

which the calculations of equalization entitlements are made. The system continues to make no reference to the costs of providing services, nor to variations among the various provinces in the services required.

In its 1981 report, the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements noted:

Since the purpose of equalization is to enable provinces to provide their residents a reasonably comparable level of public services with a reasonably comparable level of overall taxation, it would be desirable to take into account interprovincial differences relating to costs and needs in computing equalization payments... The difficulty, however, is to measure provincial costs and needs on a comparable basis. Although several provinces have recommended that equalization payments take such factors into account, none has proposed a specific solution to the measurement problems involved, which seem formidable indeed.

The Task Force is not at the moment in a position to make recommendations as to how the problems of measuring provincial costs and provincial needs might be overcome, and therefore concludes that, for the time being, equalization payments should continue to be determined exclusively on the basis of disparities in provincial fiscal capacity. We do, however, urge that work continue in the technical committees of federal and provincial officials on methods by which differential costs and needs might appropriately be reflected in an equalization formula based primarily on measures of fiscal capacity.³

In general, we agree with this Task Force conclusion, recognizing that it will be extremely difficult to find a reasonable system for the provision of equalization that will avoid the pitfalls of the present system. But we believe it is well worth pursuing with far more vigour than is now being displayed.

The central thrust of the Committee's report is that government expenditures intended to develop a region's economy are to be preferred in general to expenditures that only compensate for an existing disparity. But this distinction between expenditures to promote development and expenditures to compensate for disparities is rarely clear-cut. No region or sub-region is going to be able to maximize its developmental potential without an adequate supply of schools, hospitals, policing and other public sector infrastructure and services. To quote one witness, Mr. Gérard Veilleux, Assistant Deputy Minister of Finance, "Fiscal arrangements do not directly influence industrial location, but they do contribute to regional development in a fundamental way by assisting provinces to provide a higher standard of public services. [They] contribute to the provision of the basic economic infrastructure and basic social services which are essential in the long run to economic development. This assistance comes in a way which allows provincial governments wide latitude in the kind of development... they wish to foster."(1-32-11:6) The object of policy thus becomes to ensure that the system of equalization payments is as efficient an instrument as possible to promote this development and to meet our constitutional commitment.

³ *Fiscal Federalism in Canada, op. cit.*, p. 161.