

Interim Supply

we listened to provincial views. We knew perfectly well whatever formula we adopted in this matter of equalization it would not please everyone. Our purpose was to find a course which, given the views of the federal government and the differing views of the provinces, would on balance be a reasonable course, a course that would in our view best serve the interests of all Canadians, and a course which would be put forward for one year only. I think in the circumstances we adopted the right course.

I think we arrived at a result which was reasonable. There are those who would have certainly preferred equalization to be based on the revenues of the top province to which indeed, and I repeat, we had committed ourselves; but when we heard all the provincial views, when we had all the facts and figures of economic and financial conditions in the provinces before us, we were impressed by the argument which was put forward for returning to the former system, by using the average of the two top provinces.

The difference in money terms between taking the top province and the average of the two top provinces is not very great. For next year that difference is estimated at something over \$12 million in total, and while \$12 million is a very substantial sum of money, in respect of this particular problem and spreading it across the country to all the provinces, the difference in respect of any particular province, except the province of Quebec, is not very great. If we had taken the top province it would have meant another \$600,000 for Newfoundland, another \$144,000 for Prince Edward Island, another \$1 million and a few thousand for Nova Scotia, \$832,000 for New Brunswick, \$7,464,000 for Quebec, nothing of course for Ontario, Alberta and British Columbia, \$1,200,000 for Manitoba and \$1,250,000 for Saskatchewan.

Now, I am not making light of these figures, because they are in themselves important, but the point is that they are estimates for one year. For another year on that basis they might have been appreciably different, not so much in total but—the way things were moving—in the distribution between provinces. The point of using the average of the two provinces is that it gives more certainty and stability in the application of this principle of equalization, and while it does give considerable assistance to those below the average of the top two, it lessens year to year fluctuations in the equalization payments in which provinces can anticipate, and those fluctuations, according to our calculations, would have been greater if we had taken the top province rather than the average of the top two provinces.

[Mr. Pearson.]

So, listening to the views of the provinces as a whole, there were those who wanted to equalize to the top, there were those who did not want any change in the present formula, and there were those who accepted the equalization to the top two as the best formula in the circumstances.

In the same spirit, Mr. Chairman, we took account of the views of some provinces on the subject of natural resource revenues as a factor—and it is a factor which had been introduced by the previous government—to equalize grants.

Perhaps in the future we may find a better way of doing all this, a better way of equalization than that which has been attached to any formula we have been able to agree to in the past. The disparities in the yields of the shared taxes are accepted as the best single measure for the measurement of needs as a basis for equalization. But, as was pointed out by a good many provincial premiers, these disparities are not a perfect measure. The yields of most other provincial taxes vary in much the same way as those of the direct taxes that are chosen, but natural resource revenues do not vary in that way. They are very much greater for some provinces than for others, and in the provinces where they are highest they are, in a sense, alternatives to the revenues which those provinces might otherwise have raised in corporation income taxes. Therefore, with all the facts and figures and opinions before us, we concluded that the purpose of equalization would best be served by recognizing these facts, by recognizing this factor of natural resource revenues, but by modifying it. As I said to the conference, after listening to the views expressed:

The balance of the discussion seems to us to be that such revenues—

That is, natural resource revenues:

—should be taken partially into account. The best practical way to do this is, we have concluded, to adjust the equalization which would be payable to any province having natural resource revenue above the national average by deducting an amount arrived at as follows: one half of the extent by which the natural resource revenue per capita exceeds the national average, multiplied by the population of the province.

That was the formula that was included in the offer we made. While I admit, Mr. Chairman, that there was a certain dissatisfaction, and a strong dissatisfaction in certain quarters about this formula, I think in the circumstances it was the best that could be achieved. Dissatisfaction was expressed in very strong terms by the representatives of Saskatchewan, Prince Edward Island and Quebec. There was no formula, of course, in these matters which could have been hit upon which would have