

**The Senate of Canada
Canada**

Le Sénat du

**THE EFFECTIVENESS OF AND POSSIBLE
IMPROVEMENTS TO
THE PRESENT EQUALIZATION POLICY**

Standing Senate Committee on National Finance

Report

Chair

The Honourable Lowell Murray, P.C.

Deputy Chair

The Honourable Anne C. Cools

March 2002

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Senator John Lynch-Staunton (or Kinsella, Noel)*
Senator Frank Mahovlich
Senator Terry Stratton
Senator James Tunney

Other senators who participated in this study:

Senator Willie Adams
Senator Joseph A. Day
Senator Ione Christensen
Senator Gérald J. Comeau
Senator William Rompkey
Senator John (Jack) Wiebe

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ORDER OF REFERENCE

Extract from the *Journals of the Senate* of Tuesday, June 12, 2001

The Honourable Senator Rompkey, P.C., moved, seconded by the Honourable Senator Watt:

That the Standing Senate Committee on National Finance be authorized to examine and report on the effectiveness of the present equalization policy in ensuring that provincial governments have sufficient revenues to provide reasonably comparable levels of public service at reasonably comparable levels of taxation; and

That the Committee report no later than December 21, 2001.

After debate,

In amendment, the Honourable Senator Comeau moved, seconded by the Honourable Senator Lynch-Staunton, that the motion be amended by inserting after the words “effectiveness of” the words “and possible improvements to.”

The question being put on the motion in amendment, it was adopted.

The Senate resumed debate on the motion, as amended, of the Honourable Senator Rompkey, P.C., seconded by the Honourable Senator Watt:

That the Standing Senate Committee on National Finance be authorized to examine and report on the effectiveness of and possible improvements to the present equalization policy in ensuring that provincial governments have sufficient revenues to provide reasonably comparable levels of public service at reasonably comparable levels of taxation; and

That the Committee report no later than December 21, 2001.

After debate,

The question being put on the motion, as amended, it was adopted.

Le greffier du Sénat,

Paul C. Bélisle

Clerk of the Senate

Chairman's Preface

This report will disappoint those who had hoped our Committee would endorse one or other of the several radical changes recently put forward as surefire improvements to the federal government's Equalization Program.

When we began, many of us on the Committee hoped and expected that closer examination would show that those changes would lead to better public policy in general, and be more beneficial in particular for the recipient provinces. We obtained the best information available on these proposals:

- the introduction of a simple, understandable "macro formula" to replace the current complex representative tax system as the basis of Equalization;
- the removal of non-renewable resource revenues from the formula, as advocated by two Atlantic provinces and some academic analysts; and
- the idea that the formula could and should be tailored to take account of different cost pressures affecting delivery of provincial government services.

We studied these proposals in depth and debated them at length, for 30 hours during 18 meetings of the Committee. We concluded that the benefits claimed for those changes are, at best, unproven. In some cases, as indicated in our Tables, new and divisive inequities among provinces could result. Future circumstances may cast those proposals in a different light. For now, however, we cannot recommend them.

We acknowledge the exasperating predicament of less wealthy provinces that have begun to reap benefits from the development of offshore petroleum resources only to see their revenue gains lost by reductions in federal equalization payments. We believe this problem must be addressed within the offshore Accords with the affected provinces, or through some other existing, or new programs -- not through changes to the Equalization formula, which would create a new set of problems.

Needless to say we have rejected the notion -- argued by some economic commentators -- that Equalization is wrong in concept, is a drag on economic growth, and creates a culture of dependency in the recipient provinces. The evidence is to the contrary. We are strongly in favour of the concept, and that is why we urge changes to certain elements of the current program that we believe are inconsistent with it. In particular, we recommend removal of the ceiling on increases in Equalization payments; and we favour a return to a ten-province standard in calculating revenue capacity, and therefore Equalization entitlements of provinces. Although these changes will enrich the Equalization program, the increases -- while significant for the recipient provinces -- are in our opinion affordable for the federal treasury and appropriate for a program that is one of the pillars of Canadian federalism.

Late in the day, two developments occurred that illustrate the sensitivity of a program like Equalization to unforeseen events. After we had concluded our public hearings, but before we had completed this Report, a change in the Statistics Canada methodology of calculating residential property values (plus a revision of economic growth data) looked like it would inflict a reduction of more than \$800 million in Equalization payments to Quebec, a smaller cutback for Newfoundland and Labrador and increases for other provinces. This incident and its sequel are described on page 20. They gave rise to Recommendation 4 on page 20.

After this Report had gone to press, Statistics Canada released the data from the 2001 census. Several provinces appear to have suffered a decline in population (these figures will be revisited by Statistics Canada later) and their governments have been busily calculating the inevitable, negative, impact on their Equalization entitlements. Any seriously adverse effects on provinces as a result of such developments can be mitigated by the federal government, by a temporary amendment if necessary. The existing Equalization regime does have the virtue of some flexibility and can be adapted to sudden changes in circumstance.

Senators who participated in this special study represent both recipient and non-recipient provinces. We are united in the belief that this is an important – in fact, a defining – national program. As Chairman, I thank my colleagues for their forbearance and co-operation. This project was added to the regular work of our Committee, which includes examination of annual Main and Supplementary spending Estimates of the various departments and agencies of the government, and committee study of legislation referred to us by the Senate. The already heavy workload of our staff and advisors was increased considerably. To them, especially the Clerk Mr. Tonu Onu and the research officer from the Parliamentary Library, Mr. Guy Beaumier, our renewed appreciation.

Lowell Murray
Chairman

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INTRODUCTION

The potential for economic development and, therefore, the distribution of wealth is far from equal across Canada and fluctuates from place to place and from time to time. In order to reduce inequities in the country the federal government has developed a number of transfer programs. One such program, the Equalization program, is designed to assist the provincial governments in providing Canadians with comparable levels of provincial services at comparable levels of taxation. Without such a program, essential public services would vary greatly across the country. It is important to recognize that the program does not consist of transfers from the wealthy provinces to less wealthy provinces. The Equalization program is a federal program paid for by the tax revenues raised in all the provinces and not only in the so-called “have provinces.” The program is a reflection of the sense of fairness so highly valued by Canadians that Parliament has enshrined its principles in the Constitution. Still, the program remains an object of political controversy and of critical academic analysis.

The passage in June 2001 of Bill C-18, An Act to amend the Federal-Provincial Fiscal Arrangements Act, removed the ceiling on the total level of equalization transfers to provinces for the fiscal year 1999-2000. The debate on the Bill sparked calls for a further review of the entire system. Subsequently, the Senate – by Order of Reference dated June 12, 2001 – authorized the Standing Senate Committee on National Finance to:

Examine and report on the effectiveness of and possible improvements to the present equalization policy in ensuring that provincial governments have sufficient revenues to provide reasonably comparable levels of public service at reasonably comparable levels of taxation.

All provincial governments were invited to present their views to the Committee. Five recipient provinces responded to the Committee’s invitation and during several weeks of public hearings in the fall of 2001, the Committee heard from the Premier and the Minister of Finance of Newfoundland and Labrador as well as the Ministers of Finance of New Brunswick, Nova Scotia, Manitoba and the Provincial Treasurer of Prince Edward Island. In addition, the Committee heard from the Canadian Union of Public Employees and five scholars of equalization including Mr. Ken Boessenkool, Professors Dan Usher and Robin Boadway of Queen’s University, Professor Michel Boucher of the École nationale d’administration publique

in Quebec City and Professor Paul Boothe of the University of Alberta who is also a former Deputy Minister of Finance of Saskatchewan.

FEDERAL TRANSFERS TO PROVINCES

The federal government provides financial support in the form of cash or tax transfers to provincial and territorial governments on an annual basis to assist them in the provision of programs and services. These transfers between governments help ensure that all Canadians receive reasonably comparable levels of public services, wherever they live. They support important provincial programs – such as health care, post-secondary education, and social services. In the fiscal year 2001-2002, the federal government will transfer an estimated \$47.0 billion to the provincial and territorial governments.

