

Interprovincial Redistribution and Equalization Payments
in Canada

by

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ABSTRACT

Equalization payments in Canada take the form of unconditional transfers made to the have-not provinces by the federal government. These transfers are designed to raise the fiscal capacities of the recipient provinces to a standardized level. Historical, constitutional and economic rationales for such a scheme are first reviewed. Equity and efficiency considerations suggest an optimal scheme under which all provincial revenue sources would be fully equalized to a national average standard. In effect, such a scheme would involve direct transfers from the have provinces to the have-not provinces at no net cost to the federal government. The extent of interprovincial redistribution under existing arrangements is compared with the optimum. The major beneficiary under existing arrangements - with reference to the optimal levels of redistribution - is Alberta at the expense of Quebec. For 1980-81, interprovincial redistribution resulting from both equalization and policies affecting provincial revenues from natural resources - especially the NEP - is shown to have caused both Quebec and Ontario to receive positive net transfers and Alberta a negative net transfer that were

more than double their optimal levels. This provides one incentive argument for Alberta to voluntarily participate in national sharing of its vast resource revenues.

CHAPTER IINTRODUCTION

Although Canada did not develop a formal system of equalization until 1957, the concept of equalization has been a fundamental component of intergovernmental relations since Confederation. Its importance is reflected in the enshrinement of equalization under the 1982 Constitution Act. Section 36 (2) commits the federal government and Parliament to

the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.¹

The dominant rationale underlying the equalization program has been the pursuit of redistributive equity within the federation. Historically, provincial fiscal capacities have tended to vary widely. Without equalization payments, those provinces with deficient fiscal capacities would be forced either to provide inferior levels of public services or, alternatively, to impose relatively higher tax burdens on their residents in order to provide similar levels of public services.

¹ Constitution Act, 1982 as enacted by Canada Act 1982 (U.K.), S.3, s. 36.2.

A critical issue in the evolution of Canada's equalization program has been the treatment of resource revenues. Resource revenues accruing to the oil-producing provinces skyrocketed during the energy boom of the 1970s and early 1980s. Much debate has focused on the equitable redistribution of these revenues. Basically, two approaches are possible: either the residents of Alberta should be viewed as the rightful beneficiaries of these resource revenues, or they should be fully redistributed across all provinces.

The implications with regard to equalization are very different, depending upon which viewpoint is considered appropriate. A narrow-based view, which essentially confers ownership rights to Albertans, would result in substantially lower equalization payments to the have-not provinces than would a broad-based view. On the other hand, adoption of the broader view of equity would result in ballooning equalization payments. The fact that the equalization program is funded out of general federal revenues meant that these growing entitlements could conceivably outstrip the federal government's ability to pay for them.

There has been increasing attention given in the past decade to efficiency arguments pertaining to equalization.

For reasons to be developed more fully below, resource revenues should be fully equalized if efficiency is to be achieved within the Canadian economic union. This is so because differential net fiscal benefits will play a role in labour's migration decisions. Net fiscal benefits measure the difference between the benefits received from government provided goods and services, and taxes paid by residents. If one province is able to finance its public sector through resource revenues, while others tax residents for benefits received, positive net fiscal benefits will accrue to residents of that province alone. These net fiscal benefits are taken into account in individual's migration decisions and may give rise to an inefficient allocation of labour.

Also, redistributive provincial budgetary policies in the presence of income disparities across provinces may give rise to differential net fiscal benefits. These too should be eliminated.

Differential net fiscal benefits can be eliminated by the full equalization of all revenue sources. One way of doing this is to equalize all provinces up or down to a national average. Under this type of scheme, negative entitlements of the wealthier provinces would exactly offset the positive entitlements of the poorer provinces.

Therefore, it could be self-funded by the provinces, rather than financed out of federal revenues, as it is presently.

Of course, the effect on individual provinces of a net scheme of this type would be different from that of a gross scheme such as that presently in place. Particularly, the net contribution of Alberta would be substantially increased. It is interesting to note, however, that the degree of implicit equalization associated with redistributive initiatives such as the National Energy Program of the early 1980's resulted in a net fiscal transfer from Alberta to the oil-poor provinces that was significantly greater than that which would have resulted from full equalization of resource revenues.

Chapter II outlines the development of equalization payments since Confederation. It is argued that equalization in some form has been a part of the federation since the country's inception.

In Chapter III, the underlying theory behind the concept of equalization is discussed. While political arguments and some sense of redistributive justice have traditionally been the driving force behind equalization, there is an efficiency basis for equalizing transfers in a federal system.

Chapter IV compares the actual equalization experience in Canada with what would have resulted from an ideal scheme based on the criteria of equity and efficiency. It is argued that a number of developments in the past decade have moved the program further away from the ideal. For example, the adoption in 1982 of a representative five province standard to replace the representative national average standard was a move away from the ideal scheme, although it was motivated by a concern over the federal government's continued ability to finance equalization in the face of skyrocketing resource revenues in the oil and gas rich provinces.

Also in Chapter IV, net redistribution across provinces is compared under alternative scenarios. In particular, it is shown that the net fiscal transfer out of Alberta in 1980-81, inclusive of that resulting from the National Energy Program, was double that which would have been justifiable on equity or efficiency grounds.

Finally, Chapter V concludes with a look at some proposals for an equalization program that promotes an efficient redistribution of revenues across provinces.

CHAPTER IITHE HISTORY OF EQUALIZATION

The political principle underlying equalization within the Canadian context can be traced back to the country's beginnings. Under the newly formed Confederation, the federal government was given unlimited taxing powers, meaning that it was allowed to raise revenues by both indirect and direct taxes. The provincial governments, on the other hand, were restricted to levying direct taxes only, which denied them of their principal revenue sources of excise and customs duties.¹ The Dominion government collected these indirect taxes and then had to find a method of redistributing the revenues back to the provinces, so as to allow them to carry out their newly designated responsibilities. Statutory subsidies were the chief mechanism used to this end, with each province receiving a per capita grant of \$.80, up to a maximum of 400,000 persons. While uniform treatment of all the provinces was the initial goal, the relatively poor financial position of the Maritime provinces necessitated the 400,000 person ceiling, as well as additional grants to

¹ About 80% of colonial revenue was generated from customs and excise taxes before Confederation. See Courchene (1983).

both Nova Scotia and New Brunswick.² As Courchene (1983) argues, the concept of equalization payments can be thought of as originating with the preferential treatment given to the Maritimes under these subsidy agreements, which were included in the BNA Act (Sections 118 and 119).

Statutory subsidies were later extended to Manitoba (1870) and Prince Edward Island (1873). Over the next seventy years, as Central Canada became fiscally stronger, the 'have-not' provinces received larger subsidies from the central government, thereby allowing them to share in the benefits of economic union.

The "complementary values of economic efficiency through economic integration and fiscal equity through redistribution of benefits"³ have been viewed as a basic element in the development of fiscal relations in Canada. As will be seen in Chapters III and IV, the Canadian system of equalization has in fact been concerned for the most

² \$63 thousand and \$83 thousand annually was granted to N.B. and N.S. respectively for ten years.

³ P.A. Cummings. "Federal-Provincial Fiscal Arrangements and the Search for Fiscal Equity Through Reformulation of the Equalization Program". In Ottawa and the Provinces: The Distribution of Money and Power, Vol.1 (1985) p.98.

part with equity goals, rather than the promotion of economic efficiency. It has only been in recent years that efficiency arguments have been gaining in prominence.

During the Depression years⁴, the tax system became increasingly chaotic and regressive, as both levels of government competed for dwindling tax revenues. Also, the federal government was responsible for ever-increasing intergovernmental and interregional transfers as the depression deepened. The Royal Commission on Dominion and Provincial Relations (hereafter referred to as the Rowell-Sirois Commission) was formed in 1937 in order to examine fiscal relations between the levels of government, and to make suggestions on ways to increase the efficiency of the fiscal system in general. Included in their Report were a number of recommendations that heavily influenced our present structure of equalization. Most relevant to this discussion is the proposal for National Adjustments Grants, which were the forerunners of our present system of equalization payments.

⁴ For a thorough discussion of intergovernmental fiscal relations in Canadian history, see A.M. Moore, J.H. Perry, and D.I. Beach. The Financing of Canadian Federation: The First Hundred Years (1966), and J.H. Perry, A Fiscal History of Canada-The Postwar Years (1989).

The Commission advocated the principle of "average standards of services in every province" (p.83). The National Adjustments Grants were intended to bring the fiscal capacities of the poorer provinces up to some minimally acceptable national standard. These grants from the central government, made to all provinces except Ontario, Alberta, and British Columbia, were to be unconditional, reflecting the Commission's belief that while the federal government was responsible for ensuring that minimum standards were attainable in all provinces, the provinces themselves should have the final say on exactly how the funds were used.

The provinces rejected the proposals of the Rowell-Sirois Commission, mainly because of a concern that they conferred excessive powers to the central government. Although the National Adjustments Grants were never implemented, they formed the theoretical underpinnings of the formal equalization program introduced in 1957. In fact, the wording of the section in the 1982 Constitution Act that entrenches equalization is identical to the Commission's wording of the National Adjustment Grants.

Prior to the development of a formal equalization program, equalization was implicit in the Tax-Rental Agreements adopted in 1941. These Agreements allowed the government of Canada to "rent" the personal and corporate tax rights of the provinces. In return, the provinces received a lump-sum transfer from the federal government, with revenues redistributed in proportion to the amount collected by the provinces.

In addition, the provinces received equal per capita grants, which provided an implicit equalization payment to the poorer provinces.⁵ Subsequently, revenues were redistributed on an equal per capita basis across provinces, strengthening the degree of implicit equalization in the system. Finally, the have-not provinces also continued to receive supplemental grants, giving them revenues above what their revenues from the corporate and personal income tax alone would have been.

Under the Tax-Rental Agreements, equalization payments were conditional upon a province allowing the federal

⁵ Equal per capita grants are implicitly equalizing in that every dollar of grant money represents a proportionately larger share of provincial revenues to a relatively poorer province than it does to a wealthier province.

government to rent these income tax fields. Quebec's refusal to be a part of this rental agreement, and the establishment of their own provincial income tax system in 1954, in principle disqualified them from receiving equalization payments.

By 1957, the government of Canada agreed to make equalization independent of tax-rental agreements. Any province could opt out of its previous "rental" agreement with Ottawa, levy its own personal, corporate and succession taxes (the three standard taxes), and receive an abatement⁶ from these federal taxes in the same percentages as those provinces still sharing these fields. This proviso meant that Quebec now became eligible for equalization payments. Equalization under the Tax-Sharing Arrangements Act, in operation from 1957-62, was designed to increase provincial per capita yields from the three standard taxes up to a weighted average of the two provinces generating the highest per capita yields. By

⁶ An abatement from federal taxes in effect transfers the tax points from the federal government to the province. In this way, a province which opts out of a federal program and levies its own taxes at similar rates is not penalized, and provincial taxpayers are left in the same financial position as if the province participated in the federal program.

allowing equalization payments to be independent of tax-rental agreements, it "made equalization almost a 'right' of the provinces".⁷

In 1958-59, the Diefenbaker government implemented the Atlantic Provinces Adjustments grants, which gave \$25 million to the four Atlantic provinces; as well as the Newfoundland Additional Grants, which conferred to that province a supplement of \$8 million annually, from 1958-62. Though the stated objective of these grants was to boost the (relatively) low fiscal capacities of the region, the fact that they were specifically conceived for the Atlantic provinces makes them rather arbitrary, and inconsistent with equity-based redistributive goals.⁸

In 1962, the Tax-Sharing Arrangements scheme was replaced by the Federal-Provincial Fiscal Arrangements Act. The most important changes included the addition to the standard tax base of 50% of a three-year moving average of

⁷ A.W. Johnson. "Federal-Provincial Fiscal Relations: An Historical Perspective". In Ottawa and the Provinces: The Distribution of Money and Power, Vol.1 (1985) p.111.

⁸ Special grants, developed specifically for the Atlantic provinces, come under the same criticism as does the Ontario override, as it involves arbitrary, rather than formula-driven, adjustments.

natural resource revenues and taxes, and the incorporation of a national average standard to replace the two wealthiest provinces standard. Both of these modifications had significant implications.

The inclusion of 50% of natural resource revenues was introduced essentially to prevent resource rich provinces, such as Alberta, from becoming a recipient of equalization monies. It also tended to increase overall equalization by increasing the standard tax base. However, the switch to a national average standard from that of the top two provinces more than offset the tendency of a larger tax base to increase overall entitlements. The result of this move to a national standard yielded a decrease of approximately \$10 per capita in equalization transfers (based on the old three tax standard base)⁹.

Furthermore, the 1962 arrangements were notable in that they extended the equalization system beyond the shared taxes, thus opening the way for the inclusion of a far more comprehensive redistribution mechanism. Also striking is the fact that entitlements were calculated by

⁹ See A.M. Moore, J.H. Perry, and D.I. Beach. The Financing of Canadian Federation: The First Hundred Years (1966) Table 16.

applying standard rates to the revenue sources, and were not based on actual provincial tax rates. This differs dramatically from reliance on actual revenues raised in entitlement calculations. The decision by any particular province not to tax one of the standard revenue sources would have no effect on equalization levels under this sort of notional scheme. Provincial tax effort, in other words, does not figure into entitlement calculations, except to the extent that it is reflected in the national average tax rate.

The Federal-Provincial Fiscal Arrangements Act is still in use today, although quinquennial revisions have provided extensive modifications to the 1962 version. For example, as shown in Table 2.1, there are now 38 revenue sources making up the standard revenue base. A national average tax rate is calculated for each revenue source, and applied to the provincial base for that revenue source. This is repeated for all 38 revenue sources. An overall deficit in fiscal capacity is therefore a reflection of a deficiency in the overall tax base of a province, and not directly related to tax effort or tax need.

