

## Equalization

In fiscal year 1980-81, the federal government spent some \$3.3 billion on a program that far too few Canadians understand. This program is equalization, and it is an important component of the current fiscal arrangements between the federal and provincial governments. Moreover, it is the largest federal program intended to ameliorate regional disparities in Canada.

The equalization system of today began primitively in 1957 when it cost the federal treasury only \$136 million. Since then the program has been expanded; events have combined to increase the level of equalization to roughly 29 per cent of all federal transfers to provincial governments, or 5.4 per cent of total federal expenditures. These payments are directed to only seven provincial governments, those with the lowest tax bases according to a system of comparison devised by the Department of Finance.<sup>1</sup>

From the perspective of regional development, we heard relatively little criticism of the equalization system. In fact, it was often viewed as an essential part of the Canadian federation. In general, we agree with this assessment. If Canada is to remain united, some form of equalization must continue.

Despite its obvious importance, however, the goals of the equalization system remain something of an enigma. Witnesses before the Committee described these as being to enable provincial governments to provide either adequate levels of services or comparable levels of services. Even the constitution, which now enshrines the principle of equalization, does so in words that can be interpreted only by the Supreme Court:

Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that the provincial governments have sufficient revenues to provide reasonably comparable levels of services at reasonably comparable levels of taxation.<sup>2</sup>

What the words 'reasonably comparable' imply with respect to provincial revenues and taxation remains an open question. Yet it is on the basis of this open question that over 5 per cent of the federal government's expenditures are made.

In recent years, the lack of a clear definition of the goals of equalization, and the open-ended nature of the formula then in place, resulted in arbitrary adjustments to the system imposed by the federal government. The objective was to limit its liabilities, which had soared as a result of sharply increased energy revenues in some provinces. The most recent equalization legislation, enacted in April 1982, has eliminated some of the arbitrary measures, but it has created further potential difficulties. For example, although all resource revenues will be included in the new formula, the province of Alberta, which has by far the greatest resource revenues, has been omitted from the base on

<sup>1</sup> Anyone wishing to obtain a better understanding of how the equalization system works should consult the report of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements, *Fiscal Federalism in Canada*, 1981.

<sup>2</sup> Constitution Act, 1981, part III, 36(2).