A large portion of the federal transfers to the provinces and territories are provided through the three main transfer programs:

1. The **Canada Health and Social Transfer (CHST)**, which is provided to provinces and territories through both cash, and tax transfers, is a block fund providing support for health care, post-secondary education, social assistance, and social services. In exchange for receiving CHST payments, provinces must adhere to the principles of the *Canada Health Act* and are required to provide social assistance without minimum residency requirements. In 1999, a new five-year arrangement was put in place for this program. In fiscal year 2001-2002, the CHST will provide \$34.6 billion of which \$18.3 billion is in the form of cash and \$16.3 billion is in the form of tax transfers. The cash component of the transfer is based on an equal per capita allocation among the provinces. Because tax points vary in value across the country, the tax component is subject to an equalization payment worth \$1.2 billion for the fiscal year 2001-2002. Recipient provinces that are entitled to these tax equalization payments receive the funds along with their Equalization transfer payments.
2. The **Equalization program** is intended to ensure that less prosperous provinces have sufficient revenue to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Equalization payments are unconditional; provinces can spend them as they see fit. In the fiscal year 2001-2002, seven provinces will receive

payments under this program, totalling \$10.4 billion. The method of determining a province's entitlement is described later in this Report.

3. **Territorial Formula Funding (TFF)** is a transfer to territorial governments that enables them to provide services to their residents in recognition of the higher costs in the North. For the territorial governments, it is their main source of revenue. The TFF is designed to give the three northern governments a source of stable, predictable funding, enabling them to provide government programs and services and to work towards greater autonomy and self-sufficiency. The transfer is equal to the difference between the funding that the territorial government will need in order to provide its services and the estimated amount of tax revenues it can expect to raise. This difference, which is often referred to as the gap, is the amount of funding that the federal government provides. In the fiscal year 2001-2002, payments provided under this program will total \$1.5 billion.

4. **Miscellaneous Transfers** are federal government transfers to the provincial and territorial governments under several smaller programs. Among others these include the Canada Works Infrastructure program; several Department of Justice programs dealing with young offenders, with legal aid and with victims of violence; various subsidies in support of marine and air transportation; transfers through Parks Canada to assistance in fighting forest fires; transfers to support Official languages; etc. These transfers also include grants-in-lieu-of -taxes, which are federal transfers to municipalities in-lieu of property taxes. Together, these transfers will total \$1.7 billion in the fiscal year 2001-2002.

HISTORICAL EXPERIENCE⁽¹⁾

In reviewing the history of equalization payments, one is struck by the degree of change that has occurred over the years not only to the formula that determines entitlements but also to the basic concepts that drive the program. The exercise in federal transfers began as a tax rental agreement in the immediate post-war period, evolved into a concept of wealth

(1) For a more detailed analysis of the events that comprise the history of equalization in Canada from 1945 to the late 1980s see: J. Harvey Perry, *A Fiscal History of Canada – the Post War Years*, Canadian Tax Foundation, Toronto, 1989.

redistribution in the early 1960s and, became part of the Constitution in 1982. The following is a brief overview of some of the major changes in the system over the years.

A. The Tax Rental Agreements – 1947-1956

During and immediately after the Second World War, the federal government entered into tax rental agreements with at least eight of the provinces (Ontario and Quebec did not always participate) and undertook the collection of personal and corporate income taxes and succession duties in return for compensation payments to the provinces. The funds that were paid to the participating provinces were known as the rental payments. In 1947, the federal government offered to continue these payments to those provinces that agreed not to collect personal income tax, corporate income tax and death duties on their own. In the period 1947-1951, the federal government offered participating provinces an annual per capita payment to compensate for the revenues that the provinces agreed not to raise. The payment was increased annually at a rate equal to the average growth in the province's population and Gross Domestic Product (GDP) during the three years preceding the year of payment. Some provinces, notably Ontario and Quebec, chose not to participate for several reasons. There was concern that the per capita payment might not adequately reflect a province's ability to raise its own revenues from the three sources of taxation covered by the agreement. Also, the annual increase, because it represented a three-year moving average, would not reflect the actual annual growth in the cost of providing provincial services in the year in which a payment is made. In the provinces that did not accept the tax rental payments, the federal government reduced the federal personal and corporate income and death tax rates so that they would have tax room to levy their own taxes on these revenue sources.

In the 1952-1957 Agreement an alternative to the straight per capita payment regime was offered to the provinces. This alternative consisted of a payment based on the actual tax yield in a province at standard rates for three revenue sources: the personal income tax, the corporate income tax and the death taxes. The standard tax rate was arrived at through negotiations between the provinces and the federal government. Another significant change allowed the level of payments to grow at the rate of increase in a province's population and GDP during the year preceding the payment year as opposed to the average of the previous three years. This brought payments to the provinces closer to their expenditures. It is believed that this increase in payments and the emphasis on tax yields influenced Ontario's decision to join the agreement.

B. The First Equalization Systems – 1957-1967

The 1957-1961 arrangements were the first federal-provincial fiscal arrangements that sought to “equalize” provincial revenues to a level higher than the actual yield on a province’s taxes. Under the tax rental agreements, the federal government only paid to provinces an amount equivalent to the amount they might have raised on their own. The 1957-1961 arrangement allowed a province to receive a payment that was determined by a tax yield greater than it was able to raise itself. Compensation continued to be in the form of unconditional grants.

Beginning with the 1962-1967 agreements, each province could receive either a lump sum tax rental payment, or, an equalization payment that raised its yield up to a standard yield. These agreements were the last set of arrangements to contain tax rental provisions. Since then, each province has levied its own taxes. At the beginning of the period, the standard base for equalization was changed from the average tax yield of the two highest provinces to the average of all ten provinces. Later in the decade, the federal government decided to return to a two-province standard. Non-renewable natural resource revenue was added to the base calculation. Today’s formula still includes an average tax base and an average tax rate for each revenue sources, although the details have changed over time.

C. Equalization and the Oil Crisis – 1967-1982

Although a number of formula changes occurred at equalization renewals between 1967 and 1982, the most significant were in response to large, unexpected increases in the international prices of oil and gas in the 1970s. The rise in oil prices led to large increases in the revenues of oil producing provinces (especially Alberta). This in turn raised the standard against which all provincial revenues were compared to determine entitlements. These events so affected equalization entitlements that even Ontario and British Columbia would have been eligible for payments. Consequently, the renewals of 1972 and 1977 as well as ad hoc adjustments in 1974, 1979, and 1980 focused mainly on amending the formula to reduce the overall impact of provincial natural resource revenues. To avoid the situation where Ontario would have become a recipient province, it was ruled that no province with a per capita income higher than the national average could receive equalization. During this period the number of revenue sources that became subject to equalization rose from 3 to 29.

D. Constitutional Amendment – the 1982-1987 Arrangements

The year 1982 brought about a number of major changes to the system of equalization payments.

- First, the commitment of the Parliament and Government of Canada to the concept of equalization was incorporated into the *Constitution Act, 1982*. The general purpose of equalization was stated in Section 36(2):

Parliament and the Government of Canada are committed 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.

- Second, the equalization payments were to be based on the average tax yield for Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. The exclusion of Alberta from this formula avoided the problems associated with the large revenue swings in Alberta's oil revenues.
- Finally, the federal government placed a ceiling on total payments by placing an overall limitation on the annual increase in total equalization payments.

E. The Recent Past – 1987-to the Present

The structure of the equalization formula as it was developed in 1982, has remained relatively unchanged to this day despite renegotiations and renewals in 1987, 1992, 1994, and in 1999. The current arrangements were renegotiated and renewed for five years effective 1 April 1999. Most of the changes in the 1999 renewal involved technical “tinkering,” except for the temporary removal of the ceiling for the fiscal year 1999-2000.

KEY ELEMENTS OF THE EQUALIZATION PROGRAM

The principle underlying equalization is that the federal government has a responsibility to ensure that each province has adequate revenue to provide a comparable level of public services without recourse to exceptionally high levels of taxation. It accomplishes this through unconditional grants that make up the difference between actual provincial taxes or

revenues and some measure of the average, or representative level of the same taxes or revenues. The objective of the program is to ensure that the yield of provincial taxes and related revenue sources reflect not the actual tax rates and tax capacity of the province but a broader concept of average tax base and average tax rate, which together, will give the average yield for a revenue source.

Eligibility to receive equalization funding is determined by a formula measuring each province's revenue-raising capacity against a five-province national average or national standard. The national average or standard is based on the average tax yield of the following five provinces: Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. In the past, this national standard was the average of as few as two provinces and of as many as ten provinces.

Provinces with revenue-raising capacity below the national standard receive equalization transfers from the federal government to bring their fiscal capacity up to the standard. The revenue-raising capacity of each province (or fiscal capacity) is measured by examining its ability to raise revenues from 33 revenue sources (or tax bases), – including personal income tax, corporate income tax, sales taxes, property tax, and many other sources (see appendix A). Where the provincial yield exceeds the average national yield no grant is paid.

