

share fell from 69 to 52 per cent; and the local share increased slightly from 13 to 15 per cent.

By comparison, the performance of our States was far less impressive . . . most of the remarkable revenue gains chalked up by the provinces during the 1950's and 1960's can be attributed to the willingness of the federal policymakers to negotiate with the provincial political leadership and their decision to share their prime revenue source with the provinces.

Further in their report this United States commission also concludes that, to use their words: Canada has achieved a very high degree of federal-provincial tax co-ordination.

• (1550)

The report goes on to note its approval, using their own words again:

That Canada has developed a sophisticated and effective method for equalizing the revenue capacity of the provinces.

This analysis by the U.S. Commission refers particularly to the basic system of fiscal relations set out in the current Fiscal Arrangements Act of 1967. Major parts of that legislation are due to expire on March 31 of this year, which lends a certain urgency to the bill now before the House.

[Translation]

During the past two years, my predecessor had some seven meetings with his provincial opposite numbers for the purpose of assessment and consideration of a total plan. It was recognized that the scope of the plan called for close study of its operation and possible improvements, and consultation on these points. It was also necessary to readjust somewhat the revised tax structure in the amended federal Income Tax Act. The Department of Finance has also undertaken a number of technical studies. A committee of federal and provincial officials has made a detailed review of these studies and reported to the ministers concerned. The technical analysis and the numerous discussions among the ministers have led to the plenary federal-provincial meeting of last November, where all the matters dealt with in the bill have been reviewed.

This review has shown that a great deal of interests are opposed to and in conflict with one another. This cannot be avoided in a country the size of Canada with the diversity of its various regions. Some of these differences cannot be completely ironed out and the responsibility for the necessary decisions rests finally with the Parliament of Canada. However, the bill has, as much as practicable, taken into account all the exchanges of opinions, studies and discussions that have taken place between governments.

[English]

I would now like to turn to a review of the main features of the bill. Part 1 extends the 1967 arrangements for equalizing total provincial revenues for a further five years. Although the basic equalization formula is not changed, provision is made for certain technical improvements which reflect experience and various developments in provincial financing over the last five years. Hon. members will recall that the 1967 arrangements provided for the equalization of provincial revenues on a comprehensive basis. The formula measures the revenue raising capacity of each province. To the extent that the per

#### *Federal-Provincial Fiscal Arrangements*

capita revenues of any particular province are below the national average because of a lack of provincial revenue capacity, the federal government fills the gap by a direct grant.

[Translation]

Previous arrangements were formally started in 1957 to balance only part of the provincial revenues. In 1967, the then Minister of Finance, the present Secretary of State for External Affairs (Mr. Sharp), made a great leap forward by extending this formula to include all sources of provincial revenues. The equalization payments of the federal government increased therefore dramatically from \$371 million in 1966 to \$546 million in 1967. In view of the continued growth of the economy, as well as of provincial revenues, the equalization payments now total almost one billion dollars.

[English]

Equalization is based upon a comprehensive statistical measurement of the revenue raising capacity of each province. Consequently, the amount paid to each recipient government varies widely. Under the formula set out in the bill, the poorest provinces would receive the largest per capita payments. Thus, both Newfoundland and Prince Edward Island would qualify for about \$213 per person in the next fiscal year; New Brunswick, Nova Scotia and Saskatchewan form a middle group with per capita payments of \$164, \$135 and \$102 respectively; Quebec and Manitoba, both provinces only marginally below the national average in revenue potential, would qualify for the smallest payments of \$74 and \$58 per person respectively. These variations help, I think, to make clear the basic principles of need and fairness which underlie the system. At the committee stage on the bill, I shall be glad to table extensive tables and illustrative material documenting how these calculations are made.

Ontario, Alberta and British Columbia are all provinces with a measured revenue raising capacity above the national average and hence are not eligible for payments. Of course, if any one of these provinces met adverse circumstances which reduced their fiscal potential below the national average, they would qualify for payments immediately and automatically. Needless to say, none of these provinces, I am sure, would want to undergo that experience.

I want also to stress to Your Honour an important point. Unfortunately, it appears as if some Canadians believe that the governments of Ontario, Alberta and British Columbia, or the taxpayers in those provinces alone, supply all the tax revenue redistributed in the form of equalization. This is not so. Equalization is paid out of the general revenues of the Consolidated Revenue Fund of the government of Canada. These are drawn equally from any given level of income earned by taxpayers wherever they may reside in Canada.

Let us view it from another perspective. It is also clear how important these equalization transfers are to the qualifying provinces. For Manitoba, Saskatchewan and Quebec, equalization amounted to from 13 per cent to 16 per cent of their gross revenues from their own provincial sources in 1971-72. For Nova Scotia and New Brunswick, the proportion was much larger—somewhat more than a