TABLE 2.1

EQUALIZATION ENTITLEMENTS BY PROVINCE AND REVENUE SOURCE (1)
(THOUSANDS OF DOLLARS)

ESTIMATE: SECOND

FISCAL YEAR: 1990-91

REVENUE SOURCE	N.F.L.D.	P.E.I.	N.S.	N.D.	QUE.	ONT.	MAN.	SASK.	ALTA.	B.C.
1. PERSONAL INCOME TAX REVENUES *	363,180	71,248	320,969	351,387	1,716,550	-2,656,334	395,164	454,059	119,873	90,561
2. BUSINESS INCOME REVENUES	90,569	19,812	118,741	83,160	176,689	-568,134	124,314	117,361	-281,098	149,770
3. CAPITAL TAX REVENUES	16,361	3,272	24,387	17,959	56,134	-132,674	23,933	22,510	-192,570	30,097
4. GENERAL AND MISCELLANEOUS SALES TAXES *	96,250	24,314	64,227	107,316	488,058	-616,731	106,284	85,569	-424,095	-73,180
5. TOBACCO TAXES *	3,837	-2,056	-2,102	6,458	-61,524	36,601	9,101	11,362	-20,969	2,460
6. GASOLINE TAXES *	10,708	-1,078	-7,207	-8,835	138,881	-131,622	-1,417	1,253	-117,051	-7,094
7. DIESEL FUEL TAXES	11,297	3,102	5,166	-1,558	72,479	-23,713	-3,924	-31,619	-64,499	-13,223
8. NON-COMMERCIAL VEHICLE LICENCES *	8,195	203	8,047	4,180	40,918	-12,469	-3,206	1,940	-616	-27,183
9. COMMERCIAL VEHICLE LICENCES	2,512	911	1,393	-2,307	31,044	-30,013	-982	-3,625	-32,432	3,576
10. REVENUES FROM THE SALE OF SPIRITS *	-3,722	-28	-4,113	9,307	158,593	-93,762	-11,567	-12,039	-44,615	-41,226
11. REVENUES FROM THE SALE OF MINE *	8,506	1,624	6,823	8,631	-11,921	25,681	9,605	11,292	10,034	-34,657
12. REVENUES FROM THE SALE OF BEER *	-2,805	1,028	5,181	5,024	-588	-23,702	4,598	10,710	15,592	8,982
13. HOSPITAL & MEDICAL INSURANCE PREMIUMS *	4,082	705	2,211	3,532	-8,725	-9,079	5,512	8,251	2,450	4,041
14. RACE TRACK TAXES *	3,343	206	4,425	3,444	17,906	-27,469	1,949	4,776	82	2,839
15. FORESTRY REVENUES	14,582	5,139	32,453	-2,237	111,960	256,036	34,673	26,881	81,106	-429,520
16. NEW OIL REVENUES	0	0	0	0	0	0	0	0	0	0
17. NOMP OIL REVENUES	3,502	801	5,472	4,431	41,312	57,745	2,609	-97,642	-497,455	-4,023
18. OLD OIL REVENUES	1,853	424	2,895	2,342	21,859	30,720	93	-38,087	-511,940	-14,585
19. HEAVY OIL REVENUES	803	184	1,255	1,016	9,474	13,670	1,535	-29,061	-22,326	4,381
20. MINED OIL REVENUES	0	0	0	0	0	0	0	0	-26,564	0
21. DOMESTICALLY SOLD NATURAL GAS REVENUES	2,876	658	4,494	3,639	33,931	44,333	5,499	-32,707	-587,931	-51,057
22. EXPORTED NATURAL GAS REVENUES	1,557	356	2,433	1,970	18,368	26,503	2,977	2,759	-588,063	-50,606
23. SALES OF CROWN LEASES	2,154	493	3,365	2,725	25,407	35,061	3,111	-38,610	-413,032	-24,969
24. OTHER OIL AND GAS REVENUES	746	171	1,166	944	8,801	12,051	688	-14,025	-160,163	-7,525
25. MINERAL RESOURCES - IRON	-11,289	82	558	452	-8,092	4,881	682	632	f 1,545	1,896
26. MINERAL RESOURCES - URANIUM	1,186	271	1,862	1,500	13,985	-1,079	2,267	-21,641	5,131	6,468
27. MINERAL RESOURCES - ASBESTOS	-87	6	41	33	-481	451	51	47	115	-68
28. MINERAL RESOURCES - COAL	1,171	268	-363	1,071	13,817	19,936	2,239	-12,114	-9,562	-23,878
29. MINERAL RESOURCES - OTHER	4,042	1,492	6,665	-5,908	45,916	-19,045	-23,968	9,040	26,460	-11,943
30. POTASH REVENUES	1,839	421	2,873	-4,282	21,689	31,295	3,515	-66,530	7,958	10,030
31. WATER POWER RENTALS	-10,649	2,410	14,897	9,644	-113,734	125,039	-1,540	15,365	43,589	-25,130
32. INSURANCE PREMIUM REVENUES	8,804	1,590	8,585	4,215	5,381	-33,737	6,682	5,644	6,268	16,030
33. PAYROLL TAXES	39,343	9,453	35,068	38,571	119,097	-258,110	33,617	57,713	6,688	47,683
34. PROVINCIAL-LOCAL PROPERTY TAX REVENUES	188,048	40,467	187,307	188,010	603,634	-483,914	99,175	-6,917	-483,418	-211,979
35. LOTTERY REVENUES *	16,187	3,188	15,302	14,204	-24,729	12,943	12,732	16,329	22,632	-17,327
36. MISC. PROV.-LOCAL TAXES & REVENUES *	82,348	16,947	75,653	79,300	335,969	-478,472	77,293	71,860	-140,730	-6,650
37. SHARED REVENUES: OFFSHORE ACTIVITIES	0	0	0	0	0	0	0	-36,423	0	0
38. ENTITLEMENT ADJUSTMENT (2)	-20,557	-4,702	-32,121	-26,009	-242,512	0	-39,304	0	0	0
39. TOTAL EQUALIZATION ENTITLEMENTS	940,772	203,382	917,998	903,329	3,865,546	-4,865,113	884,051	484,283	-4,249,606	-697,009

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization - Second Estimate
1990-91

Major alterations were recommended and subsequently implemented as a result of a Parliamentary Task Force Report on Federal-Provincial Fiscal Arrangements (The Breau Report) conducted in 1981. The Breau Report was formulated for several reasons, a primary one being a restructuring of the equalization program in response to problems arising from unevenly distributed resource revenues.

THE TREATMENT OF RESOURCE REVENUES

The OPEC oil shocks in the 1970's and early 1980's generated massive revenues to the western Canadian oil producing provinces, particularly oil-rich Alberta. Under the Constitution, provinces command total ownership over their resources (Section 109) and can manage and sell those resources. Further, the federal government cannot tax provincially owned property (Section 125). The end result of these restrictions and the inclusion of Alberta's revenues in the national average was a massive increase in equalization entitlements as resource rents accruing to Alberta skyrocketed. The national average was pulled upward by the oil-producing provinces, and the discrepancy

in fiscal capacities between oil and non-oil producing provinces widened dramatically. Thus the obligations of the federal government vis-a-vis equalization increased substantially without any corresponding increase in federal revenues with which to finance these payments.

The situation was highlighted when, in 1979, Ontario qualified as a have-not province due to its massive positive entitlements under oil revenue categories in the equalization formula. Amendments introduced by Parliament prevented this from occurring by excluding any province, whose per capita income is above the national average in the current fiscal year and in the two previous years, from receiving equalization payments.

This override was viewed as appropriate on the grounds that Ontario was capable of providing adequate services without unduly burdensome taxation. However, it detracts from the fiscal equity goals of the equalization program. One province should not be singled out as ineligible for equalization payments that another province would receive in similar circumstances. As stated by the Economic Council of Canada:

"the fact that a province (such as Ontario) has traditionally been a "have" province under the

equalization formula is no justification for making arbitrary adjustments in the formula to exclude it when its relative fiscal position begins to deteriorate. (Financing Confederation: Today and Tomorrow (1982), p.34.)

The way in which oil revenues have been included in the equalization formula has changed significantly over time. The 1972 formula fully equalized "basic" oil revenues, while revenues resulting from the increasing world oil prices (additional revenues) were to be only one-third equalized. The 1977 modifications saw further changes to the treatment of nonrenewable resource revenues, with only 50 percent being included in equalization calculations. Also, equalization payments resulting from the natural resource categories could only comprise one third of any province's overall entitlement.

This treatment of nonrenewable resource revenues is in line with the recommendation made in the Breau Report that 40 per cent of oil revenues be included in the equalization formula. It also conforms to the Economic Council of Canada's narrow-based view of equity. In the narrow-based view, "the federal government should take as a starting point the level of real income attained by persons after

provincial fiscal systems are in place."¹¹ In other words, interprovincial fiscal imbalances are only partially compensated for by equalization payments, and Albertans are treated as the proper recipients of that provinces' resource rents.

A broad-based view of equity, on the other hand, would call for full equalization of unequally distributed resource rents, in order to ensure that individuals similar in circumstances prior to any government action, whether provincial or federal, are treated similarly.

THE 1982 REVISIONS

Revisions to the equalization scheme in 1982 included a return to the full equalization of resource revenues. Also, the Representative National Average Standard (RNAS) was replaced with the Representative Five Provinces Standard (RFPS), the five provinces being Quebec, Ontario, Manitoba, Saskatchewan, and British Columbia. Under the RFPS scheme, the poorer provinces are no longer equalized up to the national average, but instead are brought up to the five province average fiscal capacity. This

¹¹ Ibid., p.28.

considerably reduced the impact of resource rents on the growth in equalization payments by removing Alberta from calculations of the national average.

Finally, in 1982, a constraint was placed on growth in equalization entitlements. Total equalization payments can grow no faster over 1987-88 payments than the growth in provincial GNP in 1987. This restriction has been binding on some provinces in the past few years, and serves to diminish equalization transfers on an equal per capita basis.

Table 2.2 shows the entitlement adjustment due to growth in provincial GNP for 1990-91. For example, the equalization entitlement received by Newfoundland was reduced by \$20.7 million, or 2.2 per cent. This reduction reflects the fact that Newfoundland's GNP increased from 1987 to 1990 at a growth rate which exceeded that of the increase in the size of its equalization entitlements for the same period.

Table 2.3 shows entitlements using a national average standard compared to entitlements calculated under the five province standard for 1990-91. The reduction in equalization entitlements due to the use of the RFPS formula was significantly greater in every case than was

the reduction due to the provincial GNP growth rate. For example, Newfoundland would have received 6.4 per cent more, or \$1026.8 million, if the have-not provinces were equalized up to the national average rather than to the five province standard. Clearly, the switch to the RFPS standard has had the greater impact on the size of equalization entitlements.

TABLE 2.2
 ENTITLEMENT ADJUSTMENT DUE TO GROWTH OF PROVINCIAL GNP
 (\$ MILLIONS)
 1990-91

PROVINCE	CALCULATED ENTITLEMENT	ADJUSTMENT	ACTUAL ENTITLEMENT	DIFFERENCE (%)
NFLD	961.4	-20.7	940.7	2.2
PEI	208.1	-4.7	203.4	2.3
NS	950.1	-32.1	918.0	3.4
NB	929.3	-26.0	903.3	2.8
QUE	4108.1	-242.6	3865.5	5.9
ONT	0	0	0	0
MAN	923.4	-39.3	884.1	4.3
SASK	530.7	-36.4	494.3	6.9
ALTA	0	0	0	0
BC	0	0	0	0

Source: Federal-Provincial Relations Division
 Department of Finance
 Provincial Fiscal Equalization - Second Estimate
 1990-91

TABLE 2.3
 ENTITLEMENTS UNDER RFPS COMPARED TO
 ENTITLEMENTS USING A NATIONAL AVERAGE STANDARD
 (\$ MILLIONS)
 1990-91

PROVINCE	RFPS ENTITLEMENT	RNAS ENTITLEMENT	DIFFERENCE (%)
NFLD	961.4	1026.8	6.4
PEI	208.1	225.3	7.6
NS	950.1	1061.9	10.5
NB	929.3	1022.2	9.1
QUE	4108.1	4653.5	11.7
ONT	0	0	0
MAN	923.4	1077.9	14.3
SASK	530.7	677.9	21.7
ALTA	0	0	0
BC	0	0	0

Source: Federal-Provincial Relations Division
 Department of Finance
 Provincial Fiscal Equalization - Second Estimate
 1990-91

CHAPTER III

POLITICAL AND ECONOMIC ARGUMENTS FOR EQUALIZATION

There are a number of political and economic arguments used to justify an equalization program within a federal state.¹ Political arguments include what Courchene refers to as "federal and nationhood rationales"², as well as the decentralization of taxing powers. Economic justifications for the equalization program focus on efficiency and equity considerations.

POLITICAL ARGUMENTS

The federal rationale for equalization dates back to the Rowell-Sirois Commission's work, discussed in the previous chapter. The recommendation for unconditional National Adjustment Grants, from the Commission's perspective, was a means to ensure provincial autonomy in their constitutionally assigned expenditure areas. Any province was to be free to use this grant as the provincial government (and its residents) saw fit, with no federal intervention. The Commission's Report states:

¹ This section draws heavily on arguments made in T.J. Courchene. Equalization Payments: Past, Present and Future (1984), Chapter 4.

² Ibid., p.84.

If a province chooses to provide inferior services and impose lower taxation it is free to do so, or it may provide better services than the average if its people are willing to be taxed accordingly, or it may, for example, starve its roads and improve its education, or starve its education and improve its roads...(p.84)

Clearly, the federal rationale underlying equalization is simply to allow the provinces sufficient revenues to carry out their expenditure responsibilities as outlined in the Constitution, without dictating how these monies are actually spent.