Currently, the federal government sends equalization payments to seven provinces: Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Manitoba and Saskatchewan. Equalization payments are unconditional in that receiving provinces are free to spend them on public services according to their own priorities. The program has undergone periodic renewal and revision at five-year intervals, the last being in 1999. The Department of Finance indicated, that in the fiscal year 2001-2002, the provinces would receive \$10.4 billion in equalization payments from the federal government. In the same fiscal year, total federal transfers to provinces and territories are expected to reach \$47.0 billion.

Equalization payments are subject to “ceiling” and “floor” provisions. The purpose of the floor is to provide protection to individual provinces against year-over-year reduction in their payments. It currently limits reduction in payments to 1.6% of the Equalization Standard (this works out to approximately \$95 per capita). New Brunswick received equalization floor payments in the fiscal year 1992-1993, while Saskatchewan has received them four times since fiscal 1994-1995.

The ceiling was introduced in 1982 as an upper limit on the growth rate of equalization entitlements and is meant to protect the federal government from rapid and unaffordable year-over-year increases in payments. The provision also allows for year-over-year

growth in the level of the ceiling to keep pace with growth in the economy. At this time, the value of the ceiling in the base year (1999-2000) was set at \$10 billion. If aggregate entitlements exceed the ceiling, the calculated amounts are reduced on an equal per capita basis for all recipient provinces until the total no longer exceeds the value of the ceiling. The provisions of the ceiling have been triggered in the fiscal years 1988-1989 to 1991-1992, 1993-1994 and 2000-2001. The ceiling would have applied in the fiscal year 1999-2000 except that the federal government lifted it entirely for that year. The Federal-Provincial Relations Division of the Department of Finance estimates that the absence of a ceiling would have cost the federal government \$3.2 billion since 1988-1989.

It should be understood that manipulation or tinkering with the main components of the formula (the number of revenue sources, the national standard, the payment ceiling and the payment floor) all affect the amount of funding received by the provinces.

The program is an important source of revenue for the seven provinces now receiving payment. It accounts on average for one out of every seven dollars raised by those provinces' own revenue systems. As shown in Table I below, Newfoundland received 49 cents in equalization for every dollar of provincial revenue, in the fiscal year 1997-1998. Quebec, by contrast, received 11 cents for every dollar of provincial revenue.⁽²⁾ The equalization program accounted for about 6% of federal spending over the period.

TABLE I
Equalization as a Percentage of Own-Source Provincial Revenue

	1994-1995	1995-1996	1996-1997	1997-1998
Newfoundland	46.8	42.4	45.7	49.0
Prince Edward Island	38.3	37.3	38.6	39.1
Nova Scotia	36.6	37.6	36.3	37.2
New Brunswick	30.6	27.6	29.2	30.8
Quebec	12.2	12.2	11.4	10.8
Manitoba	22.0	20.2	21.3	21.8
Saskatchewan	8.5	5.2	4.2	3.5
Average	16.9	16.1	15.8	15.3

Source: David B. Perry, "The Cost of Staying Together" Canadian Tax Highlights, Volume 7, Number 3, 16 March 1999.

(2) David B. Perry, The Cost of Staying Together, Canadian Tax Highlights, Vol. 7, No. 3, 16 March 1999.

Although regular reviews of the program have brought forward numerous proposals for increasing the program's efficiency or equity, the final result has always been refinement of the basic formula designed in 1957. The only exception involves the treatment of non-renewable natural resource revenues.

EQUALIZATION AND NATURAL RESOURCES

Non-renewable natural resources revenues have posed numerous difficulties in the operation of the equalization program. The greatest difficulty is created by the volatility in provincial non-renewable resource earnings. Commodity prices can vary considerably with serious effects on the entitlements of some provinces. It can lead to a significant reduction in a province's entitlements or to a significant increase in the entitlements of other provinces. The latter instance prevailed in the 1970s when rapidly rising petroleum prices led to large increases in overall entitlements. It also threatened to increase substantially an already large federal deficit. The government's response to the growing level of entitlements was to create the floor and ceiling provisions and to move from a ten-province standard to a five-province standard.

Another problem arises when a significant concentration of a non-renewable resource is found in one province. This raises the possibility that a province might adopt tax measures that would increase its level of entitlements. Currently, the equalization program is structured so that an increase in a province's own revenues is offset by a decrease in its entitlements. In fact, as a province's revenue raising capacity goes up by \$1.00, its equalization payments decline by \$1.00. This ensures that recipient provinces are treated equitably. However, it also creates the possibility that a province might be reluctant to exploit certain resources if it does not lead to greater total provincial revenues from their development. To offset this possibility, the program contains a provision known as the "Generic Solution," introduced in 1994, which is designed to mitigate the reduction in payments created by a rapid increase in fiscal capacity arising from natural resource developments. The effect of the generic solution is to reduce equalization payment by only 70% of the increase in new non-renewable resource exploitation revenues. The Generic Solution reduces the incentive for a province to devise resource taxation rates that are aimed at influencing its equalization entitlements.

A province's revenue-raising capacity is determined in part by measuring the revenue it could raise if it implemented a national average tax rate on typical tax bases. Generally, a province's entitlement is determined independently of the tax rates of any one

province, and hence provincial tax decisions are not distorted by potential equalization payments. However, when the tax base is predominantly located in only one province, then that province's tax rate has an inordinate influence on the national average tax rate that is used to calculate entitlements. Therefore, its entitlements are no longer independent of the rate the province chooses to set. In the extreme, the provincial tax rate may actually be the national average tax rate. When equalization payments change significantly as a province changes its tax rates, decisions in setting tax rates can be distorted.

The Generic Solution has applied to Newfoundland and Labrador (offshore revenues), Nova Scotia (offshore revenues), Quebec (asbestos), and Saskatchewan (potash).

THE ATLANTIC ACCORDS

The discovery of petroleum resources in the Atlantic Ocean off Canada's east coast created certain difficulties for the equalization system. Issues regarding ownership, revenues and equalization entitlements were addressed through the signing of offshore accords between the federal government and the affected provinces.

The Canada-Nova Scotia Offshore Petroleum Accord, signed in 1986, provides Nova Scotia with transitional protection, whereby a percentage of offshore revenues are sheltered from equalization reductions. The Accord provides ten years of protection, which was triggered in the fiscal year 1993-1994. Although the resources belong to the federal government, it was agreed that the province could tax them as if the province was the sole owner. The federal government recognized that once these resources came on stream, provincial revenues would begin to increase dramatically and that equalization payments would drop dramatically. To protect the province against the loss of revenues, it was agreed to compensate Nova Scotia for 90% of equalization losses in the first year and reduce the loss protection by ten percentage points annually until the protection level equals that available under the Generic Solution (i.e., 30%). At the present time, Nova Scotia receives all of the revenues from offshore petroleum development, but this also reduces its equalization payments by \$1.00 for each \$1.00 of new revenue. The protection provided by the Generic Solution compensates the province with \$0.30 for every dollar that its entitlement is reduced due to increased offshore earnings.

The Canada-Newfoundland Atlantic Accord, signed in 1985, provides Newfoundland with transitional protection from large reductions in total equalization payments that would result from the exploitation of offshore petroleum developments. The protection

formula is slightly more complicated than that in Nova Scotia's Accord in that it provides for an offset floor. The floor guarantees that Newfoundland's payments shall equal a proportion of the previous year's entitlement. The program, which was triggered in the fiscal year 1999-2000, will be phased out in 12 years. Like Nova Scotia, Newfoundland benefits from the Generic Solution, so that it can offset 30% of any reduction in its entitlements that arises because of an increase in its offshore revenues. Unfortunately, the province does not receive as much revenue as the Accord suggests. While it is entitled to a high proportion of the revenues stream in the initial years, its share is reduced because the resource companies are first entitled to recoup their exploitation and development expenses. Therefore the province received a large proportion of a relatively low net revenue stream.

THE MAJOR ISSUES

Given the vast differences in the state of provincial economies in Canada, it is not surprising that the equalization policy would be subject to constant criticism and demands for change. The policy has created expectations that have not always been met, particularly in the opinion of recipient provinces. Furthermore, the provincial and federal levels of government have different interests in the equalization program, which cannot always be easily reconciled. Finally, in the private sector, political and economic observers have criticized the program for being inequitable, inefficient, ineffective or a downright failure in meeting its stated purpose.⁽³⁾ While many criticisms of the program were brought to the attention of the Committee, not all withstood critical examination. The evidence did not always support specific claims; while in other instances the Committee was not able either to reject or confirm a given proposition.

