

on the basis of giving these provinces the same per capita amount represented by the average per capita payments made to Manitoba, Quebec and Nova Scotia.

This seemed, under the circumstances, to be the fairest way in which to deal with the situation. As I have said, this solution and Bill C-39 is the result of a long process of consultation which the Minister of Finance undertook over a period of several months with all ten provinces and, in particular, with those provinces which are recipients of equalization.

Honourable senators, these funds are badly needed by these provinces but the money cannot be paid until this bill is passed. I earnestly urge speedy passage in this chamber.

Hon. Michael Kirby: Honourable senators, I rise today to make a few remarks on second reading of Bill C-39. Let me say at the outset that I do so in order to encourage its swift passage by the Senate. I think that Senator Kelly has outlined fairly clearly the need for the bill, namely, to cushion the impact on a number of the have-not provinces, the number of provinces receiving equalization under the new equalization formula which was passed by Parliament in 1982. The current equalization formula expires on March 31, 1987. As Senator Kelly intimated in his remarks, there will be further discussion and debate at that time in this chamber about what needs to be done to the Equalization Act. I would like to limit my remarks to the current act, with one or two comments on a couple of aspects of it that are of concern to me.

As Senator Kelly pointed out, the equalization program is renewed every five years. When the 1982 act was passed, that resulted in a couple of things which all of the provinces and the federal government agreed were desirable, one of which was to expand the range of provincial sources of revenue which were included in equalization. Now, effectively, every source of provincial revenue is included and, therefore, the concept of a national average level of taxation was better than it was prior to 1982. The second thing the new act did was attempt to eliminate some of the anomalies in the old act, one of which had been that, because of the extraordinarily high level of oil and gas revenues received by the Province of Alberta, certain arbitrary and rather *ad hoc* measures had been taken in the period from 1978 to 1982. Specifically, a decision was made to count oil and gas revenues for only one-half of their value to a province.

Senator Kelly will appreciate the humour of this having been done only to avoid the embarrassing situation for what will be, as of tomorrow, the former Conservative government of Ontario being in the position where it is eligible for equalization payments. As a result, the Conservative government of Ontario appealed to the Liberal government in Ottawa and, indeed, an adjustment was made so as to avoid Ontario falling into that rather embarrassing situation.

Other changes were made at the time. One such change was specifically to adjust the notion of the average, so that only five provinces are now used in calculating the average. The extreme rich end of the scale—namely, Alberta—was eliminated in calculating the national average, as were the four

[Senator Kelly]

Atlantic provinces. Essentially, the group of five provinces in the middle of the country are now used to calculate the average.

These changes, however, had an interesting impact. When the forecasts were made regarding what would happen in the period from 1982 to 1987—the period during which the current act is in existence—those forecasts showed that there would be substantial realignment of the amount of equalization paid to several of the provinces. Consequently, a transition provision was put in.

The transition provision was designed essentially to soften the impact of the changes from the 1977-82 act to the 1982-87 act. It was forecast in 1982 that this could be done fairly easily over a five-year period. Because of the recession, the forecasts turned out to be wrong. I might add, parenthetically, that, in the same way, many of the forecasts contained in the budget papers will turn out to be wrong.

The forecasts turned out to be wrong and, as a result, if nothing is done—whether it be along the lines of the proposed act or not—there will be a substantial reduction in equalization received by six provinces, because the transition provisions have expired.

Consequently, there is no floor below which equalization provisions can fall. Essentially, what the current act does is this: It maintains that an equalization-receiving province is guaranteed to get 95 per cent this year of what it got last year, and the same will hold next year. It is a two-year act, only because the third equalization act expires at the end of March, 1987, at which time a new act will be required.

From the point of view of the members of this side of the chamber, one of the advantages of the act—and the reason we would support it—is that it proceeds to give money to the equalization-receiving provinces, particularly the Atlantic provinces, Quebec and Manitoba. Having said that, it seems to me that there are two comments on the bill that are worth noting. The first is that the legislation has an element of unfairness to it, in that the equalization-receiving provinces are treated differently under this bill—because not only was a floor put in of 95 per cent, which is particularly helpful to Nova Scotia and Quebec, but in order not to help just some of the provinces, additional funds were effectively thrown into the pot, so that additional funds go to Newfoundland, Prince Edward Island and New Brunswick, which they would not have had either by applying the new floor or for any other reason. It appears that it was simply an *ad hoc* adjustment made on the basis of bargaining between the premiers and the Prime Minister.

• (1620)

As someone who has been involved with this formula for 15 years, I am bothered when I continue to see a series of *ad hoc* adjustments being made merely to keep people happy; because it seems to me that the principle of equalization, which, as all honourable senators know, was enshrined in the Constitution Act, 1982, should be maintained relatively intact and not be subject to *ad hoc* changes.