The nationhood or unity rationale, while fairly close to the federal argument, leads to very different conclusions about the type of equalization required. While the Rowell-Sirois Commission was concerned with provincial autonomy, they also implicitly stressed the necessity for citizens in all provinces to have access to some minimum standard of public services. Returning to the Commission's Report:

[There is a] danger to national unity if the citizens of distressed provinces come to feel that their interests are completely disregarded by their more prosperous neighbours, and that those who have been full partners in better times now tell them they must get along as best they can and accept inferior educational and social services...(p.79)

The Report goes on to assert that "It is of national interest that no provincial government should be unduly

cramped [with respect to their expenditures on education, social services or development]" (p.80) The implication resulting from this concern for minimum national standards is a system of conditional equalization grants, directed explicitly toward these areas.

The types of equalization suggested by the two different approaches are inconsistent. However, the inconsistency can be accounted for if one looks at intergovernmental transfers in general, and not just equalization. Conditional transfers, such as the established programs financing (EPF), do in fact have equalizing implications even though that is not their intended objective. A broad-based view of equalization would include the effect of all intergovernmental transfers, and thereby suggests that the two approaches are complementary, rather than inconsistent.³

Although the Rowell-Sirois Report never advocated tax decentralization, the Royal Commission on Inquiry of Constitutional Problems (the Tremblay Report, 1956) argued that provincial autonomy in any meaningful sense required provincial fiscal or tax independence. Also, Quebec established its own personal income tax in 1954. These two

³ See Boadway (1992).

factors were instrumental in compelling Ottawa to decentralize taxation powers. However, this meant that provinces with larger per capita shares of personal and corporate income tax received larger per capita transfers through decentralization. The use of unconditional equalization payments was consistent with the fact that tax decentralization allowed the richer provinces to spend their revenues as they wished.

Courchene points out that equalization not only compensates the poorer provinces for tax decentralization; in fact it actually "permits the decentralization of the system of direct taxation in the federation."⁴ The poorer provinces would never have agreed to the demand of the richer provinces for increased autonomy without the protection of an equalizing system. This argument can be interpreted as suggesting that equalization not only aids the "have-not" provinces, it also allows the richer provinces considerable more fiscal autonomy than would otherwise be the case. In other words, equalization can be thought of as benefitting all the provinces, and not just those provinces that are recipients.

⁴ Ibid., p.92.

Finally, Courchene contends that "the nature of Canada's equalization programs, past and present, owes much more to 'political' rationales than it does to any notion of economic efficiency."⁵ The truth of this statement is evidenced by the similarities in the recommendations of the Rowell-Sirois Commission, and those of the Breau Report over forty years later. The Breau Report advocates that equalization payments be:

...direct, unconditional payments by the federal government to provincial governments...designed to be sufficient to guarantee that all provincial governments have the fiscal capacity to ensure comparable levels of public services at comparable levels of taxation. (p.54)

However, this does not preclude an investigation of the program's economic underpinnings. While equalization may largely be a political tool within the Canadian context, there are valid economic grounds for pursuing equalization. Understanding the economic basis for equalization allows the program to be evaluated within an objective framework, in terms of a well-defined, optimal scheme.

⁵ Ibid.

ECONOMIC ARGUMENTS

The conventional economic argument used to support the concept of equalization is that of achieving fiscal equity across provinces. The attainment of fiscal equity has both efficiency and equity connotations, with sometimes conflicting implications concerning the theoretically 'ideal' equalization scheme.

Tax bases differ across provinces, due to varying resource bases, industrial/corporate structures, geographical location, and the like. Differing tax bases result in differential net fiscal benefits, or NFBs, which are defined as "the difference between the value of public services received by individuals and the amount of taxes they pay in return."⁶ Because of differing NFBs across provinces, there will tend to be an inefficient allocation of resources across provinces. Factors productively located in the poorer provinces will be drawn to the higher-income provinces, and those factors already operating in the richer provinces will tend to remain, even though efficiency may call for them to move to a lower-income province. Equalization which redresses fiscal

⁶ R. Boadway and P. Hobson. Intergovernmental Fiscal Relations in Canada (1992) Chapter 3, p.16.

inequities across provinces can therefore increase overall efficiency.

First, consider the behaviour of a rational economic agent who attempts to maximize his or her income. If fiscal equity prevails across provinces, that is, if each province has a similar fiscal capacity, then individuals will move to the province in which they can hope to achieve the highest possible market income. In this case, resources will be efficiently allocated. Wages will be bid down in the higher-income provinces due to the increase in its labour supply, and wages will increase in the poorer provinces due to the labour outflow. This process will continue until the wage (or marginal productivity) is identical for all provinces.

However, if fiscal capacities differ across provinces, then individuals will compare not only their market incomes, but instead will consider their comprehensive incomes, or their market income plus net fiscal benefits.⁷ Since individuals will attempt to maximize their comprehensive incomes, labour will be attracted to a province with relatively high NFBs even if the market wage in each province is identical. In fact, individuals may

⁷ This argument assumes mobility costs are negligible.

migrate to a province in which the market wage is actually lower than the wage in their province of residence, provided the difference in NFBs is high enough to compensate for their drop in market income.⁸ This type of labour migration is referred to as 'fiscally induced' or rent seeking migration, and was first outlined in Boadway and Flatters (1981).

Assuming a well-functioning, perfectly competitive economy with negligible mobility costs, the migration of individuals will continue until marginal comprehensive incomes are equal across provinces. This means that marginal productivities (i.e. wage rates) will not be equal across provinces with differential NFBs, and hence there will be an inefficient allocation of resources. Therefore, efficiency dictates that NFBs across provinces be fully equalized.

⁸ Research undertaken by the Economic Council of Canada [Financing Confederation: Today and Tomorrow, (Ottawa: Minister of Supply and Services Canada, 1982) Appendix A.] illustrates that potential migrants, particularly lower and middle-income earners, do in fact consider differential NFBs in their migratory decisions. See also K. M. Day. 1992. "Interprovincial Migration and Local Public Goods". In Canadian Journal of Economics, Vol. XXV, No.1 (February, 1992) p.123-44.

The Economic Council of Canada (1982) breaks fiscal equity issues down into two areas, which the Council considers to be

the twin goals of government - namely, the reduction of inequalities in real income between individuals (vertical equity); and the reduction of disparities between provinces of persons in similar economic circumstances (horizontal equity). (p.26)

The existence of NFBs will cause both equity conditions to be violated. First, consider a system of taxation in which every individual, regardless of place of residence, pays taxes that exactly equal the benefits received from provincial government goods and services. Under this 'benefit' taxation scheme, differential NFBs are eliminated, as every individual receives identical (zero) NFBs.

Now consider the case of differential NFBs. Since persons are treated, for purposes of personal income tax and transfers calculations, on the basis of their market incomes alone and not their comprehensive or real income, horizontal equity will be violated. A person living in Alberta, for example, earning a lower wage than a Manitoba resident but having an identical comprehensive income due to higher NFBs, will pay less in personal income tax. This means that like individuals are not affected similarly by

the presence of government, and horizontal equity does not obtain.

Differential NFBs also affect vertical equity. Assume a progressive federal income tax and transfer system, which allows for the 'correct' amount of vertical equity (however defined). Because market and not comprehensive income is used, an important source of personal income is omitted from these computations, and the desired measure of vertical equity will not obtain. Full equalization of NFBs is therefore necessary for the attainment of both fiscal efficiency and equity.

Before proceeding to the causes of NFBs, it is worthwhile to discuss the broad-based and narrow-based views of equity as defined by the Economic Council of Canada (1982). As pointed out in Chapter I, the narrow-based view of equity simply calls for the federal government to treat individuals whose after- (provincial) tax incomes are the same in a similar manner. The broad-based view dictates that the federal government should redress the inequities created by the actions of the provincial governments. The choice of view adopted will have serious implications as to the type of equalization undertaken. The broad-based view would call for full

equalization of NFBs, and is therefore consistent with efficiency arguments supporting equalization.

Conversely, the narrow-based view would not call for the elimination of differential NFBs across province. Instead, it would simply impose the condition that the federal tax and transfer system include NFBs in their calculations. NFBs arising from the actions of provincial governments would be included in taxable incomes and taxed at the federal marginal tax rate. In this way, a net transfer would be effected from individuals in provinces with above average NFBs to residents in provinces with relatively low NFBs.

The type of equalization appropriate to the narrow-based view of equity is a program that

equalizes only a portion of the differences in fiscal benefits between provinces, with the proportion being determined by the overall marginal federal tax rate prevailing in each province. (Financing Confederation: Today and Tomorrow (1982), pp.28-29)

This is in conflict with the type of equalization demanded under either efficiency considerations or a broad-based view of equity. The question of which equity view is the 'correct' one is largely an ethical question. As well, it is partially subject to the constraints imposed under the British North America Act, which constitutionally

assigned resource ownership rights to the provinces. However, it is clear that the type of equalization called for under the broad-based view of equity corresponds to that demanded on efficiency grounds. In fact, narrow-based equity will actually reduce efficiency within the federation, assuming perfect mobility of labour.

The economic case for equalization is concerned with the elimination of differential provincial NFBs.⁹ Accordingly, the relevant sources of NFBs to consider are those that arise from the actions of provincial governments. The main factor resulting in fiscal imbalance across provinces is the unequal distribution of natural resources, combined with the fact that royalties from these resources are under provincial control and inaccessible to the federal government. Differential NFBs are created when these source-based taxes are utilized to finance provincial public expenditures.

Source-based taxes, such as corporate income, property and resource taxes, are imposed at an income's source. This type of tax can create NFBs in the following ways. Where ownership is not coincident with residence, those

⁹ Although the actions of the federal government are similarly capable of creating NFBs, they are less likely to be region or province specific, and are therefore not considered in an assessment of the equalization program.

paying the tax are not those with access to the public goods and services the taxes are funding. This will generate positive NFBs in the province where the tax is levied, since non-residents are in effect funding a portion of a province's public expenditures.

The provincial ownership of natural resources creates NFBs because the federal government cannot tax them, and economic rents accruing from resource properties are not distributed equally across provinces. A province possessing vast, profitable natural resources (such as Alberta) can finance a large portion of its public expenditures through resource royalties. This allows the province to either reduce its taxation of provincial residents, or alternatively, to provide higher-than-average public services. Both actions will create positive NFBs.

When considering source-based taxes, it is important to realize that any and all economic rents not evenly distributed throughout the federation will generate NFBs, and not just the immediately obvious oil revenues of the western provinces (Alberta in particular). For instance, the subsidization of Quebec hydro allows residents of that province to receive an implicit (and untaxed) transfer in the form of lower electricity prices. Hence, positive NFBs are created.

Even in the absence of source-based taxes, there is still the possibility for provincial fiscal inequity. Consider the case of public goods. Pure public goods are by definition non-congestible. If the same level of provision of public goods is provided across provinces, those provinces with larger populations can charge a lower per capita tax than those with smaller populations. This is so because the same price is spread over more people. This means that less-densely populated regions will have lower NFBs than more populous areas, other things being equal. While pure public goods are relatively rare, so-called 'quasi-public' goods are a more prevalent source of differential NFBs. Quasi-public goods are also consumed jointly, but unlike pure public goods are eventually congestible. Examples of this type of good include libraries, schools, parks, roads and the like.

Another factor which may precipitate differential NFBs is related to the persistence of regional disparities across provinces, though regional disparity does not itself create NFBs. Even if there is a wide discrepancy in provincial per capita incomes, and public services are less in one province than another so long as each resident is paying taxes equal in value to the amount of public

services received, there is no efficiency basis for equalization. In other words, no NFBs will be generated.

However, it is unrealistic to assume that each resident of each province will receive zero NFBs. Progressivity through the income tax system and provincial public expenditures on education, health services, and social assistance is a part of all provincial budgets. Wealth is redistributed from those with above-average incomes to those with below-average incomes. As pointed out by Boadway and Flatters (1981), two issues emerge from the redistributive nature of provincial budgets. The most obvious effect is that within a province individuals with above average incomes will receive lower NFBs than people with lower than average incomes. But also, at each income level, residents of a province in which the per capita income is above average will receive higher NFBs than those living in provinces with below-average per capita incomes.

The effect across provinces of redistributive provincial budgets is due to the fact that above average income levels, when taxed on a proportional basis, will yield above-average (per capita) revenues. This renders greater NFBs to all residents of the above-average income province than their counterparts receive in the poorer province.

The Constitutional assignment of resource-ownership rights to the provinces, in effect, precludes the full equalization of these revenues. If one takes a narrow-based view of equity, this fact is not of concern. However, from the assumption of perfect labour mobility, it follows that equalization based on a narrow view of equity will be detrimental to enhancing efficiency within the federation. This is so because labour will be attracted to any province which improves comprehensive income, and not just the market wage. Since narrowly defined equity allows for the continued existence of differential provincial NFBs, labour will be inefficiently allocated.

An equalization program that enhances broad-based equity and efficiency would fully equalize all revenue sources and equalize all provinces to a national average. Such an optimal or 'ideal' scheme would eliminate NFBs, by equalizing all provincial fiscal capacities. Such a program is described in the next chapter.

CHAPTER IV

AN 'IDEAL' EQUALIZATION SCHEME

This chapter will examine the mechanics underlying an 'ideal' equalization scheme, as mentioned in the previous chapter. The provincial net benefits, or net transfers through equalization, under an ideal, fully equalizing program will be compared to those under the existing program. As will be seen, there are substantial differences between the two.

OWN-SOURCE YIELDS

Comparing provincial own-source yields¹, it can be shown that there is a wide discrepancy in fiscal capacities across provinces. Table 4.1 gives the values of provincial own-source revenues as a percentage of the national average. Newfoundland and Prince Edward Island have significantly lower own-source revenue yields for each given year than any other province. For example, in 1987-88, Newfoundland had an own-source revenue yield only 60 per cent that of the national average, and PEI's revenues were 36 per cent less than the average. The rest

¹ Own source yields or revenues are calculated as the notional taxes collected by each province, applying the national average tax rate to the representative tax base in each province.