Some witnesses, such as Mr. Boessenkool, felt that the recipient provinces have become too dependent on Equalization payments and that this would be a good time "for the Atlantic Provinces to lessen their dependence on federal transfers and to become masters of their own fate." He also noted that the program suffers by including in its formula non-renewable natural resources, which "produces perverse incentives." So strong are the effects of including non-renewable resources in the program that "equalization payments can work against provinces' economic best interests when those payments punish recipients for responsible

(3) See: Dan Usher, *The Uneasy Case for Equalization Payments*, The Fraser Institute, Vancouver, 1995. Kenneth J. Boessenkool, *Taking Off the Shackles: Equalization and the Development of Non-Renewable Resources in Atlantic Canada*, The Atlantic Institute for Market Studies, May 2001. Roland T. Martin, *Equalization: Milestone or Millstone?*, the Atlantic Institute for Market Studies, May 2001.

development of their non-renewable resources.” Since, provinces have no choice but to examine the consequences of their development policies, Mr. Boessenkool suggests that the Equalization program may leave the recipient provinces with “little incentive to reduce their reliance on Equalization in favour of developing provincial resources.”

Mr. Boessenkool was not the only witness to point out shortcomings in the Equalization program. Professor Boucher noted that the negative incentives of the Equalization program may actually extend to areas of the economy other than renewable resources. He reminded the Committee that although policies are devised with specific intent, they often result in unintended consequences. This arises because those affected by the policy will alter their behaviour to take advantage of the positive aspects of the policy. While the Equalization program has several effects he highlighted its effects on the behaviour of provincial governments. He noted that it “leads provincial governments to resist changes in their policy” because the program allows the provinces to avoid having “to deal with the costly consequences of their own policy.” In his view “Equalization means that the cost of an ineffective provincial measure is passed along not only to its consumers and producers, but also to the residents of other regions.” He fears that “Equalization can thus lead provincial governments to manipulate the tax base and extract additional sums from the equalization formula which they could not obtain otherwise.”

Although there may be uncertainty and debate about various aspects of the Equalization program, the overwhelming impression is that the program enjoys wide support among governments and among private sector observers. Nonetheless, the Committee also found that there is room for improving the operation of the program. It identified certain recurring themes in the presentation of witnesses, which deserve more attention. In this section, the Committee examines certain matters raised during the hearings and makes recommendations that should contribute to a more effective and improved equalization policy.

While the witnesses raised many issues the Committee focused on those that seemed to occupy the attention of almost all witnesses. In examining these issues, the Committee was guided by five broad principles:

1. The program should be equitable. The system of equalization payments should provide a fair distribution of entitlements among provinces.
2. Equalization payments should be adequate to allow recipient provinces to provide comparable services without resorting to unreasonable taxation levels.
3. The program should be sustainable over time.

4. The program should be designed so that it is neutral in its effects on other government policies. Changes in the program should not influence government behaviour, nor should a province's revenue policies affect its level of entitlement.
5. The workings of the Equalization program should be transparent. Formulas and criteria should be as clear as possible.

As is often the case, these guidelines will not apply equally to specific elements of the Equalization program. Conflict between two or more guiding principles will force policy-makers to seek a balance in formulating key elements of the program. The Committee's own debates on the proposals submitted for changing the program reflected this reality. The following are not the only issues and problems with the Equalization program, they were the ones most often raised by the witnesses.

A. The Current Equalization Formula

The current formula that determines provincial entitlements, known as the Representative Tax System (RTS), is criticised for a number of reasons:

First, it is seen as so complex that few people understand the Equalization program. This, in turn, has led to a perception that there is a lack of transparency and accountability on the part of the federal government in its decisions and actions regarding the Equalization program. The RTS is rendered complex by the sheer number of calculations required to arrive at a province's entitlement. It attempts to equalize 33 provincial sources of revenues. It does this by preparing 33 estimates of provincial revenues that are then converted into per capita figures, averaged, and compared to a national standard. A province's deviation from this standard determines its entitlement to equalization payments. The idea of equalization is simple, but its implementation is complex – in fact, so complex that the details have been mastered by a relatively few government officials and expert observers.

A second difficulty with the current formula is that there is disagreement on what revenue sources should be included or even on how these should be defined and measured. This is particularly evident on the debate about whether non-renewable natural resources should be equalized.

A third difficulty with the RTS formula is that it may have unintended effects on provincial policy determination. It is believed that the inclusion of some revenue sources might

have undesirable effects on the policy choices of provincial governments. For example, both Mr. Boessenkool and Professor Boucher pointed out that the level of transfers in some provinces are so significant that policy decisions may be made with an eye on the possible effect that such decisions might have on the province's entitlements. Their concerns have led them and other witnesses to suggest that it might be worthwhile to simplify the formula by removing some of the revenue sources, such as non-renewable natural resources, from the calculations.

Other than adjusting the number of revenue sources to equalize, there seem to be only one suggestion for simplifying the Equalization formula. Professors Boothe and Usher explained to the Committee that consideration has been given to the notion that it might be possible to determine provincial equalization entitlement by using only one variable. This has been termed the "macro formula approach."

1. The Macro Formula

Under a macro formula – only a single variable is used to determine provincial Equalization entitlements. This would: increase the general understanding of the Equalization program; improve the transparency of government actions; reduce or eliminate any negative effects associated with the current formula; and introduce greater stability in fiscal planning because it would become easier to forecast provincial entitlements and hence provincial revenues.

However, the witnesses were not able to provide the Committee with a specific variable that could be used in such a formula. During the hearings some variant of provincial income was often cited as a potential candidate, but so little study has been carried out that it was impossible to predict the effect of using any given variable, compared to continuing with the existing formula. The variable selected in the macro formula is important because of its potential distribution effects. It is likely that certain income variables will favour some provinces over others. Some witnesses believed that these shortcomings of the macro formula might be worse, on balance, than those of the current formula. In addition these shortcomings could lead to further "tinkering" with the formula, such that we are left with an equally complicated formula.

To illustrate the potential problems associated with a macro formula, two series of tables are presented in Appendix B. Series 1 presents the difference between the entitlements under a macro variable and the RTS, using a five-province standard during the fiscal years 1992-1993 to 1998-1999. The five macro variables selected for examination are Gross Domestic Product at Market Prices; Gross Domestic Product at Factor Cost; Net Domestic Product at

Market Prices; Net Domestic Product at Factor Cost; and Provincial Personal Income. In these calculations the floor and the ceiling have no impact on the results. The exercise is repeated in Series 2 using a ten-province standard. It is not the intent here to analyse every implication of using a macro formula to determine provincial equalization entitlements. However, several observations are immediately apparent:

- First, in both series, the cumulative cost of the program is less than would have been the case under the RTS formula. In other words, the size of the pie is smaller for all five macro variables regardless of the standard used to determine entitlements.
- Second, under a five-province standard, the cumulative payments to the three provinces of Quebec, Manitoba and New Brunswick are less under each macro formula than they are under the RTS formula.
- Third, under the ten-province standard the cumulative payments to the five provinces of Quebec, Manitoba, Nova Scotia, New Brunswick and Prince Edward Island are less under each macro formula than they are under an RTS formula.
- Fourth, in all but two macro cases, the province of Saskatchewan receives disproportionately large equalization payments. These exceptions occur if the program utilizes a ten-province standard and a macro formula based on either form of Gross Domestic Product.

It should be evident to most observers that the distribution effects of the five variables used in Appendix B would make it difficult to sell the concept to the provinces. Although it might be argued that the selection of another variable for a macro formula could provide more desirable results, the Committee is not aware of what that variable might be. It is evident that the impact of a macro formula is potentially much different than the effect of the RTS formula on provincial entitlements. These effects must be clearly understood before a specific macro variable is chosen to replace the RTS formula in the Equalization program.

Perhaps because of these uncertain effects of the macro formula on equalization, no province appearing during the hearings was willing to support the use of a macro formula in the program. Also, three of the recipient provinces did not want to see any revenue bases removed from the equalization process because they believed that fairness in comparing the ability of provinces to deliver programs can only be achieved through a comprehensive formula. In their view, all sources of revenues should be equalized.

Finally, the federal government has begun to examine the possible consequence of adopting a macro formula. It has held discussions with interested parties concerning the nature of the macro formula and is currently studying the impact of various macro formulations on entitlements. As the Department's work is incomplete, it was not prepared to comment on the merits and shortcomings of the concept. As the Committee recognizes the need for greater simplicity and transparency in the Equalization program, it encourages both levels of government to continue to examine alternative formulations for calculating the equalization payments.

