

Federal-Provincial Fiscal Arrangements

third. For the two island provinces, equalization represented 55 per cent and 66 per cent of revenues from provincial sources.

These proportions do not arise—and I want to make this clear—from any unwillingness on the part of these provinces to tax their own citizens. On the contrary, studies in my department show that the tax effort by almost all of these provinces is about, and in some cases well above, the national average. In contrast, the higher income provinces, particularly British Columbia and Alberta, enjoy below average levels of taxation. This is so because of the abundant resource revenues which obviously contribute to the favourable position of these two western provinces. For Newfoundland to raise from its own tax base the full amount of its federal equalization transfer would require it to boost its tax rates by an average of 75 per cent. That would mean for Newfoundland a retail sales levy of 14 per cent, a gas tax raised from 25 cents to 44 cents per gallon, and a personal income tax rate hike from 36 per cent of federal tax up to 63 per cent.

Thus it is understandable why the lower income provinces, properly anxious to provide their people with decent schools, adequate health care, better roads, and all the basic services of a modern civilized society, place such great importance upon the equalization system authorized by parliament. They regard it not only as vital to their own financing but also as vital to fiscal federalism in Canada. Equalization is critical to their existence as viable social and political entities, and as such it is fundamental to our country.

Fortunately, I do not believe there is any serious dissent from the objective of achieving reasonably comparable standards of public service all across Canada. However, there have been differences of view as to how far the principle of equalization should be carried. Some concern has been voiced that heavier financial transfers from the higher income regions of the country to the poorer provinces may slow down total national growth. Specific features of the formula have been criticized in some quarters, particularly the equalization of revenues from particular kinds of natural resources. There has also been discussion among the provinces and the federal government as to what revenues ought to be calculated in providing the base for equalization.

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An alternative approach to the financial problems of the poorer provinces has also been suggested. This would replace the present grants to the lower income provinces by direct federal payments to poorer people in all parts of Canada. It seems to be argued that such payments to individuals would result in an increase of tax revenues to the lower income provinces, and thus there would be no need for equalization transfers. I suppose this may be an appealing notion but it does not stand up under any serious analysis.

What would happen to provincial revenues if we abolished equalization payments and substituted \$1 billion in payments to persons? In the ensuing fiscal year equalization payments will represent about \$1 billion. The answer is that revenues to those provinces formerly receiving equalization would decline disastrously. The equalization transfers themselves would vanish from provincial

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receipts. Of the equivalent amount paid to individuals only about 55 per cent would be received in the seven lower income provinces. The remaining 45 per cent would go to persons in the three wealthier provinces.

Moreover, even if this limited amount of guaranteed income payments helped persons in the less wealthy provinces, the tax revenues received by their provincial governments would be reduced. Not only would there be a smaller flow of total income received and spent in these provinces but the tax revenues generated in the process would clearly be less than those generated by government spending on goods and services. Thus it will be clear that the seven provinces concerned would lose both the equalization grants and a portion of their own tax revenues. In such a situation these provinces would have to increase tax rates to impossible levels simply to maintain services to their people, or else they would have to abandon efforts to provide those services.

As an alternative scheme one might then ask what level of direct payments to persons would generate as much revenue in the lower income provinces as is provided by the existing equalization grants? The obvious answer is: enough to raise the average income of individuals to a level about equal to the present national average in Canada. The data available do not make a precise estimate possible. Nevertheless I have had it estimated for me that the net cost of a guaranteed income scheme of this nature across the country, necessary to compensate those provinces for equalization grants, would be in the nature of \$13 billion to \$14 billion.

This is a net cost after deduction of off-sets for equalization and existing federal and provincial transfers to lower income individuals which would no longer be necessary. However attractive the notion, it is safe to say that not even the most ardent advocate of the guaranteed income has aspired to new federal expenditures of these heights, having in mind the boost in tax levels necessary to finance them.

The federal government is fully committed to explore the use of the guaranteed income as a technique in the war against poverty. But, as we have emphasized, it is a mistake to suppose that any realistic form of such income support to individuals will solve all our problems, and particularly within the context of this bill, the problems of serious regional disparity, geographic disparity in incomes, and the differences in regional public finance.

In the ministry that I held before assuming this responsibility I became familiar with the constitutional aspects and structure of our country. I believe that for those of us who were involved in those federal-provincial discussions it was a unique learning experience.

Our revenue equalization system is one of the most fundamental aspects of federal-provincial relations. It goes right to the heart of the way that this country is bound together and held together. If the economically stronger parts of Canada are not prepared to help the weaker, generously and freely, can we really be said to have a country? I have no doubt that members of all parties and from all parts of Canada will give their answer in their support for this bill.

May I turn now in general terms to Part II of the bill which deals with the closely related question of the stabili-