TABLE 1
 PROVINCIAL FISCAL CAPACITIES - OWN SOURCE REVENUES

YEAR	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC
1980-81	0.57	0.53	0.63	0.64	0.77	0.91	0.76	1.13	2.30	1.18
1981-82	0.57	0.54	0.66	0.64	0.77	0.94	0.78	1.09	2.20	1.11
1982-83	0.60	0.58	0.69	0.67	0.77	0.96	0.81	1.06	2.11	1.08
1983-84	0.59	0.60	0.71	0.67	0.78	0.97	0.81	1.08	2.04	1.06
1984-85	0.59	0.60	0.72	0.67	0.79	0.97	0.80	1.09	2.07	1.01
1985-86	0.58	0.60	0.72	0.67	0.80	1.00	0.81	1.03	1.94	1.00
1986-87	0.63	0.66	0.77	0.71	0.85	1.09	0.85	0.90	1.44	1.03
1987-88	0.60	0.64	0.76	0.71	0.85	1.08	0.80	0.90	1.46	1.04
1988-89	0.62	0.65	0.75	0.72	0.86	1.10	0.81	0.87	1.36	1.05
1989-90	0.63	0.64	0.75	0.71	0.86	1.11	0.79	0.84	1.31	1.07
1990-91	0.62	0.64	0.75	0.70	0.86	1.11	0.79	0.86	1.33	1.05
1991-92	0.63	0.65	0.76	0.71	0.86	1.09	0.80	0.87	1.34	1.05

Source: Federal-Provincial Relations Division
 Department of Finance
 Provincial Fiscal Equalization Estimates

of the have-nots ranged from 71 per cent to 90 per cent, while Alberta's fiscal capacity from its own sources was 46 per cent higher than the Canadian average.

When equalization payments are included, the range in provincial fiscal capacities decreases. Table 4.2 shows own-source revenues plus equalization payments². In 1987-88, Newfoundland, like the rest of the have-not provinces, is brought up to 92 per cent of the national average, and Alberta drops to 136 per cent.

Clearly, equalization does reduce the discrepancies in fiscal capacity across provinces. However, the fact that the fiscal capacities of the have-not provinces are increased to only 92 per cent of the national average while Alberta remains at 136 per cent illustrates the fact that the equalization program does not fully equalize NFBs. Those provinces with above average fiscal capacities are not brought down to the national average fiscal capacity. Also, the have-not provinces are not brought up to the

² In principle, all the recipient provinces should be brought up to the same level of fiscal capacity, as in, for example, 1991-92. However, because the yield figures are calculated using the 1987 redefinition of the bases, but the equalization figures are actual entitlements received, this equality is lost.

TABLE 2
 PROVINCIAL FISCAL CAPACITIES
 OWN SOURCE REVENUES PLUS EQUALIZATION

YEAR	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC
1980-81	0.81	0.82	0.83	0.83	0.85	0.85	0.86	1.07	2.14	1.10
1981-82	0.82	0.84	0.85	0.84	0.86	0.87	0.88	1.01	2.05	1.04
1982-83	0.85	0.88	0.88	0.87	0.87	0.89	0.90	0.99	1.96	1.00
1983-84	0.86	0.89	0.89	0.86	0.87	0.91	0.90	1.01	1.90	0.98
1984-85	0.86	0.88	0.89	0.86	0.88	0.91	0.88	1.02	1.93	0.94
1985-86	0.88	0.88	0.88	0.88	0.88	0.95	0.88	0.97	1.82	0.94
1986-87	0.92	0.92	0.92	0.92	0.92	1.02	0.92	0.92	1.35	0.96
1987-88	0.92	0.92	0.92	0.92	0.92	1.01	0.92	0.92	1.36	0.97
1988-89	0.92	0.92	0.91	0.92	0.92	1.03	0.92	0.92	1.28	0.99
1989-90	0.91	0.91	0.91	0.91	0.91	1.04	0.91	0.91	1.22	1.00
1990-91	0.91	0.91	0.91	0.91	0.91	1.04	0.91	0.91	1.25	0.99
1991-92	0.92	0.92	0.92	0.92	0.92	1.03	0.92	0.92	1.26	0.99

Source: Federal-Provincial Relations Division
 Department of Finance
 Provincial Fiscal Equalization Estimates

national average, but only to 92 per cent of the national average³.

SOURCES OF NFB DIFFERENTIALS ACROSS PROVINCES

Boadway (1991) lists five reasons that prevent our current equalization program from eliminating NFB differentials across provinces. First, the calculation of entitlements is based exclusively on deficiencies in provincial tax capacities, with no reference to need or cost differences in the provision of provincial public goods and services. If it costs British Columbia twice as much per kilometre to build and maintain highways through the Rockies as it costs Manitoba to provide roads across the Prairies, then this discrepancy in costs should be reflected in equalization calculations. In a similar manner, Manitoba could argue that their need for highways is greater than that of British Columbia due to their geographic location and economic conditions.⁴ The present

³ However, in 1990-91, for example, the have-not provinces are brought up to 98% of the national average before equalization.

⁴ This argument was taken from the Parliamentary Task Force on Federal-Provincial Arrangements, (1981), p.161.

equalization program incorporates neither of these concerns.⁵

Second, the fact that the have provinces are not brought down to the national average allows for the continued existence of above-average NFBs in those provinces. An equalization scheme that equalizes all provinces to the national average would eliminate those differences, by both increasing the revenues of the poorer provinces, as well as decreasing those of the richer provinces.⁶

Third, under the RFPS formula, the have-not provinces are only brought up to the five province standard as opposed to a national average. This prevents full equalization of net fiscal benefits, because the five province standard is below the national average standard. The positive effect created by the inclusion of Alberta would more than compensate for the negative effect of

⁵ While the complications involved in coming up with a uniform measurement of need or cost in the provision of public goods and services across provinces are admittedly numerous, there are some countries that attempt to capture these differences in their equalization programs. For example, Australia and India both have need and cost computations embodied in their equalization programs.

⁶ For example, the German system of equalization adopts a net approach. For a detailed discussion, see Courchene, 1984.

including the have-not provinces in the standard, even with only a portion of resource revenues being equalized.

Furthermore, equalizing to a five province standard means that while the oil and gas revenues of Alberta are not included in the revenues to be equalized up, revenues from these sources in the have-not provinces are fully equalized down.⁷

Boadway's fourth point also concerns natural resource revenues. Revenues from those natural resources that enter into the equalization formula are treated in an inequitable fashion. For example, no allowance is made for differing extraction costs faced in different provinces. Moreover, the rents from resources like timber and hydro-electricity are not equalized, as they are largely passed on to consumers in the form of artificially low prices.

Finally, persons receiving net transfers are not included in the equalization of personal income taxes. A province with a large number of transfer recipients will be unable to provide public services comparable to a

⁷ The Nova Scotia and Atlantic Accords both prevent the revenues generated by offshore development in Nova Scotia and Newfoundland from being fully included in equalization calculations. However, these are separate agreements outside of the equalization program.

province with relatively fewer non-taxpaying residents, other things being equal.

NATIONAL AVERAGE STANDARD VERSUS A FIVE PROVINCE STANDARD

Table 4.3 shows equalization entitlements under the RFPS standard and what they would have been under a national average standard for fiscal year 1987-88.

Per capita equalization entitlements under the RFPS formula are calculated as the difference between what would have been the per capita revenue yield in the representative five provinces if the national average rate had been applied to the base, and a province's potential revenue yield from applying the national average rate to the provincial base. If instead a national average standard was used, entitlements would increase substantially. This is largely due to the influence of Alberta's oil and gas revenues, which more than offset the effect of including the have-not provinces in equalization calculations.

Under RFPS, the entitlements of all the have-not provinces are decreased. For example, Newfoundland would have received a per capita entitlement of \$1491 under RNAS, while its entitlement under RFPS was only \$1419.

TABLE 4.3
 PER CAPITA ENTITLEMENTS AND FISCAL CAPACITY
 UNDER RNAS v. RFPS (\$ DOLLARS)
 1987-88

PROVINCE	RNAS ENTITLE- MENT	RFPS ENTITLE- MENT	OWN SOURCE PLUS RNAS	OWN SOURCE PLUS RFPS
NFLD	1491.00	1419.50	0.95	0.92
PEI	1352.97	1281.50	0.95	0.92
NS	906.24	834.70	0.95	0.92
NB	1086.46	1014.90	0.95	0.92
QUE	549.16	477.60	0.95	0.92
ONT	0	0	1.02	1.01
MAN	745.43	673.90	0.95	0.92
SASK	366.06	294.50	0.95	0.92
ALTA	0	0	1.38	1.36
BC	0	0	0.98	0.97
TOTAL	7368568	6642457	-	-

Source: Federal-Provincial Relations Division
 Department of Finance
 Provincial Fiscal Equalization Estimates

Columns three and four indicate the effect of each scheme on provincial fiscal capacities. Under the RFPS, the have-nots are only brought up to 92 per cent of the national average, whereas this figure increases to 95 per cent under the RNAS formula. Because the have-nots receive larger entitlements when they are brought up to a national average rather than the five province standard, the relative position of the have provinces deteriorates. Alberta falls from 38 per cent above the national average under RFPS to 36 per cent above the national average under RNAS.

The replacement of a national average standard in 1982 with the RFPS formula reduced the capacity of the equalization program to create a fiscal balance across provinces. But elimination of differential provincial NFBs was not the objective of the equalization program. As stated by the Breau Report:

Equalization is not designed to bring the fiscal capacity of all provinces to the same level. Instead, it is designed to bring all provinces to a national average fiscal capacity, without suggesting that some provinces should not exceed that average. (p.57)

From the arguments developed in the last chapter, however, it is apparent that full equalization of NFBs is called for. The switch to an RFPS formula moved the

equalization program further away from that called for on efficiency and broad-based equity grounds, and as well as from attaining national average fiscal capacities in the have-not provinces.

AN IDEAL SCHEME

The RFPS approach to equalization was adopted as a means of curbing the rapid growth in entitlements due to the equalization of resource revenues under the RNAS formula in place prior to 1982. This was in spite of the fact that oil and gas revenues were only partially equalized under that formula. And while resource revenues were to be fully equalized under the RFPS formula, the standard for equalization excluded Alberta.

Operated as a gross scheme, an RNAS formula that fully equalized resource revenues would result in significant increases in entitlements for recipient provinces, as well as additional expenditure obligations for the federal government. However, this latter problem would not exist if the program were operated as a net scheme - that is, if equalization were operated under the ideal formula described in the previous chapter. This calls for a reduction in the have provinces' fiscal capacities, as well as an increase in the fiscal capacities of the have-nots.

An equalization program run under this type of system could then be self-funding: the transfers from provinces with above-average fiscal capacities would be exactly equal to the entitlements owing to the poorer provinces. Equalization would then be funded directly out of provincial funds, rather than from general federal revenues. In this way, the size of equalization payments as a result of fully equalized resource revenues would not be an issue for the federal government.

As outlined in Chapter I, the enormous economic rents accruing to Alberta during the 1980s oil shocks generated massive increases in equalization payments. If equalization were operated as a net scheme, this would not have presented a problem, as entitlements would be exactly offset by the growth in revenues. Under the actual gross scheme, where entitlements are funded out of the federal government's general revenues, there was no corresponding growth in revenues to match the increasing entitlements.

The calculations involved in devising a net scheme⁸ are as follows:

$$([\text{POPULATION} * \text{TOTAL}] - \text{OWN}) = \text{EQUALIZATION}$$

$$\text{SHARE} \quad \text{REVENUES} \quad \text{REVENUES} \quad \text{ENTITLEMENT}$$

⁸ See Appendix A.

First, each provincial population is represented as a percentage of the national population. Next, provincial own-source revenues are summed across all provinces. Multiplying these two amounts gives the provincial revenues that are required for any particular province to be at the national average. Subtracting provincial own-source revenues from this product then gives the equalization entitlement.

A positive entitlement reflects the amount needed to bring a province's own-source revenues up to its national average revenue share. Conversely, a negative entitlement represents the amount to be deducted from a province in order to equalize its own-source revenues down to the national average.

The per capita entitlements generated under such a program for fiscal year 1980-81 are compared to actual entitlements received⁹ in Table 4.4. Under a fully equalizing RNAS scheme, Ontario would have been an equalization recipient of \$193.85 per capita. Saskatchewan, which received a per capita entitlement of

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Equalization entitlements under an actual and net scheme are compared for selected years in Appendix C.

TABLE 4.3
 PER CAPITA ENTITLEMENTS AND FISCAL CAPACITY
 UNDER RNAS v. RFPS (\$ DOLLARS)
 1987-88

PROVINCE	RNAS ENTITLE- MENT	RFPS ENTITLE- MENT	OWN SOURCE PLUS RNAS	OWN SOURCE PLUS RFPS
NFLD	1491.00	1419.50	0.95	0.92
PEI	1352.97	1281.50	0.95	0.92
NS	906.24	834.70	0.95	0.92
NB	1086.46	1014.90	0.95	0.92
QUE	549.16	477.60	0.95	0.92
ONT	0	0	1.01	1.02
MAN	745.43	673.90	0.95	0.92
SASK	366.06	294.50	0.95	0.92
ALTA	0	0	1.36	1.38
BC	0	0	0.97	0.98
TOTAL	7368568	6642457	-	-

Source: Federal-Provincial Relations Division
 Department of Finance
 Provincial Fiscal Equalization Estimates

\$30.90 under actual RNAS, has an above average fiscal capacity under the fully equalizing net program, and would have been equalized down by \$288.90 per capita.