The little evidence at hand, suggests that a macro formula is unfair to too many provinces. For that reason, such a radical change in the equalization system is not likely to obtain the support of the provinces. There are simply too many serious practical difficulties with the different versions of the macro formula. Consequently, the Committee recommends that:

RECOMMENDATION 1

The federal government should not adopt at this time a macro formula to determine the entitlements of the provinces under the Equalization program.

B. The Ceiling on Total Payments

The ceiling on the total payments restricts the rate of increase in federal expenditures under the program. Provincial governments and some academics view this as an unreasonable constraint on the growth of equalization payments and contrary to the spirit of the program. In the federal government's opinion the ceiling is an integral part of the Equalization program, as it ensures that the program remains sustainable and affordable for it over. Because the Equalization program is designed to respond to economic conditions and resulting fiscal disparities, the federal government maintains that it is difficult to estimate the future incremental cost of removing the ceiling. On the other hand, the provinces have noted that the risk to the federal treasury is minimal because equalization obligations of the federal government will only grow as federal revenues grow. In fact, since its creation in 1982, the ceiling has constrained payments in six fiscal years: 1988-1989 to 1991-1992, 1993-1994 and in 2000-2001. According to the Department of Finance, this has reduced total equalization transfers over a 20-year period by \$3.2 billion. In absolute terms this is a considerable amount. However, the cost savings from

the ceiling when placed in the context of the total federal expenditures over a 20-year period do not seem so imposing.

However, the provinces believe that during periods of economic growth, restraining the increase in payments hinders recipient provinces from maintaining the level of services available in the wealthier provinces. Removing the ceiling would reduce disparity by providing more funding for recipient provinces to maintain services at a level comparable to other provinces. Without this extra funding, it becomes difficult for the recipient provinces to maintain the level of services available in the other provinces.

Although the Committee recognizes the federal government's fiscal concerns, it agrees with the provinces that, in general, federal revenues would have grown sufficiently to meet its obligations under an Equalization program that did not place a ceiling on total payments. In fact, as illustrated in Table II below, federal revenues have increased more rapidly than entitlements in the years since the ceiling was implemented in the fiscal year 1982-1983.

TABLE II
Growth in Federal Revenues and Entitlements

1982-83 To 2000-2001				
YEAR	REVENUES	GROWTH IN	ENTITLEMENTS	GROWTH IN
	MILLIONS OF \$	REVENUES	(PRE-CEILING)	ENTITLEMENTS
		1982-83=100	MILLIONS OF \$	1982-83=100
1982-83	60,662	100	4,162	100
1983-84	64,168	106	4,625	111
1984-85	71,056	117	4,687	113
1985-86	76,933	127	5,143	124
1986-87	85,931	142	5,775	139
1987-88	97,612	161	6,589	158
1988-89	104,067	172	7,738	186
1989-90	113,707	187	9,225	222
1990-91	119,353	197	9,062	218
1991-92	122,032	201	7,673	184
1992-93	120,380	198	7,784	187
1993-94	115,984	191	8,116	195
1994-95	123,323	203	8,607	207
1995-96	130,301	215	8,759	210
1996-97	140,896	232	8,959	215
1997-98	153,162	252	9,738	234
1998-99	155,671	257	9,602	231
1999-00	165,708	273	10,770	259
2000-01	178,590	294	11,052	266

Source: Department of Finance

Consequently, the Committee recommends that:

RECOMMENDATION 2

The federal government remove the ceiling on Equalization payments to the provinces.

C. The Floor on Equalization Payments

It has been suggested that the removal of the ceiling should be accompanied by a removal of the floor. The argument is that if federal liabilities are potentially increased by the removal of the ceiling, they should be offset by the removal of the floor. In the long run, this could reduce program costs to the federal government. However, the added federal expenditures required by the floor provisions are relatively small compared to the expenditures associated with the removal of the ceiling. Also, it is the provinces, not the federal government, that run a fiscal risk if the floor is removed. A dramatic decrease in equalization payments could have serious implications for the level and quality of provincial services in the affected province. Because the Equalization program is designed to assist provinces to provide necessary services to their citizens, it makes sense to retain the floor in order to ensure that the level and quality of services are not unduly affected by volatility in the system.

The floor has an impact on equalization payments when a province's entitlements decline below a threshold amount. This might arise when its fiscal capacity increases and/or when its population declines. It prevents a sudden and dramatic drop in federal transfers, which would upset a province's economic circumstances. Currently, the floor limits per capita declines to no more than 1.6% of the standard, about \$95 per person. Since its inception the floor provisions have been triggered on five occasions, once for New Brunswick and four times for Saskatchewan. The total additional cost to the federal government over the period, according to Department of Finance estimates amounts to \$538.6 million. Over two decades this does not seem to be an exorbitant federal expenditure to ensure some degree of stability in provincial services. Consequently, the Committee recommends that:

RECOMMENDATION 3

The government maintain the floor provisions in the Equalization program.

1. Changes in the Methodology

Even though the floor is meant to protect provinces against sudden large declines in their equalization payments, there is a danger that they could still suffer a large reduction in payments. This occurs when adjustments for discrepancies are made in the annual entitlements. Equalization payments are subject to an annual adjustment for any discrepancy between what a province should have received and the amount it was paid in any of the previous three years. A case in point occurred recently when Quebec faced an unanticipated decline of \$800 million in its entitlements for 2002-2003. It was determined that in the fiscal years 1999-2000, 2000-2001 and 2001-2002 the province had been overpaid a total \$800 million (a little more than \$200 million in each of the first two years and a little less than \$400 million in the last year). The floor did not enter into consideration because it applies only to year-over-year declines. For the years in question, the floor threshold for Quebec stood at \$694.8 million. While the total adjustment amount exceeds this figure, in no individual year did the declines in Quebec's entitlements reach the threshold amount.

There were two reasons for the change in the province's entitlements. First, because the province's economy did relatively better than the national economy, its share of equalization had dropped. This accounts for a decline of \$334 million. Second, a change in the way Statistics Canada calculates the over-all residential property values will cost Quebec \$466 million. As one of the 33 revenue bases used to determine a province's entitlements, any change in the method used to estimate residential values will impact on the equalization program. In September, the Agency went from a system that used a national price index to estimate property values in each province to one that uses a province-by-province price index. The new internationally recognized system is considered more precise. Once the Agency introduced the improved data, the regulations of the Equalization program stipulate that only the most accurate data be used to determine entitlements.

Although Quebec is the most adversely affected as a result of this change, the new methodology will also effect the entitlements of other provinces. The province of Newfoundland and Labrador will lose \$6 million, while all others will gain. The province of British Columbia, for instance, will receive \$226 million as a result of this change.

The \$800 million adjustment in Quebec's entitlements is a substantial shortfall to make up in any province's budget. In response to representation by the province, the Minister of Finance announced a one-year delay in the implementation of the proposed change for any province suffering a negative impact from this change. This announcement applies only to the \$466 million that arises from the change in the way that property values are estimated. The other \$344 million decline in Quebec's entitlement will proceed.

While forecasting economic circumstances is difficult at the best of times, it is impossible if the rules are changed on short notice. All of the provinces can apply the equalization formula as well as the federal government. Therefore, it can be argued that Quebec could have anticipated, the economically induced, \$344 million reduction in its entitlements. However, without prior consultation on the introduction of the new residential evaluation formula, Quebec could not have known that it would lose \$466 million in one year. Clearly, changes are required so that provinces can anticipate with greater certainty their level of entitlements. This can be achieved if there is greater dialogue between Statistics Canada and the provinces before new methodology is introduced. Indeed, the Minister of Finance expects that the postponement of the changes will allow the provinces and the Agency to review the substance of the change in greater detail. At the end of this discussion any negative impacts remaining as a result of the change in methodology will be spread out over a five-year period.

The Committee believes that the provinces should not suffer from this type of fiscal surprise. In light of the potential for a large impact on entitlements arising from changes in the methodology used to estimate the components of the equalization formula, there should be a process of consultation with the provinces before new methods are introduced. It is not the intent of the Committee to impinge on the independence of Statistics Canada in choosing the most appropriate methodology or data for use in determining Equalization entitlements. However, there is a need to ensure that confusion and discord in the process is minimized. Consequently, the Committee recommends that:

RECOMMENDATION 4

The federal government develop a process of consultation with the provinces and Statistics Canada that allows provincial governments an opportunity to assess and comment on changes in the way in which the variables of the Equalization formula are calculated.

