

From the perspective of regional development, these transfers are of considerable interest in two important, but contradictory ways. On the one hand, shared-cost programs act in a manner similar to equalization, enabling the provinces with the least developed tax bases to deliver more and better services than would otherwise be the case. By reducing the impact of regional disparities, these programs contribute to regional development. Moreover, by helping to establish national standards and ensuring the portability across Canada of certain government services, the shared-cost nature of the programs facilitates necessary economic adjustments and improves Canadians' freedom to live wherever they choose.

On the other hand, several of our witnesses argued that the transfers may distort provincial decisions, result in a less efficient allocation of provincial revenues than would be the case in their absence, and thereby skew provincial expenditure decisions. For provincial governments, shared-cost programs constitute offers they cannot refuse; for every fifty cents put up by a province, it receives a dollar's worth of program. As a result, it is argued, provincial governments are induced to make inappropriate decisions and expenditures to the detriment of their own economies and social programs.

We acknowledge that the potential to shift provincial priorities is present. But we are not convinced that the potential is often realized, or that the results are necessarily negative. Shared-cost programs have in the past been important and realistic expressions of the federal nature of government in Canada, and we conclude that the federal and provincial governments should continue to consider the use of shared-cost programs where, for reasons of maintaining or establishing national standards, such programs are merited.

We recognize that the federal government is currently seeking ways to reduce its commitments and increase its influence with respect to certain of the transfer programs. We would like to emphasize that the consequences of any reductions for the less developed regions of Canada should be given special consideration, and any changes should take account of the differing capacities and needs of the recipient provinces.

In Chapter 8 we considered the importance in joint federal-provincial undertakings of adequate recognition being given to the contributions of both levels of government. If these programs are to continue to function effectively, we think it important that shared-cost agreements include explicit provisions to ensure that the contributions of both levels of government are adequately represented to the public.

The systems of equalization payments and shared-cost programs enable all regions to provide reasonably comparable levels of public services and in this way they contribute to regional development.