Under the existing formula, Ontario is a have province. Even when Ontario became a have-not province under the actual RNAS, it was excluded from collecting equalization by the personal income override. Further, Ontario's qualification under the RNAS formula precipitated the change to the RFPS formula, in order to prevent the situation from recurring, as described in Chapter I. However, efficiency and broad-based equity arguments indicate that a province exhibiting below-average fiscal capacity should receive equalization payments, regardless of its 'traditional' fiscal position in relation to the other provinces.

NET FISCAL TRANSFERS THROUGH EQUALIZATION

The net effect on individual provinces will vary widely, depending upon which equalization program is implemented. Under actual equalization, Ontario bears a disproportionate share of the redistribution to the have not provinces. This is a reflection of the less than full equalization of western oil revenues.

Net fiscal transfers¹⁰ from gross equalization accruing to any province are calculated¹¹ as follows:

$$\begin{array}{rclcl} \text{NET} & = & \text{ENTITLEMENT} & - & [\text{SHARE OF}] & [\text{COST OF}] \\ \text{BENEFITS} & & \text{RECEIVED} & & \text{FEDERAL TAX} & \text{PROGRAM} \end{array}$$

The share of federal tax is the percentage of total federal taxes obtained from a particular province. This represents the provinces' contribution toward funding a gross equalization program, as it is funded out of general (federal) revenues. The cost of the program is the sum of all positive equalization entitlements. The net benefit, or net fiscal transfer through equalization, may be negative or positive, depending on whether a particular province receives a relatively smaller or larger entitlement than what it pays toward financing the equalization program.

Under a scheme that fully equalizes all revenue sources, or an 'ideal' scheme, the net benefit accruing to each province is equal to the size of the entitlement that would bring the provincial fiscal capacity up or down to

¹⁰ The method of calculating the net benefits derived from equalization is taken from B. Reid and T. Snodden (1991)

¹¹ See Appendix B.

the national average. For those provinces with above-average fiscal capacity, the net benefit will be negative, as funds are redistributed away from them to those with below-average fiscal capacity. Provinces with below-average fiscal capacity will be entitlement recipients, and thus their net benefits will be positive.

The net provincial fiscal transfer from equalization under the actual equalization program is calculated in Table 4.5. The first column shows actual entitlements for 1980-81. In the second column, the provincial contribution to funding the cost of the equalization program through federal taxes is computed. The third column illustrates the net benefit, or net fiscal transfer from equalization, derived by each province. The numbers clearly indicate that Ontario is the biggest loser, contributing far in excess of any other province, including resource rich Alberta.

Table 4.6 compares the net benefits conferred under the actual equalization scheme, and a fully equalizing, net program. There are substantial differences between the two schemes. All the have-not provinces receive higher fiscal transfers from equalization under the fully equalizing net scheme. This is largely due to the full equalization of oil revenues, and also because federal taxes fall since

TABLE 4.5
 NET BENEFITS FROM EQUALIZATION (ACTUAL)
 (\$ MILLIONS)
 1980-81

PROVINCE	ENTITLEMENT	CONTRIBUTION TO PROGRAM COST	NET BENEFIT
NFLD	363.8	33.1	330.7
PEI	91.9	8.6	83.3
NS	468.7	94.0	374.7
NB	370.4	68.7	301.7
QUE	2034.9	796.2	1238.7
ONT	0	1543.2	-1543.2
MAN	368.1	117.9	250.2
SASK	29.6	137.0	-107.2
ALTA	0	473.5	-473.5
BC	0	438.6	-438.6

Source: Federal-Provincial Relations Division
 Department of Finance
 Provincial Fiscal Equalization Estimates

TABLE 4.6
NET BENEFITS UNDER ACTUAL EQUALIZATION v.
NET BENEFITS UNDER FULLY EQUALIZING NET EQUALIZATION
(\$ MILLIONS)
1980-81

PROVINCE	NET BENEFITS - ACTUAL	NET BENEFITS - NET
NFLD	330.7	526.6
PEI	83.9	123.3
NS	374.7	666.9
NB	301.7	533.4
QUE	1238.7	3223.3
ONT	-1543.2	1661.2
MAN	250.2	537.0
SASK	107.2	-277.2
ALTA	-473.5	-5981.8
BC	-438.6	-1012.7

Alberta is 'paying its share'. Ontario received a negative net fiscal transfer in 1980-81 of \$1543.2 million, while a net scheme with full equalization would have yielded a positive fiscal transfer of \$1661.2 million¹².

The large negative fiscal transfer to Ontario is directly attributable to the inability of the federal government to access western oil revenues. Under the actual RNAS program prevailing in 1980-81, basic oil revenues were only 50 per cent equalized, and just one-third of additional oil revenues were included in equalization calculations. However, the massive increases in Alberta's fiscal capacity substantially increased the national average to which all provinces were to be raised. Because equalization is funded out of general federal revenues, and Ontario traditionally contributes about 40 per cent of all federal receipts, that province bears the largest financial burden under this type of scheme. The situation is substantially changed under a fully equalizing RNAS scheme. Alberta's (net) contribution toward the funding of equalization increases by over 600% under this type of scheme. The actual RNAS program confers a negative

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Similar computations for selected years can be found in Appendix D.

fiscal transfer to that province of only \$923.72 million, while full RNAS equalization yields a significantly larger negative fiscal transfer of \$5981.80 million.

NET REDISTRIBUTION THROUGH NATURAL RESOURCE POLICIES

As noted earlier, equalization is not the only equalizing intergovernmental transfer, although it is the only transfer program whose specific mandate is in fact to equalize fiscal capacities. Any government action, federal or provincial, which redistributes revenues from the wealthier provinces to the have nots will obviously equalize.

One such program was the National Energy Program (NEP), which had the effect of causing a massive implicit redistribution of oil and gas rents. This resulted largely from the establishment of a domestic price for oil and gas below world levels with a subsidy paid on imported oil. The benefits of this accrued largely to non-producing provinces, particularly Ontario and Quebec. The costs included the forgone rents in Alberta as well as the direct cost of the subsidy.

As would be expected, the NEP was met with heavy criticism by the western provinces. It can be shown that the NEP did in fact 'over-equalize' oil revenues; if oil

revenues had instead been fully equalized under a net RNAS program, the cost to Alberta would have been significantly less.

Table 7 is taken from a study carried out by the Economic Council of Canada (1981). It illustrates the magnitude of the redistribution effected through government policies and programs, with respect to economic rents accruing from resource revenues. Government action to redistribute resource rents includes taxation and price ceilings, such as those imposed under the NEP; as well as resource contracts, and the equalization program itself.

The total rents column indicates the actual resource rents derived from a particular province. The importance of oil rents is represented in the significant resource rents originating in Alberta. Interprovincial redistribution is measured in the next two columns. Ontario clearly bears the largest portion of resource rent redistribution through equalization. At \$431 million, it's contribution is almost four times that of Alberta's. Alberta's contribution is equivalent to that of British Columbia, at about \$114 million:

However, the next column, indicating redistribution effected through uncollected rents, illustrates among other things the strong redistributive effect of the NEP.

\$12602.3 million was redistributed from Alberta to the other provinces. This represents over half of that province's total rents, as is shown in the final column of the table. Alberta's net share of Canadian resource rents falls to less than \$8000 million.

Table 7 makes very clear the fact that while Ontario bears the largest explicit cost of redistribution, as its large negative transfer through equalization implies, Alberta made significant implicit contributions toward redistribution through the sharing of resource rents, mainly as the result of the NEP.

While the NEP was the main source of redistribution of resource rents across provinces, column three indicates that Newfoundland also had its provincial share of resource rents greatly reduced through uncollected rents. This is due to the uncollected rents on the interprovincial sale of Newfoundland's substantial hydro-electricity resources.

Table 8 illustrates the net fiscal transfers from equalization across provinces under the actual RNAS formula plus government resource revenue redistribution for fiscal year 1980-81. Comparing this broad-based equalization with a fully equalizing net scheme, it becomes apparent that the oil-poor provinces were all overcompensated by the NEP,

TABLE 4.8
NET BENEFITS UNDER ACTUAL EQUALIZATION WITH RESOURCE RENT
REDISTRIBUTION v. NET BENEFITS UNDER FULLY EQUALIZING NET
EQUALIZATION (\$ MILLIONS)
1980-81

PROVINCE	ACTUAL PLUS RESOURCES	NET SCHEME
NFLD	108.2	526.6
PEI	145.7	123.3
NS	1066.8	666.9
NB	1035.4	533.4
QUE	5281.6	3223.3
ONT	4787.4	1661.2
MAN	-755.6	537.0
SASK	-638.7	-277.2
ALTA	-13705.8	-5981.8
BC	533.3	-1012.7

with the exception of Newfoundland.¹³ Under the gross scheme plus NEP, Ontario received a positive fiscal transfer of \$4787.4 million, while full equalization would only have yielded \$1661.20 million to that province.

Furthermore, the oil-rich provinces had their fiscal capacities reduced by an inordinately large amount under the NEP. Most dramatic is the case of Alberta, which realized a negative fiscal transfer of \$13705.8 million, over two times the amount (\$5981.80 million) called for on efficiency grounds. Saskatchewan also experienced a reduction in fiscal capacity over twice that justified by an efficiency argument.

When equalization is broadly defined to include the redistribution of resource revenues, it becomes evident that Alberta does in fact contribute significantly. Further, the burden of equalization borne by Ontario is greatly reduced when resource rent redistribution is considered.

Clearly, a net RNAS scheme, with full equalization of all revenue sources, would confer the largest negative fiscal effect on the province of Alberta. However, when

¹³ This is due to the fact that Newfoundland has substantial resource revenues in the form of hydroelectricity.

the effect of government programs such as the NEP are included, it becomes evident that Alberta paid substantially more towards the interprovincial redistribution of revenues than appears to be the case when considering only the formal equalization program. Indeed, full equalization of resource revenues, which would eliminate the need for any other resource rent redistribution programs, would actually cost Alberta significantly less.

CHAPTER VCONCLUSION

The previous chapter explored the operation of an optimal equalization formula under which all provincial revenue sources - including natural resource revenues - are equalized to a national average standard. Because of the substantial negative entitlements of the oil-producing provinces under such a program, it would be expected that vociferous objections would be raised by that group. However, there are criticisms advanced against the initiation of such a scheme from other areas as well. For example, in the Breau Report the Commission states:

...it is necessary to reaffirm federal responsibility for interpersonal and inter-regional redistribution. We do not consider this role one that can appropriately be assumed by provincial governments. (Task Force on Federal-Provincial Arrangements (1981), p.169)

Similarly, in the Royal Commission Report on the Economic Union and Development Prospects for Canada (1985), the MacDonald Commission recommends that "the federal government retain primary responsibility for operating the equalization program" (p.195), even though it admits that greater provincial responsibility is attractive in some respects. The Commission outlines two alternate program designs that would increase involvement of the provinces.

The first is similar to that described in Chapter IV, where the provinces take full responsibility for operation of the equalization scheme. Under the second option, equalization responsibilities are divided between the two levels of government. The federal government would continue to be responsible for the equalization of all revenue sources with the exception of resource revenues. Federal equalization could then be run as a net scheme funded out of general revenues, as the removal of the resource categories would prevent entitlements from escalating more rapidly than available funds. This is so because the federal government would no longer be responsible for equalizing a revenue source from which it cannot itself acquire revenues.

The provinces would be responsible for equalization under the resource categories. This would seem appropriate, as control of resources is under provincial control. Again, the provincial segment of the program would operate as a net scheme, into which those provinces with above-average resource revenues would contribute, and from which the resource poor provinces would draw.

The MacDonald Commission rejects both of these alternate designs on two conditions:

There is no evidence, first of all, that the provinces would be willing to play the more prominent role required by the other two models... Resource-rich provinces considered that such a scheme would deprive them of their rightful revenues; resource-poor provinces did not wish to be dependent on the goodwill of the more advantaged. More important, both schemes would deny the federal government of some or all of its traditional redistributive role in the federation. (p. 195)

Although the Commission rejects the net type of equalization program, its proposals reflect a commitment to the enhancement of efficiency within the federation. For example, its Report includes recommendations to incorporate implicit rents from resource revenues into entitlement calculations, as well as a consideration of fiscal need. Further, it advocates a return to a national average standard as opposed to a five province standard.

The chance that the responsibility for equalization, either in whole or in part, will soon be transferred to the provinces is remote at best. Therefore, the next best alternative would be an adoption of MacDonald Commission type proposals that serve to reduce the range of interprovincial net fiscal benefits.

APPENDIX A

POPULATION SHARES BY PROVINCE
1972-73 TO 1991-92

	NFLD	FEI	NS	NB	QUE
1972-73	0.02437	0.00518	0.03654	0.02944	0.27839
1973-74	0.02444	0.00519	0.03659	0.02944	0.27853
1974-75	0.02428	0.00517	0.03638	0.02930	0.27451
1975-76	0.02426	0.00517	0.03621	0.02939	0.27299
1976-77	0.02432	0.00516	0.03614	0.02954	0.27191
1977-78	0.02412	0.00514	0.03591	0.02948	0.27077
1978-79	0.02394	0.00516	0.03571	0.02934	0.26875
1979-80	0.04759	0.00515	0.03555	0.02922	0.26768
1980-81	0.02359	0.00512	0.03525	0.02900	0.26636
1981-82	0.02339	0.00505	0.03491	0.02869	0.26524
1982-83	0.02315	0.00500	0.03468	0.02846	0.26383
1983-84	0.02321	0.00501	0.03472	0.02852	0.26236
1984-85	0.02312	0.00503	0.03477	0.02852	0.26125
1985-86	0.02278	0.00502	0.03472	0.02829	0.25963
1986-87	0.02248	0.00501	0.03454	0.02810	0.25873
1987-88	0.02224	0.00498	0.03438	0.02789	0.25812
1988-89	0.02202	0.00497	0.03414	0.02765	0.25708
1989-90	0.02184	0.00497	0.03388	0.02749	0.25596
1990-91	0.02162	0.00492	0.03364	0.02731	0.25514
1991-92	0.02128	0.00483	0.03323	0.02685	0.25253

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization Estimates.