D. The Five Province Standard

The current five-province standard removes the influences of the four low revenue provinces of the Atlantic region and the high revenue province of Alberta from the determination of provincial Equalization entitlements. According to the recipient provinces, this is unfair because it does not properly compare fiscal capacity among all of the provinces. Specifically, they argue that true comparability can only be achieved if all provinces are included in the determination of the standard. Failure to include all province results in lower entitlements, which in turn, makes it extremely difficult for a recipient province to continue to offer services comparable to those provided in the economically stronger provinces. Furthermore, the situation may worsen over time because the under-funding of the equalization program will mean that a recipient province will either be forced to divert funds away from investments in economic development or reduce the overall quality of the service that it provides. Both actions will reduce the province's attractiveness as a location for investments. The creation of a widening gap in the ability of provinces to provide comparable service is hardly consistent with the intent of the constitutional provision on equalization.

Table III, below compares the total entitlements by province over the period 1994-1995 to 2001-2002 under the current five-province standard and under a ten-province standard. For all current recipient provinces, the amount of Equalization payments received would have been greater. Also, British Columbia would have been entitled to receive payments. The additional payments range from \$156 million for Prince Edward Island to \$8.4 billion for Quebec.

**TABLE III
EQUALIZATION ENTITLEMENTS AND THE STANDARD
CUMMULATIVE EFFECTS – 1994-95 To 2001-02
MILLION OF\$**

PROVINCE	TOTAL PAYMENTS WITH A FIVE PROVINCE STADARD	TOTAL PAYMENTS USING A TEN PROVINCE STADARD	DIFFERENCE
NEWFOUNDLAND	8,439	9,065	626
PRINCE EDWARD ISLAND	1,824	1,980	156
NOVA SCOTIA	9,844	10,914	1,070
NEW BRUNSWICK	8,691	9,553	862
QUEBEC	37,621	46,003	8,382
ONTARIO	0	0	0

MANITOBA	9,053	10,355	1,302
SASKATCHEWAN	1,949	3,063	1,114
ALBERTA	0	0	0
BRITISH COLUMBIA	0	928	928
TOTAL	77,421	91,861	14,440

Source: Department of Finance

The standard is the benchmark against which each province's fiscal capacity is compared. The Committee acknowledges that the ten-province standard would likely lead to higher entitlements than does a five-province standard. In fact, the Department of Finance estimates that the additional cost to the federal budget of a ten-province standard, if it had been in place since the fiscal year 1982-1983, would have been almost \$31 billion. The Committee also recognizes that a ten-province standard is more volatile, and could lead to significant swings in the level of provincial entitlements. Nonetheless, the Committee feels that a five-province standard does not fulfil the intent of the program, which is to provide adequate funding that allows the provinces to provide comparable services to their residents. Stability in the level of Equalization payments is desirable but it should not come at the expense of adequacy in the level of payments. For instance while the five-province standard may have saved the federal government \$31 billion in the past two decades, it has also imposed a burden on the recipient provinces that has translated into reduced services for some Canadians. Consequently, the Committee recommends that:

RECOMMENDATION 5

The federal government restore the ten-province standard in determining provincial entitlements under the Equalization program.

E. Non-Renewable Natural Resource Revenues and the Equalization Process.

This is probably the most contentious issue of the Equalization program. There is profound disagreement among observers and among the provinces on how the revenues from non-renewable natural resources should be treated. The proposal to exclude non-renewable natural resources received various degrees of support from several witnesses and from the provinces of Newfoundland and Labrador and Nova Scotia. Some argue that from a purely accounting perspective these provincial earnings should be viewed as the proceeds from the sale of an asset and not as income that needs to be equalized. Others suggest that by excluding non-

renewable resource revenues from the formula, there would be greater stability in the total payments and hence less necessity to maintain a ceiling or a floor and that it would be possible to return to a ten-province standard in the determination of entitlements.

Those not supporting the removal of resource revenues from the equalization process have noted that these resources have been included in the program, in one form or another, since 1962. The three provinces of Prince Edward Island, New Brunswick and Manitoba do not support a reduction in the number of tax bases that should be equalized. In their view, in order to fairly measure each province's need for equalization, it is necessary to measure the ability of each province to raise revenue from all own-source revenues. According to the Department of Finance, the removal of natural resource revenues would result in resource-rich provinces having lower measures of fiscal capacity, and hence qualifying for higher payments. The Department estimates that the impact of removing these resources from equalization consideration would have cost the federal government \$270 million in the fiscal year 2001-2002. This amount would likely escalate over time as more offshore oil and gas development takes place.

Furthermore, the distribution effect of this proposal would result in greater payments to Saskatchewan, Equalization payments for British Columbia, and reduced equalization payments for all other recipient provinces. Table IV, below examines the effect on total entitlements of removing non-renewable natural resources from the RTS formula during the period from 1994-1995 to 2001-2002. The main effect of removing non-renewable natural resources from the Equalization formula over the period in question is to reduce the entitlements of all current recipient provinces other than Saskatchewan. Although total federal Equalization payments would have increased by \$1.6 billion, the distribution effect would have resulted in a reduction of provincial entitlements ranging from \$63 million in Newfoundland to \$3.5 billion in Quebec. At the same time, the entitlements of British Columbia and Saskatchewan would have increased by \$754 million and \$5.6 billion respectively.

TABLE IV
EQUALIZATION ENTITLEMENTS AND NATURAL RESOURCES
CUMMULATIVE EFFECTS 1994-95 TO 2001-02
MILLION OF\$

PROVINCE	TOTAL PAYMENTS USING A FIVE PROVINCE STADARD AND ALL REVENUE SOURCES	TOTAL ENTITLEMENTS USING A FIVE PROVINCE STADARD, EXCLUDING NON-RENEWABLE RESOURCE REVENUES	DIFFERENCE
NEWFOUNDLAND	8,439	8,376	-63
PRINCE EDWARD ISLAND	1,824	1,749	-75
NOVA SCOTIA	9,844	9,402	-442
NEW BRUNSWICK	8,691	8,462	-229
QUEBEC	37,621	34,058	-3,563
ONTARIO	0	0	0
MANITOBA	9,053	8,655	-398
SASKATCHEWAN	1,949	7,566	5,617
ALBERTA	0	0	0
BRITISH COLUMBIA	0	754	754
TOTAL	77,421	79,022	1,601

Source: Department of Finance

As mentioned earlier in this report, the volatility of non-renewable natural resource revenues can lead to sharp swings in the entitlements of provinces, and hence, raises concerns about adverse influences on provincial development and taxation decisions. Although the Committee is not convinced that provinces would jeopardize investments in job development simply to preserve their equalization payments, the perception that such actions could take place, has given rise to special provisions in agreements such as the Atlantic Accords and to the Generic Solution, which protect recipient provinces against sharp downturns in their Equalization entitlements resulting from increases in their non-renewable resource revenues. Removing natural resources revenues from the Equalization program would eliminate the need for such special provisions.

The two Atlantic provinces that currently produce oil and gas have argued that if they could keep a greater share of their equalization payments they could pursue economic development activities that would reduce the economic disparity between themselves and the rest of Canada. In their view, the removal of non-renewable resources from the program would

accomplish this goal. It would allow them to receive funds from the sale of the non-renewable resources, without any offsetting reduction in their entitlements. These “extra” funds could be invested in economic development. Although it has an impact on economic development, the Equalization program is not designed to stimulate economic growth.

The Committee believes that the country is better served if the program remains true to its intent of assisting provinces provide comparable services at comparable costs. After weighing all of the above concerns, the Committee believes that provincial non-renewable natural resource revenues belong in the Equalization program. Consequently, the Committee recommends that:

RECOMMENDATION 6

The Federal government continue to include provincial non-renewable natural resources as one of the revenue bases of the Equalization payments.

Notwithstanding the above, the Committee through these hearings has become aware of the ongoing difficulties that some recipient provinces are facing in fostering economic development within their territory. There is a sense of frustration in the recipient provinces that any increased development will be offset by losses in Equalization payments so that the province is no better off. The Committee is aware that some provisions of the Atlantic Accords in combination with the rules of the Equalization program and changes in other federal economic programs are such that the two Atlantic provinces believe they are not realizing the full expected benefits from the exploitation of their offshore resources. In their view this continues to prevent them from improving their economic circumstances and to reach the status of non-recipient provinces. The Committee believes that there is justification at this time to at least re-examine the way that the program deals with successful efforts by the provinces to improve economic development and enhance their revenue raising capabilities. Specifically, the Committee is concerned that the Generic Solution does not permit developing regions to retain enough of their entitlements when non-renewable natural resource revenues increase. Consequently the Committee recommends that:

RECOMMENDATION 7

The government change the Generic Solution so as to increase the share of a province's entitlements that are protected when its non-renewable natural resource revenues increase.

