be mopped (Boychuk, 2008).

Conclusion

Today, all governments have a large fiscal challenge as they are accumulating debt at a rate that most Canadians consider unacceptable. However, the tax capacity and provincial taxing, taken together, is insufficient for them to fund the programs they are responsible. Part of the revenue they lack is offset by transfers from the federal government. However, for several years, neither of the two levels of government is completely satisfied with this transfer system. To summarize, we must say that the provinces are responsible for programs the cost increases rapidly, while the federal government has the upper hand in the tax area on the income of individuals, the only fiscal tool with great potential inherent increase in revenue (Gruber & Wise, 2009).

It is likely that the federal-provincial fiscal relations will change in response to economic pressures of the kind we have described in these pages. The two proposals we studied were made to solve the current problems resulting from poor distribution of revenues between the first two levels of government. One is very centralized, based on the bailout of deficit provincial governments, before they give in return virtually all economic stabilization powers to the federal government. The other proposal is diametrically opposed because the new division of taxation powers and taxation and the elimination of vertical fiscal gap it plans would allow provincial governments to become much more independent in the conduct of their tax affairs. Therefore, the federal government would lose much of its influence. Aspects that seem at first sight quite theoretical and technical of the allocation of taxing and taxing powers may therefore affect deeply the mode of government of the country, without requiring any major constitutional change.

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