be the equalization level. In the period of the expiring agreement, natural resource revenues were not admitted to the calculation, and the *per capita* average of the two provinces with the highest *per capita* yields of standard taxes (personal income tax, corporate income tax, and estate taxes) was the level to which the selected provincial tax yields were equalized. Any level could be adopted, and any taxes included in the formula. The important feature is the measuring of the *per capita* deficiency in each political area, and the payment of a grant based on this deficiency. In the Canadian federal-provincial fiscal arrangements, no explicit provision is made for the reduction of other federal grants to those provinces having fiscal capacity greater than the selected level.

In addition to the equalization grants described briefly above, the federal government pays special subsidies to the Canadian Atlantic Provinces of Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island in recognition of their lower level of economic development and prosperity when compared with the rest of Canada. Having a lower level of economic activity means that the burden of providing essential public services at a necessary and acceptable level rests more heavily on the citizens of these provinces than those of the rest of Canada. If it were not for additional subsidies some essential services probably would have to be curtailed. In order to help avoid this, the Atlantic Provinces Adjustment Grants were instituted in the 1958/59 fiscal year. They are a device which, when coupled with equalization grants, funnels a greater *per capita* share of any given amount of federal transfer payments to the relatively poorer provinces.

The Atlantic Provinces Adjustment Grants originally were based on a formula that attempted to measure the fiscal need of individual provinces relative to the average level of personal prosperity in Canada. In this formula the ratio that the total revenues from provincial and dependent lower levels of governments (municipal governments), for all of Canada bear to Canadian personal income was calculated and applied to the amount by which each province's *per capita* personal income falls short of 85% of Canadian *per capita* personal income, and the result multiplied by the province's population. That is:

$$\text{Province's Grant} = \frac{\text{total revenue from Provincial \& local sources}}{\text{national personal income}} \times \left[(.85 \times \text{national } \textit{per capita} \text{ personal income}) - \text{province's } \textit{per capita} \text{ personal income}\right] \times \text{population of the province}$$

This scheme relates grants to an estimate of *average* fiscal capacity for the nation as measured by a percentage of *per capita* personal income.

A few observations should be made in regard to this formula. First, personal income *per capita* is not the only measure of taxable capacity. In some instances personal income per family head, or per person of working age, or per worker could well be used instead. The calculation that was originally made was based on the income deficiency per person of working age (15-69 years). Second, the level of national income per person used (in this case 85%) may, of course, be any proportion depending on the objective in mind in using the formula. The 85% level was adopted to ensure the personal income deficiency from the national average was pronounced and not likely to be soon overcome. Third, if it is the desire, as it is in Canada, to use these grants to assist provinces having a chronic fiscal and economic disability, averages of revenues and personal incomes for several years can be used. Five year averages for these quantities are used in Canada. This has the advantage of giving the areas with persistent inequalities the greatest aid by minimizing temporary fluctuations.