Furthermore, the Committee also believes that it is time to re-evaluate the relevant portions of the Atlantic Accords that deal with Equalization to determine if they have achieved the purpose for which they were intended. In the early years in which the Accords took effect and during which the provinces were entitled to shelter the largest proportion of their entitlements from the effects of new revenues, the actual level of revenues available to the provinces were very low because of the need to provide funding to the resource companies. It may be that although the Accords have operated in a technically correct way they may not have realized their intent. Consequently, the Committee recommends that:

RECOMMENDATION 8

The government should undertake an evaluation of the Equalization provisions of the Atlantic Accords to determine if they have met the intent for which they were designed.

F. Equalization Payments and the Developmental Needs of the Provinces

It was suggested that equalization payments are inadequate because they do not take into account the different developmental characteristics of each province. In simple terms, the proposition holds that the cost of delivering services is not equal across the country. Accordingly, the Equalization program should provide more funding to those provinces that experience unique service delivery costs. First, the proponents believe that this would lead to increased entitlements and improved services to all Canadians. Second, they believe that this would result in a fairer allocation of equalization payments and reduce the economic disparity between the provinces. Neither of these claims has been proven to the satisfaction of the Committee.

It is in the view of the Committee that adopting such a proposal would only further complicate an already complicated program without necessarily delivering greater benefits. The Committee acknowledged the theoretical possibility of accounting for differing development needs in determining entitlements, but must discard the notion as impractical and possibly contrary to the perceived requirements of current recipient provinces. In the end, the Committee was not able to discern which provinces would benefit from this proposal and which might be adversely affected. Furthermore, it was suggested that the overall cost of the program is likely to be greater or if there is a ceiling on total payments, then the distribution of payments is altered in ways that are not easily predictable at this time. Consequently, the Committee:

Cannot, at this time, recommend any system of equalization payments that attempts to adjust entitlements on the basis of the local cost of providing services.

CONCLUDING COMMENTS

Equalization has become an essential element of federal provincial fiscal arrangements in Canada. Its importance has increased, over the years so that it is now an integral part of the economic and social fabric of the country. In fact, its entrenchment in the Constitution in 1982 signaled its importance to the Canadian federation. Today, Canadians not only accept the principle of Equalization, they embrace it because it ensures that all Canadians, regardless of where they live, can expect similar levels of services from their provincial governments. This provides a very significant contribution toward maintaining equity in our society.

There are critics of the program. There are some who see it as having negative effects on the behavior of the provinces. While, the Committee accepts that there are costs to the program, it believes that the benefits far outweigh these costs. Nonetheless, the Committee also accepts that some improvements are needed. Like the Premier and Finance Ministers of the provinces who appeared during the hearings, the Committee believes that the Program requires strengthening, and not a complete overhaul. This is precisely what the Committee believes can be achieved through the adoption of its recommendations.

While, a properly functioning Equalization program would narrow fiscal disparities in the federation, there would remain significant economic disparities between provinces. The Committee is aware that there are many in Canada who would add a regional development mandate to the program. The Committee rejected this proposal. As noted earlier,

the primary objective of Equalization is to address fiscal disparities, and not economic disparities. However, if the economic disparities among provinces could be further reduced the Equalization program would better able to meet its Constitutional intent. The Committee believes that cooperative efforts, by both levels of government, to generate economic growth will reduce the economic disparities among regions and provinces. This would also reduce the need for Equalization payments.

APPENDIX A

REVENUE BASES OF THE EQUALIZATION PROGRAM

Revenues Subject to Equalization, 2000/2001	(millions \$)
1. Personal income taxes	48,374
2. Business income taxes	13,414
3. Capital taxes	4,769
4. General and miscellaneous sales taxes	28,535
5. Tobacco taxes	2,378
6. Gasoline taxes	5,141
7. Diesel fuel taxes	1,771
8. Non commercial vehicle licenses	2,236
9. Commercial vehicle licenses	986
10. Revenues from the sale of alcoholic beverages	4,091
11. Hospital and medical insurance premiums	1,551
12. Race track taxes	23
13. Forestry revenues	1,777
14. New oil revenues	1,297
15. Old oil revenues	302
16. Heavy oil revenues	207
17. Mined oil revenues	876
18. Third-tier oil revenues	271
19. Heavy third-tier revenues	76
20. Natural gas revenues	7,849
21. Sales of crown leases	1,210
22. Other oil and gas revenues	407
23. Mineral resources	485
24. Water power rentals	880
25. Insurance premiums	1,472
26. Payroll taxes	6,681
27. Provincial-local property taxes	33,576
28. Lottery ticket revenue	1,789
29. Other games of chance revenues	3,666
30. Miscellaneous provincial-local taxes and Revenue	9,375
31. Shared revenues: Offshore activities/Newfoundland	26
32. Shared revenues: Offshore activities/Nova Scotia	3
33. Shared revenues: Preferred Share Division	122
Total	185,616

Source: Canada, Department of Finance, Federal-Provincial Relations Division,
October 2001.

APPENDIX B
THE MACRO FORMULA AND PROVINCIAL ENTITLEMENTS

SERIES 1

Equalization Entitlements – RTS (Current) and Five Macro Variables Using a Five-Province Standard, No Floor or Ceiling

TABLE 1

Equalization Entitlements – RTS (Current) Methodology
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	886,466	167,876	907,861	827,114	3,588,863	0	872,138	490,467	0	0	7,740,785
1993-94	902,395	175,335	892,850	837,899	3,910,562	0	906,429	490,762	0	0	8,116,232
1994-95	958,386	191,972	1,065,405	927,487	3,965,489	0	1,084,915	308,475	0	0	8,502,129
1995-96	932,246	192,245	1,136,894	876,199	4,306,700	0	1,050,869	263,978	0	0	8,759,131
1996-97	1,029,712	208,347	1,182,328	1,019,376	4,168,563	0	1,126,363	95,206	0	0	8,829,895
1997-98	1,092,832	238,401	1,301,546	1,112,063	4,744,595	0	1,053,377	195,616	0	0	9,738,430
1998-99	1,068,182	237,504	1,221,030	1,112,181	4,394,349	0	1,092,400	476,815	0	0	9,602,461
Total	6,870,219	1,411,680	7,707,914	6,712,319	29,079,121	0	7,186,491	2,321,319	0	0	61,289,063

Source: Department of Finance

TABLE 2
Gross Domestic Product (GDP) at Market Prices
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	944,062	189,487	881,037	818,951	3,212,899	0	670,371	663,905	0	0	7,380,712
1993-94	984,650	182,926	967,500	777,714	3,462,397	0	729,533	585,115	0	0	7,689,833
1994-95	1,000,052	203,591	1,138,004	858,805	3,895,271	0	780,647	575,795	0	0	8,452,167
1995-96	988,762	207,661	1,154,219	745,215	3,958,844	0	707,533	408,697	0	0	8,170,931
1996-97	939,986	173,256	1,174,701	794,752	4,212,507	0	572,660	7,065	0	190,239	8,065,167
1997-98	957,814	184,504	1,219,941	856,496	4,304,364	0	591,382	143,436	0	563,577	8,821,513
1998-99	960,325	233,061	1,290,130	950,215	4,620,443	0	740,957	312,701	0	937,328	10,045,161
Total	6,775,651	1,374,485	7,825,532	5,802,149	27,666,724	0	4,793,083	2,696,715	0	1,691,144	58,625,484

Source: Department of Finance

TABLE 3
Differences Between GDP (Market Prices) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	57,596	21,611	-26,824	-8,163	-375,964	0	-201,767	173,438	0	0	-360,073
1993-94	82,255	7,591	74,650	-60,185	-448,165	0	-176,896	94,353	0	0	-426,399
1994-95	41,666	11,619	72,599	-68,682	-70,218	0	-304,268	267,320	0	0	-49,962
1995-96	56,516	15,416	17,325	-130,984	-347,856	0	-343,336	144,719	0	0	-588,200
1996-97	-89,726	-35,091	-7,627	-224,624	43,944	0	-553,703	-88,141	0	190,239	-764,728
1997-98	-135,018	-53,897	-81,605	-255,567	-440,231	0	-461,995	-52,180	0	563,577	-916,917
1998-99	-107,857	-4,443	69,100	-161,966	226,094	0	-351,443	-164,114	0	937,328	442,700
Total	-94,568	-37,195	117,618	-910,170	-1,412,397	0	-2,393,408	375,396	0	1,691,144	-2,663,579