POPULATION SHARES BY PROVINCE
1972-73 TO 1991-92 CONT'D

	ONT	MAN	SASK	ALTA	BC
1972-73	0.35916	0.04558	0.04203	0.07622	0.10308
1973-74	0.35977	0.04532	0.04115	0.07686	0.10474
1974-75	0.36111	0.04517	0.04034	0.07722	0.10652
1975-76	0.36105	0.04478	0.04009	0.07857	0.10750
1976-77	0.36045	0.04455	0.04018	0.08016	0.10758
1977-78	0.35992	0.04427	0.04028	0.08242	0.10770
1978-79	0.35988	0.04401	0.04023	0.08456	0.10841
1979-80	0.35899	0.04341	0.04017	0.08669	0.10935
1980-81	0.35743	0.04275	0.04002	0.08928	0.11120
1981-82	0.35532	0.04228	0.03989	0.09218	0.11306
1982-83	0.35488	0.04212	0.03986	0.09440	0.11364
1983-84	0.35566	0.04224	0.04004	0.09457	0.11367
1984-85	0.35695	0.04226	0.04019	0.09381	0.11408
1985-86	0.35896	0.04241	0.04019	0.09360	0.11439
1986-87	0.36053	0.04238	0.03996	0.09397	0.11430
1987-88	0.36275	0.04225	0.03977	0.09309	0.11452
1988-89	0.36510	0.04197	0.03923	0.09247	0.11537
1989-90	0.36637	0.04149	0.03853	0.09268	0.11678
1990-91	0.36716	0.04112	0.03774	0.09319	0.11816
1991-92	0.37132	0.04074	0.03714	0.09350	0.11857

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization Estimates.

OWN REVENUES (\$ THOUSANDS)
1972-73 TO 1991-92

	NFLD	PEI	NS	NB	QUE
1972-73	250478	51960	437917	344019	3920286
1973-74	291772	60763	493252	393498	4438156
1974-75	354964	70717	571841	472190	5208349
1975-76	377645	77731	624680	519568	5694672
1976-77	439283	91698	728272	605418	6808765
1977-78	505486	107201	848569	703768	7878198
1978-79	559797	120482	964304	762263	8801019
1979-80	630685	131117	1046757	902829	9489680
1980-81	691633	141250	1153395	964483	10531895
1981-82	796582	163043	1363044	1102321	12149428
1982-83	886562	185557	1533988	1210287	12943958
1983-84	964079	212282	1743765	1339811	14365295
1984-85	1029451	229947	1904008	1442945	15614320
1985-86	1077769	247584	2041645	1546374	17002298
1986-87	1201950	280975	2268395	1706958	18688770
1987-88	1278001	306238	2497388	1888847	21196299
1988-89	1478604	347896	2767403	2143541	23713436
1989-90	1602606	374752	2968768	2284149	25740771
1990-91	1705804	396542	3190091	2429992	27594987
1991-92	1757600	409012	3291678	2504207	28485405

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization Estimates

OWN REVENUES (\$THOUSANDS)
1972-73 TO 1991-92 CONT'D

	ONT	MAN	SASK	ALTA	BC
1972-73	6511309	678120	606337	1674264	2068759
1973-74	7351433	754750	698960	2066424	2498027
1974-75	8638259	898884	981887	3292852	2894006
1975-76	9280856	979575	1171369	4231650	3127063
1976-77	10855970	1147457	1320438	4909626	3712742
1977-78	12520299	1291104	1528130	6675816	4537709
1978-79	13911333	1413639	1797392	7801307	5173560
1979-80	15065598	1511221	1951411	9219332	6039188
1980-81	16797331	1670537	2343641	10592517	6755121
1981-82	19871273	1972779	2586729	12067267	7506246
1982-83	21711591	2180755	2705314	12728591	7820413
1983-84	24416952	2403313	3060257	13637368	8475995
1984-85	26406361	2555955	3340222	14760920	8735066
1985-86	29461945	2795294	3396167	14809086	9322760
1986-87	33382514	3071747	3056295	11537018	10011085
1987-88	37757639	3265920	3476594	12953429	11457288
1988-89	43194825	3645350	3681570	13580709	13067742
1989-90	47671995	3839400	3778329	14147614	14554083
1990-91	51483089	4119719	4092428	15669683	15713406
1991-92	53246899	4267306	4245946	16464093	16288300

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization Estimates

TOTAL REVENUES
1972-73 TO 1991-92

1972-73	16543449
1973-74	19047035
1974-75	23383949
1975-76	26084809
1976-77	30619669
1977-78	36596280
1978-79	41305096
1979-80	45987818
1980-81	51641803
1981-82	59578712
1982-83	63907016
1983-84	70619117
1984-85	76019195
1985-86	81700922
1986-87	85205707
1987-88	96077643
1988-89	1.1E+08
1989-90	1.2E+08
1990-91	1.3E+08
1991-92	1.3E+08

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization Estimates

ENTITLEMENT UNDER A NET SCHEME
WITH FULL EQUALIZATION
(\$ MILLIONS)

	NFLD	PEI	NS	NB	QUE
1972-73	152.7	33.7	166.6	143.0	685.3
1973-74	173.7	38.0	203.6	167.2	828.9
1974-75	212.8	50.1	279.0	213.1	1210.8
1975-76	255.2	57.2	319.7	247.0	1426.2
1976-77	305.5	66.1	378.3	299.0	1517.1
1977-78	377.2	80.9	465.6	375.0	2030.9
1978-79	429.2	92.6	510.8	449.7	2299.6
1979-80	463.6	105.8	588.0	440.8	2820.3
1980-81	526.6	123.3	666.9	533.4	3223.3
1981-82	596.8	137.6	716.8	606.9	3653.1
1982-83	592.7	133.7	682.1	608.2	3916.4
1983-84	675.2	141.5	708.1	674.3	4162.3
1984-85	728.4	152.1	739.3	725.5	4245.9
1985-86	783.2	162.7	794.6	765.3	4210.0
1986-87	713.8	145.9	674.9	687.7	3356.5
1987-88	859.0	172.6	805.4	790.6	3603.3
1988-89	891.1	187.5	906.8	832.4	3953.5
1989-90	951.9	206.8	994.4	930.6	4197.4
1990-91	1026.8	225.3	1061.9	1022.2	4653.5
1991-92	1029.8	224.1	1060.7	1011.9	4585.4

ENTITLEMENT UNDER A NET SCHEME
WITH FULL EQUALIZATION
(\$ MILLIONS)

	ONT	MAN	SASK	ALTA	BC
1972-73	-569.5	76.0	89.0	-413.4	-363.5
1973-74	-498.9	108.4	84.7	-602.6	-503.1
1974-75	-194.1	157.4	-38.6	-1487.0	-403.3
1975-76	137.0	188.5	-125.7	-2182.3	-323.0
1976-77	181.0	216.7	-90.1	-2455.0	-418.7
1977-78	651.5	329.0	-53.9	-3659.7	-596.5
1978-79	953.6	404.1	-135.6	-4308.4	-695.7
1979-80	1443.8	485.1	-104.0	-5232.8	-1010.6
1980-81	1661.2	537.0	-277.2	-5981.8	-1012.7
1981-82	1298.3	545.9	-210.1	-6575.0	-770.3
1982-83	967.5	511.0	-157.7	-6695.9	-558.0
1983-84	699.4	579.6	-232.5	-6959.3	-448.6
1984-85	729.0	656.9	-284.8	-7629.3	-62.9
1985-86	-134.3	669.4	-112.5	-7161.6	-94.3
1986-87	-2663.6	539.0	348.8	-3530.6	-272.4
1987-88	-2905.2	793.0	344.6	-4009.2	-454.2
1988-89	-3902.9	871.2	540.9	-3628.9	-651.6
1989-90	-4820.2	1013.6	728.0	-3307.9	-894.7
1990-91	-5075.7	1077.9	677.9	-3891.4	-778.5
1991-92	-4618.2	1068.6	618.0	-4219.6	-760.8

ACTUAL ENTITLEMENTS
(\$ MILLIONS)

	NFLD	PEI	NS	NB	QUE
1972-73	113.7	25.1	123.9	103.2	534.3
1973-74	156.0	33.3	186.0	146.3	737.1
1974-75	174.7	42.5	232.0	168.5	918.4
1975-76	189.1	47.7	252.0	187.4	1049.4
1976-77	229.2	54.4	298.1	232.4	1062.9
1977-78	278.1	62.9	342.1	273.3	1322.0
1978-79	321.2	71.6	375.4	331.3	1482.8
1979-80	344.2	80.8	427.5	310.3	1766.2
1980-81	363.8	91.9	468.7	370.4	2034.9
1981-82	426.8	107.0	527.6	445.2	2489.9
1982-83	463.9	118.0	574.0	488.0	2782.0
1983-84	539.5	125.3	605.0	516.8	2976.6
1984-85	578.4	129.0	620.4	540.5	3074.0
1985-86	653.2	134.0	596.4	603.8	2727.9
1986-87	677.7	137.9	619.5	642.6	2941.6
1987-88	806.4	163.1	732.9	722.9	3148.8
1988-89	843.6	176.7	833.1	772.7	3398.4
1989-90	889.9	192.7	898.4	852.7	3471.7
1990-91	946.3	207.0	936.7	920.6	3704.1
1991-92	971.8	210.9	970.3	938.9	3898.8

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization Estimates

ACTUAL ENTITLEMENTS
(\$ MILLIONS) CONT'D

	ONT	MAN	SASK	ALTA	BC
1972-73	0.0	68.1	102.0	0.0	0.0
1973-74	0.0	112.6	116.2	0.0	0.0
1974-75	0.0	124.5	50.6	0.0	0.0
1975-76	0.0	150.8	0.0	0.0	0.0
1976-77	0.0	158.3	10.4	0.0	0.0
1977-78	0.0	236.5	58.2	0.0	0.0
1978-79	0.0	291.7	32.7	0.0	0.0
1979-80	0.0	343.5	73.5	0.0	0.0
1980-81	0.0	368.1	29.6	0.0	0.0
1981-82	0.0	398.6	0.0	0.0	0.0
1982-83	0.0	439.1	0.0	0.0	0.0
1983-84	0.0	466.1	0.0	0.0	0.0
1984-85	0.0	479.6	0.0	0.0	0.0
1985-86	0.0	427.3	0.0	0.0	0.0
1986-87	0.0	471.1	284.7	0.0	0.0
1987-88	0.0	727.1	299.2	0.0	0.0
1988-89	0.0	780.6	456.2	0.0	0.0
1989-90	0.0	896.0	618.8	0.0	0.0
1990-91	0.0	924.9	537.5	0.0	0.0
1991-92	0.0	957.7	517.0	0.0	0.0

Source: Federal-Provincial Relations Division
Department of Finance
Provincial Fiscal Equalization Estimates

APPENDIX B

NET BENEFITS UNDER
ACTUAL EQUALIZATION
1972-73 TO 1989-90

	NFLD	PÉI	NS	NB	QUE
1972-73	103.84	22.96	95.67	84.66	282.33
1973-74	142.82	30.56	147.57	121.92	405.08
1974-75	159.75	38.81	189.18	140.33	555.32
1975-76	172.58	42.91	202.52	154.89	651.74
1976-77	210.11	49.19	242.71	196.53	618.06
1977-78	254.81	56.55	272.60	229.04	754.48
1978-79	295.43	64.68	298.70	280.51	846.71
1979-80	313.89	72.91	341.02	249.93	1051.66
1980-81	330.52	82.98	372.46	300.98	1240.90
1981-82	386.16	96.42	416.63	359.78	1603.41
1982-83	418.19	105.28	446.80	405.07	1866.52
1983-84	489.89	111.38	465.78	425.71	1923.58
1984-85	526.68	114.25	471.25	447.54	1955.25
1985-86	603.49	120.17	457.67	513.96	1650.44
1986-87	620.00	120.20	458.38	533.10	1684.54
1987-88	738.80	143.66	546.53	596.49	1735.73
1988-89	769.75	154.91	628.35	633.50	1831.27
1989-90	810.11	169.78	682.42	704.31	1807.35

NET BENEFITS UNDER
ACTUAL EQUALIZATION
1972-73 TO 1989-90

	ONT	MAN	SASK	ALTA	BC
1972-73	-503.36	29.06	77.69	-73.93	-117.73
1973-74	-681.44	60.37	77.49	-129.16	-168.00
1974-75	-737.55	66.16	-4.49	-214.08	-181.95
1975-76	-802.15	85.42	-60.32	-231.81	-200.98
1976-77	-876.03	83.87	-52.67	-234.30	-225.47
1977-78	-1103.93	150.11	-19.23	-291.46	-287.42
1978-79	-1250.53	192.50	-56.91	-323.83	-331.30
1979-80	-1413.80	234.35	-42.29	-399.17	-388.25
1980-81	-1543.18	249.79	-107.17	-473.49	-438.63
1981-82	-1783.26	262.36	-161.89	-653.01	-505.10
1982-83	-1994.56	282.39	-171.22	-787.09	-547.23
1983-84	-2173.79	300.55	-171.40	-788.49	-559.03
1984-85	-2284.71	314.76	-171.88	-793.16	-551.99
1985-86	-2218.63	268.81	-150.80	-695.79	-520.28
1986-87	-2570.24	287.81	129.87	-639.61	-599.76
1987-88	-3036.97	529.25	135.34	-611.71	-699.18
1988-89	-3380.48	567.74	282.67	-660.32	-779.83
1989-90	-3667.88	666.82	430.80	-693.92	-861.62

SHARE OF FEDERAL REVENUES
1972-73 TO 1989-90

	NFLD	PEI	NS	NB	QUE
1972-73	0.0092	0.0020	0.0264	0.0173	0.2354
1973-74	0.0089	0.0018	0.0258	0.0164	0.2232
1974-75	0.0087	0.0022	0.0250	0.0165	0.2122
1975-76	0.0088	0.0026	0.0264	0.0173	0.2119
1976-77	0.0094	0.0026	0.0271	0.0176	0.2180
1977-78	0.0091	0.0025	0.0270	0.0172	0.2206
1978-79	0.0089	0.0024	0.0264	0.0175	0.2188
1979-80	0.0091	0.0024	0.0258	0.0180	0.2136
1980-81	0.0089	0.0024	0.0258	0.0186	0.2130
1981-82	0.0092	0.0024	0.0252	0.0194	0.2017
1982-83	0.0094	0.0026	0.0261	0.0170	0.1882
1983-84	0.0095	0.0027	0.0266	0.0174	0.2014
1984-85	0.0095	0.0027	0.0275	0.0171	0.2063
1985-86	0.0097	0.0027	0.0270	0.0175	0.2095
1986-87	0.0100	0.0031	0.0279	0.0190	0.2177
1987-88	0.0102	0.0029	0.0282	0.0192	0.2141
1988-89	0.0102	0.0030	0.0282	0.0192	0.2158
1989-90	0.0102	0.0029	0.0276	0.0190	0.2128

Source: Provincial Economic Accounts, various issues.

