

the fiscal freedom and responsibility of the provinces. We must, on the other hand, fashion machinery which will strengthen the ability of the provinces to provide the greatly expanded and improved public services which are expected of them, but without at the same time hobbling the Federal Government or forcing it to have different laws for different parts of Canada — differences which might have the effect of obscuring or weakening its proper role as a government which governs all Canadians and protects equally the interests of all of them....

PRINCIPLES GUIDING FISCAL ARRANGEMENTS

Any general appreciation of the objectives of federalism in Canada, such as this, must lead to a statement of the guiding principles which flow from it, if it is to be useful in discussions such as those we are about to begin. The following then, are the principles by which we believe we should be guided in trying to develop a system of federal-provincial fiscal arrangements which will be consistent with the federalism of the future:

(1) The fiscal arrangements should give both the federal and provincial governments access to fiscal resources sufficient to discharge their responsibilities under the constitution.

(2) They should provide that each government should be accountable to its own electors for its taxing and spending decisions and should make these decisions with due regard for their effect on other governments.

(3) The fiscal arrangements should, through a system of equalization grants, enable each province to provide an adequate level of public services without resort to rates of taxation substantially higher than those of other provinces.

(4) They should give to the Federal Government sufficient fiscal power to discharge its economic and monetary responsibilities, as well as to pay its bills. In particular, they should retain for Federal Government a sufficient part of the income tax field in all provinces — both personal and corporate — to enable it to use variations in the weight and form of that tax for economic purposes and to achieve a reasonable degree of equity in the incidence of taxation across Canada.

(5) They should lead to uniform intergovernmental arrangements and the uniform application of federal laws in all provinces.

(6) The fiscal arrangements should seek to provide machinery for harmonizing the policies and the priorities of the federal and provincial governments....

A NEW EQUALIZATION FORMULA

Equalization arrangements are one of the four central features of federal-provincial fiscal relations. They represent one of the dividends of Canadian unity, designed as they are to enable all Canadians to enjoy an adequate level of provincial public services. Where circumstances — whether natural or man-made — have channelled a larger than average share of the nation's wealth into certain sections of the country, there should be a redistribution of that wealth so that all provinces are able to provide to their citizens a reasonably comparable level of basic services,

without resorting to unduly burdensome levels of taxation.

To accomplish this goal, and in the spirit of the principles I spoke of earlier, we have concluded that we must undertake a fundamental reform in our equalization arrangements. We should seek in the future to measure the whole revenue or fiscal capacity of the provinces — to develop a comprehensive "prosperity index", if you will — in place of the partial measure now in use. Instead of selecting certain taxes and equalizing them to the level of the top two provinces, we should take into account all of a province's revenues and equalize them to the national average. This would be a good deal more expensive to the Federal Treasury, but far more equitable. Secondly, the arrangements should be sensitive to the revenue requirements of the provinces, taken together — that is, they should grow as provincial responsibilities increase — and they should be equally responsible to changes in the tax capacity of individual provinces. Finally, to develop a formula that meets these requirements, we must take into account objective factors only, recognizing at the same time the need to deal with any special problems which may arise in the transition from the present to the new arrangement.

The formula being proposed is designed to meet all of these requirements. It would provide that any province in which average provincial tax rates (not its own tax rates) would yield less revenue *per capita* than the yield in Canada as a whole would be entitled to an equalization payment. The payments would be arrived at in this way. We would determine what it is the provinces generally tax — in technical terms the tax base for each revenue source — and the average level of the rates or levels which the provinces generally impose. Then we would apply this average tax level to the tax base in each province — again the incomes or sales or resource production which provinces generally tax — to find out whether the *per capita* yield in that province is below the national average. If the total yield of all provincial revenues, calculated in this way, were to yield less than the national average in any province the Federal Government would make up the difference in equalization payment. The proposed formula is estimated to cost the Federal Treasury about \$490 million, about \$140 million more than the present one....

The transitional arrangements proposed would provide that any province which stood to receive less under the new formula than under the old, would have its payments reduced gradually, resulting presumably in the decline in equalization payments being largely offset by increases in other revenues....

SHARED-COST PROGRAMMES

...Most Canadians would agree that shared-cost programmes, such as hospital insurance and old age and unemployed assistance, have contributed greatly toward social advances across Canada. Most Canadians will expect the Federal Government to retain some vehicle for bringing about new country-wide social and economic advances in the future.

At the same time we must recognize that the continuous and cumulative use of shared-cost programmes in fields of jurisdiction which are primarily pro-