SHARE OF FEDERAL REVENUES CONT'D
1972-73 TO 1989-90

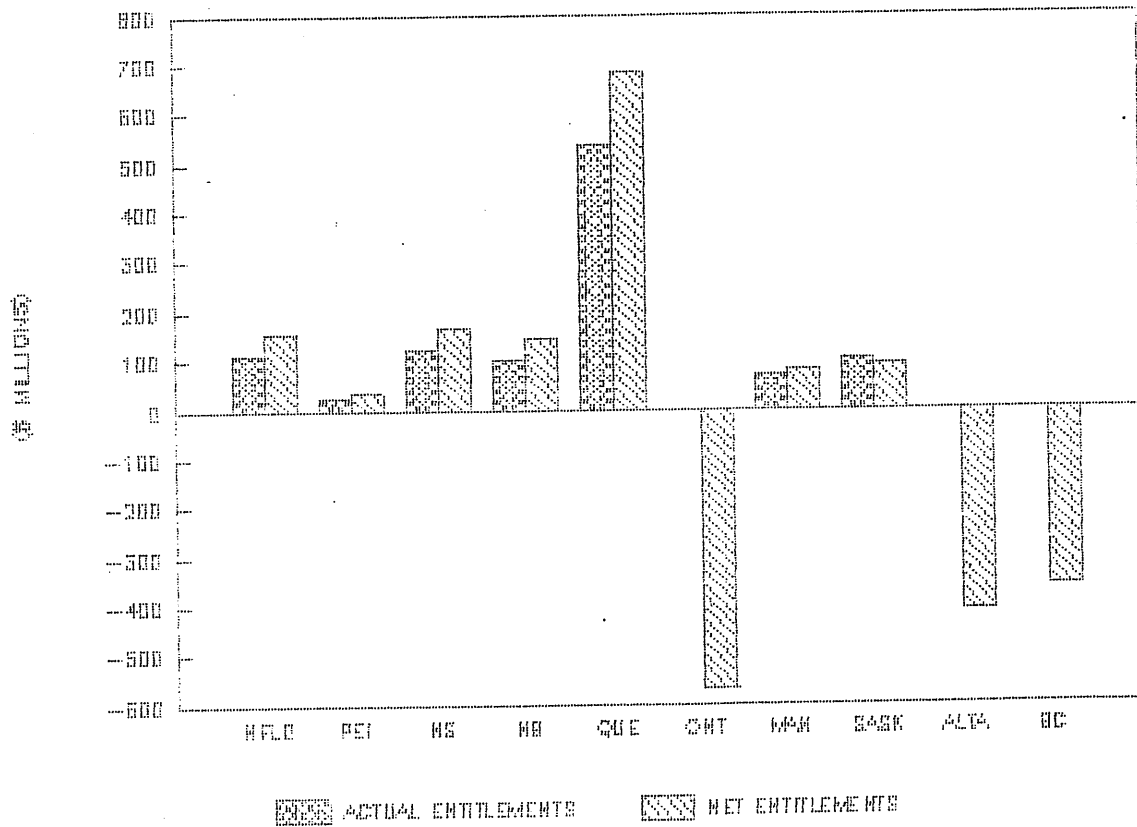
	ONT	MAN	SASK	ALTA	BC
1972-73	0.4703	0.0365	0.0227	0.0691	0.1100
1973-74	0.4581	0.0351	0.0260	0.0868	0.1129
1974-75	0.4310	0.0341	0.0322	0.1251	0.1063
1975-76	0.4275	0.0348	0.0321	0.1235	0.1071
1976-77	0.4293	0.0340	0.0309	0.1148	0.1105
1977-78	0.4290	0.0336	0.0301	0.1133	0.1117
1978-79	0.4302	0.0341	0.0308	0.1114	0.1140
1979-80	0.4225	0.0326	0.0346	0.1193	0.1160
1980-81	0.4140	0.0317	0.0367	0.1270	0.1177
1981-82	0.4057	0.0310	0.0368	0.1486	0.1149
1982-83	0.4100	0.0322	0.0352	0.1618	0.1125
1983-84	0.4157	0.0317	0.0328	0.1508	0.1069
1984-85	0.4214	0.0304	0.0317	0.1463	0.1018
1985-86	0.4314	0.0308	0.0293	0.1353	0.1012
1986-87	0.4451	0.0317	0.0268	0.1108	0.1039
1987-88	0.4601	0.0300	0.0248	0.0927	0.1059
1988-89	0.4655	0.0293	0.0239	0.0909	0.1074
1989-90	0.4690	0.0293	0.0240	0.0887	0.1102

Source: Provincial Economic Accounts, various issues.

APPENDIX C

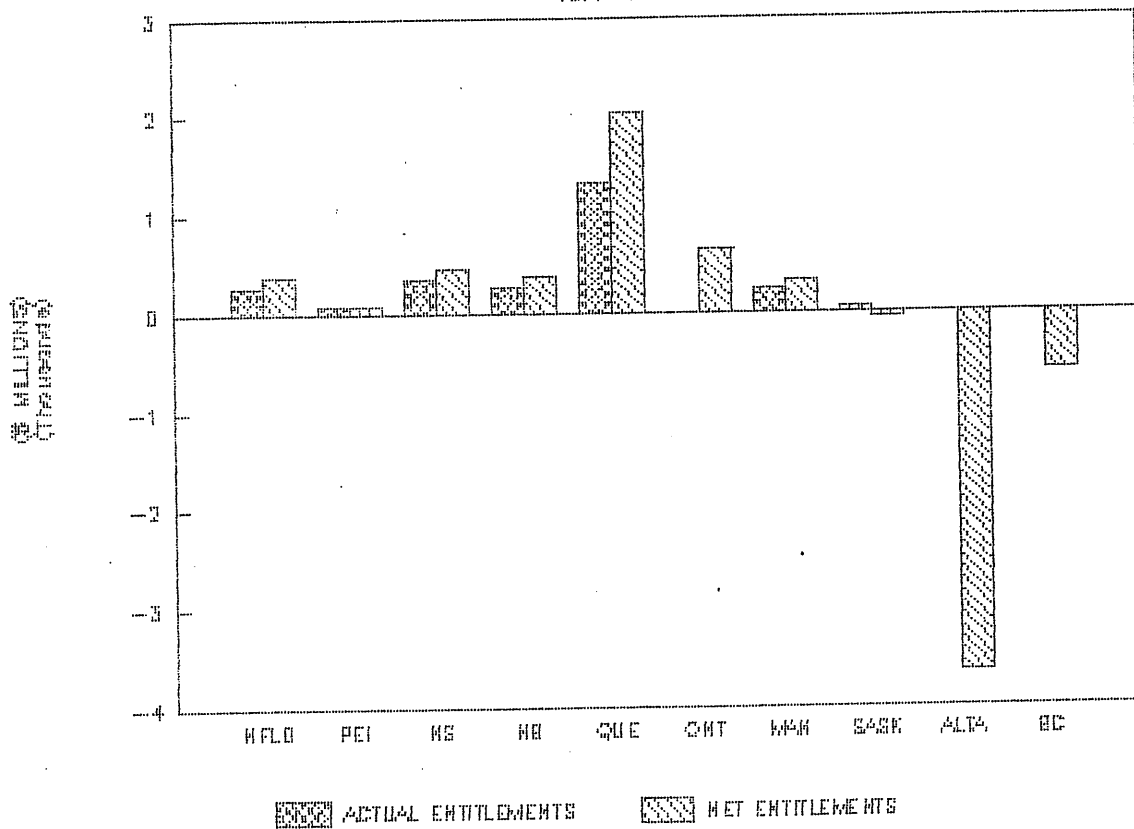
EQUALIZATION ENTITLEMENTS

1972-73



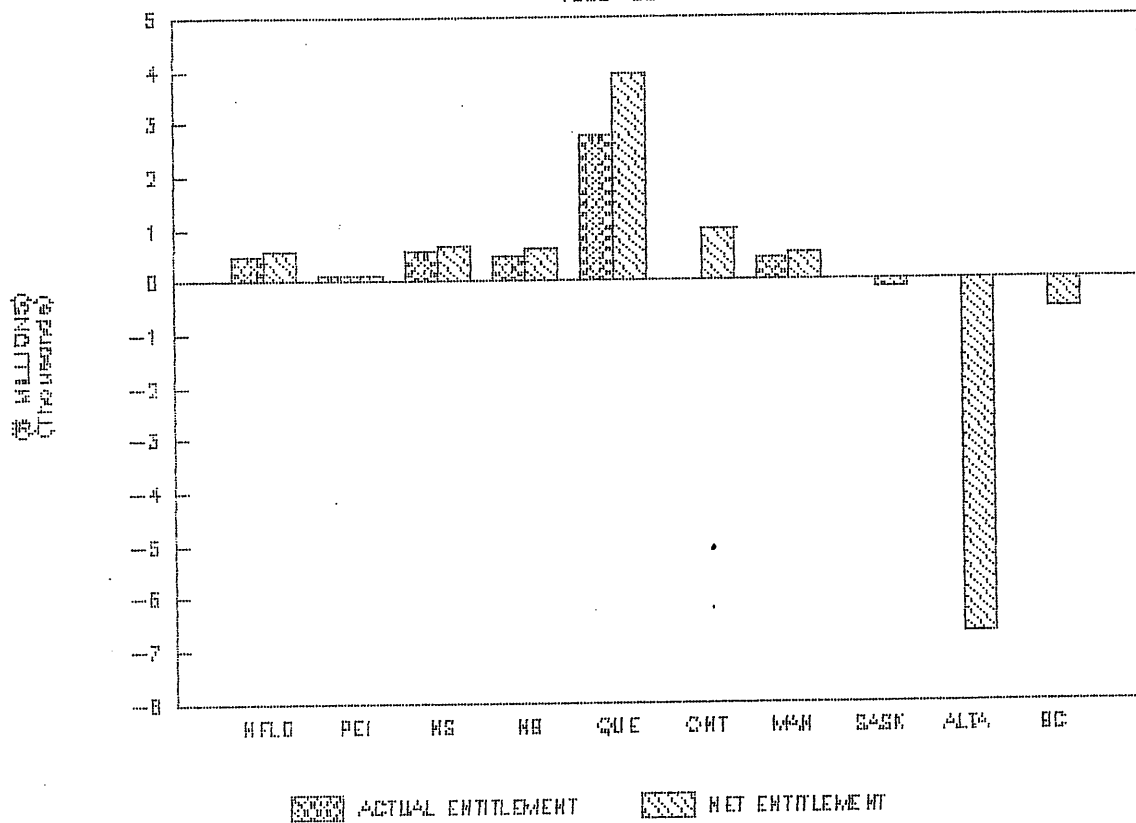
EQUALIZATION ENTITLEMENTS

1977-78



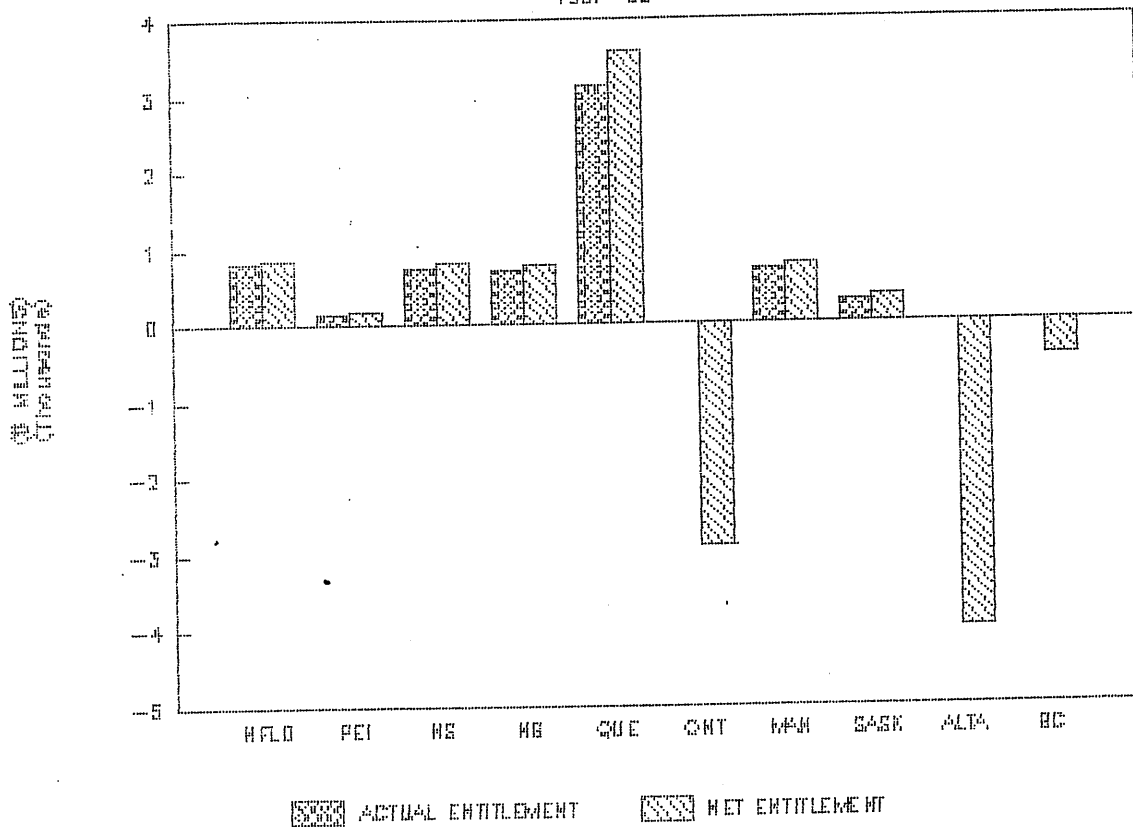
EQUALIZATION ENTITLEMENTS

1982-83



EQUALIZATION ENTITLEMENTS

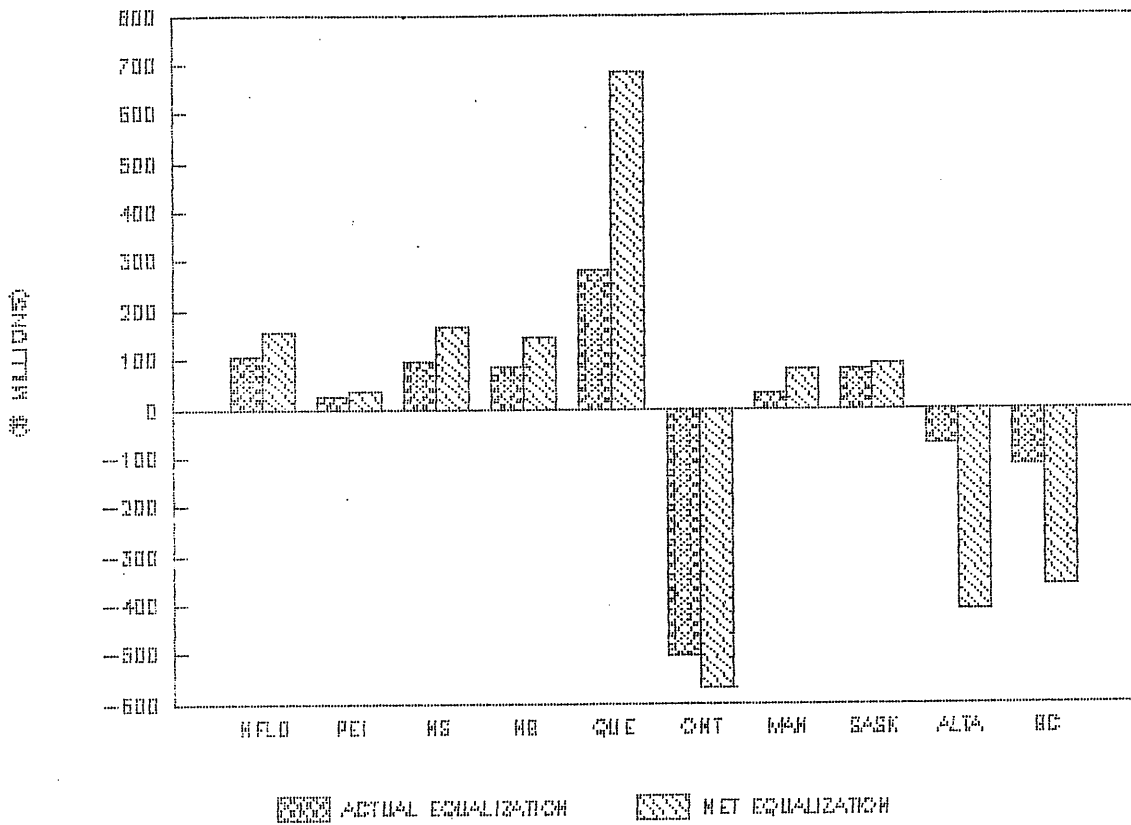
1987-88



APPENDIX D

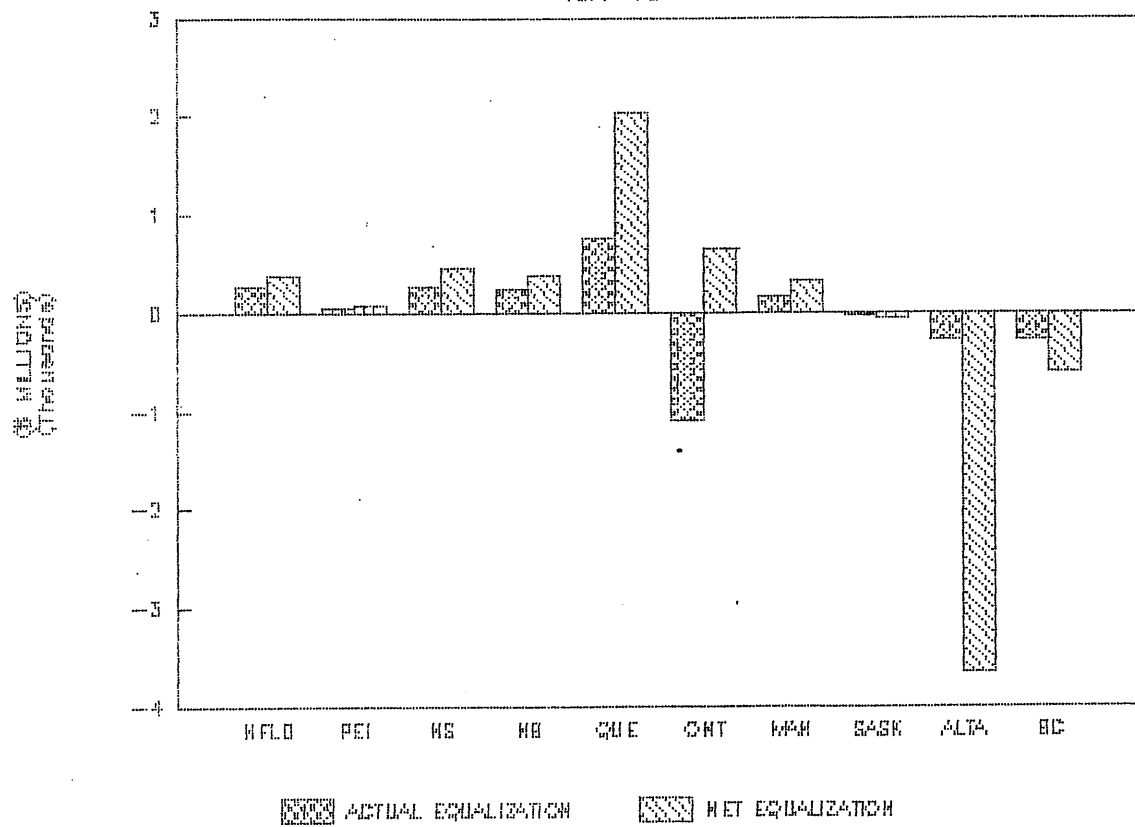
NET BENEFITS

1973-75



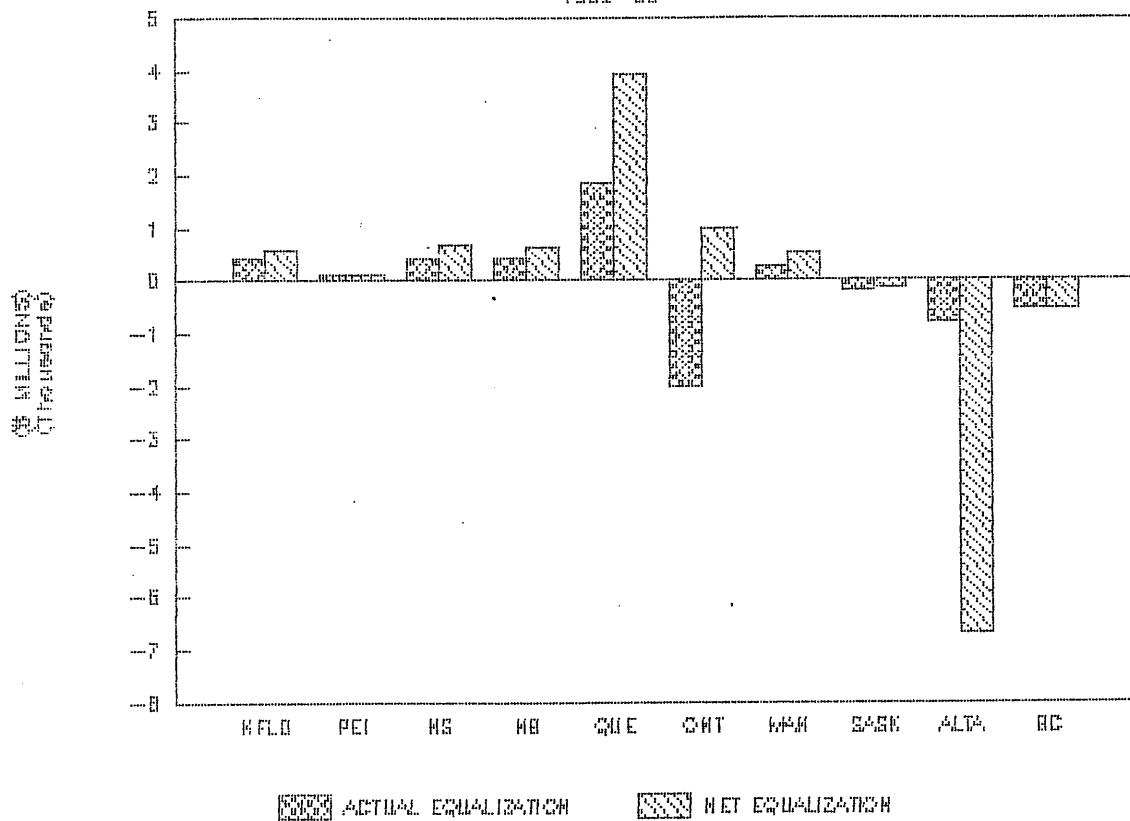
NET BENEFITS

1977-78



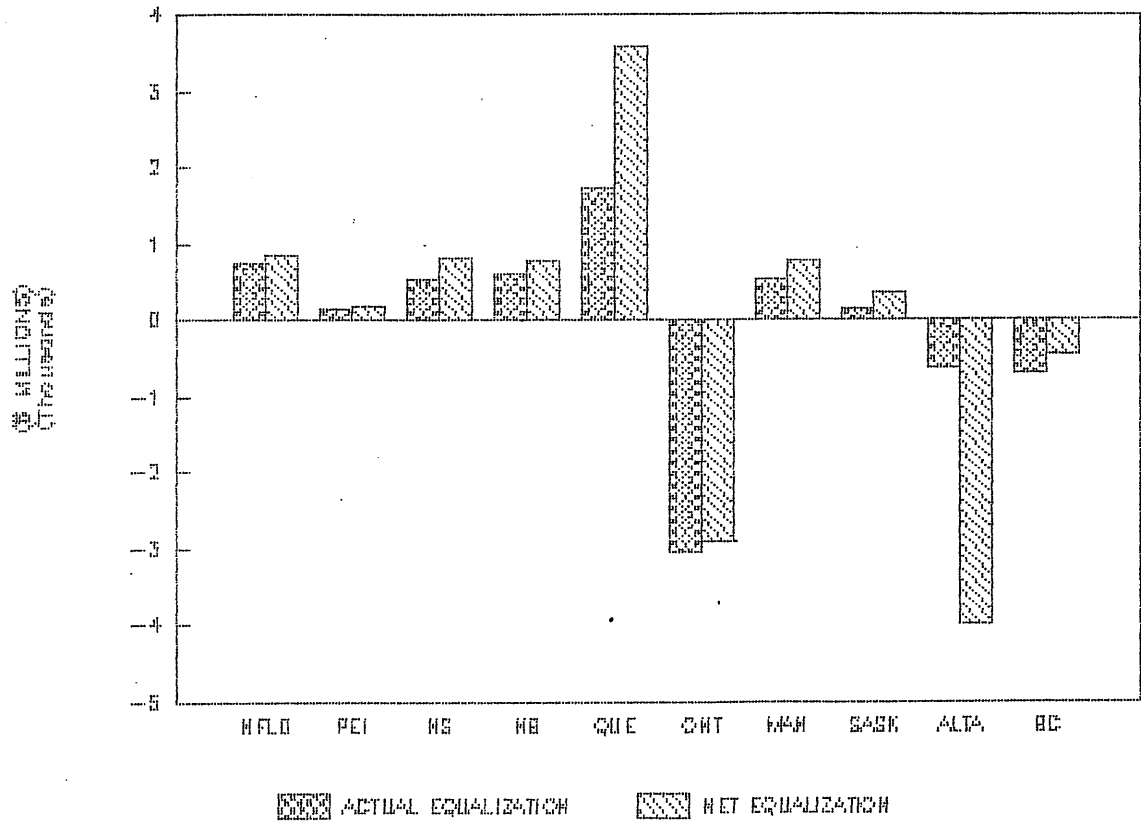
NET BENEFITS

1982-83



NET BENEFITS

1987-88



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