Source: Department of Finance

TABLE 4
Gross Domestic Product (GDP) at Factor Cost
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	950,776	169,637	875,956	841,035	3,379,321	0	569,019	510,151	0	0	7,295,895
1993-94	978,057	163,925	948,647	830,643	3,460,076	0	654,748	558,439	0	0	7,594,535
1994-95	1,010,402	190,200	1,157,300	878,941	3,645,697	0	740,659	550,687	0	0	8,173,885
1995-96	1,003,480	196,252	1,171,013	772,638	3,745,227	0	695,691	423,707	0	0	8,008,009
1996-97	940,299	157,659	1,138,235	763,548	4,534,660	0	528,643	-18,045	0	0	8,044,998
1997-98	960,974	169,544	1,186,213	835,425	4,663,884	0	511,009	97,243	0	190,753	8,615,044
1998-99	938,293	224,185	1,256,272	906,387	4,856,202	0	724,601	285,577	0	746,133	9,937,650
Total	6,782,280	1,271,403	7,733,636	5,828,617	28,285,066	0	4,424,369	2,407,758	0	936,886	57,670,016

Source: Department of Finance

TABLE 5
Differences Between GDP (Factor Cost) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	64,310	1,761	-31,905	13,921	-209,542	0	-303,119	19,684	0	0	-444,890
1993-94	75,662	-11,410	55,797	-7,256	-450,486	0	-251,681	67,677	0	0	-521,697
1994-95	52,016	-1,772	91,895	-48,546	-319,792	0	-344,256	242,212	0	0	-328,244
1995-96	71,234	4,007	34,119	-103,561	-561,473	0	-355,178	159,729	0	0	-751,122
1996-97	-89,413	-50,688	-44,093	-255,828	366,097	0	-597,720	-113,251	0	0	-784,897
1997-98	-131,858	-68,857	-115,333	-276,638	-80,711	0	-542,368	-98,373	0	190,753	-1,123,386
1998-99	-129,889	-13,319	35,242	-205,794	461,853	0	-367,799	-191,238	0	746,133	335,189
Total	-87,939	-140,277	25,722	-883,702	-794,055	0	-2,762,122	86,439	0	936,886	-3,619,047

Source: Department of Finance

TABLE 6
Net Domestic Product (NDP) at Factor Cost
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	1,028,703	182,455	878,037	844,422	2,964,098	0	564,230	828,179	0	0	7,290,125
1993-94	1,075,849	178,447	936,203	819,528	3,031,526	0	624,730	879,719	0	0	7,546,002
1994-95	1,116,450	198,144	1,146,229	912,852	3,530,855	0	692,846	837,108	0	0	8,434,485
1995-96	1,089,085	187,677	1,232,269	811,819	3,388,663	0	757,052	734,297	0	0	8,200,861
1996-97	1,077,040	161,018	1,192,570	778,223	4,275,024	0	622,557	385,134	0	0	8,491,567
1997-98	1,121,750	193,624	1,261,798	784,709	4,240,665	0	643,478	609,633	0	140,640	8,996,296
1998-99	1,037,512	227,554	1,334,114	966,320	4,761,108	0	664,987	683,511	0	679,619	10,354,725
Total	7,546,389	1,328,919	7,981,221	5,917,874	26,191,938	0	4,569,880	4,957,582	0	820,258	59,314,061

Source: Department of Finance

TABLE 7
Differences Between NDP (Factor Cost) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	142,237	14,579	-29,824	17,308	-624,765	0	-307,908	337,712	0	0	-450,660
1993-94	173,454	3,112	43,353	-18,371	-879,036	0	-281,699	388,957	0	0	-570,230
1994-95	158,064	6,172	80,824	-14,635	-434,634	0	-392,069	528,633	0	0	-67,644
1995-96	156,839	-4,568	95,375	-64,380	-918,037	0	-293,817	470,319	0	0	-558,270
1996-97	47,328	-47,329	10,242	-241,153	106,461	0	-503,806	289,928	0	0	-338,328
1997-98	28,918	-44,777	-39,748	-327,354	-503,930	0	-409,899	414,017	0	140,640	-742,134
1998-99	-30,670	-9,950	113,084	-145,861	366,759	0	-427,413	206,696	0	679,619	752,264
Total	676,170	-82,761	273,307	-794,445	-2,887,183	0	-2,616,611	2,636,263	0	820,258	-1,975,002

Source: Department of Finance

TABLE 8
Net Domestic Product (NDP) at Market Prices
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	1,009,957	203,370	883,560	818,649	2,832,417	0	680,985	959,143	0	0	7,388,082
1993-94	1,069,358	198,100	959,555	760,575	3,095,673	0	714,588	864,135	0	0	7,661,983
1994-95	1,089,405	212,318	1,125,751	884,963	3,832,722	0	745,432	824,740	0	0	8,715,331
1995-96	1,060,219	201,923	1,204,456	774,962	3,682,993	0	761,955	673,447	0	0	8,359,955
1996-97	1,055,559	178,410	1,226,055	811,791	3,945,175	0	658,598	351,693	0	141,148	8,368,429
1997-98	1,093,380	207,049	1,288,787	816,647	3,894,106	0	715,126	583,653	0	575,301	9,174,047
1998-99	1,047,745	237,216	1,361,136	1,007,480	4,505,295	0	692,758	654,360	0	908,819	10,414,809
Total	7,425,623	1,438,386	8,049,300	5,875,066	25,788,380	0	4,969,443	4,911,171	0	1,625,268	60,082,637

Source: Department of Finance

TABLE 9
Differences Between NDP (Market Prices) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	123,491	35,494	-24,301	-8,465	-756,446	0	-191,153	468,676	0	0	-352,703
1993-94	166,963	22,765	66,705	-77,324	-814,889	0	-191,841	373,373	0	0	-454,249
1994-95	131,019	20,346	60,346	-42,524	-132,767	0	-339,483	516,265	0	0	213,202
1995-96	127,973	9,678	67,562	-101,237	-623,707	0	-288,914	409,469	0	0	-399,176
1996-97	25,847	-29,937	43,727	-207,585	-223,388	0	-467,765	256,487	0	141,148	-461,466
1997-98	548	-31,352	-12,759	-295,416	-850,489	0	-338,251	388,037	0	575,301	-564,383
1998-99	-20,437	-288	140,106	-104,701	110,946	0	-399,642	177,545	0	908,819	812,348
Total	555,404	26,706	341,386	-837,253	-3,290,741	0	-2,217,048	2,589,852	0	1,625,268	-1,206,426

Source: Department of Finance

TABLE 10
Personal Income
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	611,647	132,575	676,824	700,761	2,084,464	0	572,248	794,971	4,531	0	5,578,021
1993-94	635,048	129,141	691,184	686,499	2,182,509	0	602,341	783,488	0	0	5,710,210
1994-95	638,663	142,632	765,754	747,572	2,487,671	0	556,932	880,509	0	0	6,219,733
1995-96	630,681	135,502	813,168	721,932	2,375,995	0	554,776	787,673	0	0	6,019,728
1996-97	736,387	129,692	821,368	693,067	3,302,273	0	460,677	650,077	0	0	6,793,540
1997-98	783,303	153,778	840,193	702,037	3,250,011	0	504,776	934,025	0	0	7,168,123
1998-99	778,126	170,689	878,445	776,592	3,251,914	0	452,995	772,286	0	516,816	7,597,862
Total	4,813,855	994,009	5,486,937	5,028,459	18,934,836	0	3,704,744	5,603,028	4,531	516,816	45,087,216

Source: Department of Finance

TABLE 11
Differences Between Personal Income and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	-274,819	-35,301	-231,037	-126,353	-1,504,399	0	-299,890	304,504	4,531	0	-2,162,764
1993-94	-267,347	-46,194	-201,666	-151,400	-1,728,053	0	-304,088	292,726	0	0	-2,406,022
1994-95	-319,723	-49,340	-299,651	-179,915	-1,477,818	0	-527,983	572,034	0	0	-2,282,396
1995-96	-301,565	-56,743	-323,726	-154,267	-1,930,705	0	-496,093	523,695	0	0	-2,739,403
1996-97	-293,325	-78,655	-360,960	-326,309	-866,290	0	-665,686	554,871	0	0	-2,036,355
1997-98	-309,529	-84,623	-461,353	-410,026	-1,494,584	0	-548,601	738,409	0	0	-2,570,307
1998-99	-290,056	-66,815	-342,585	-335,589	-1,142,435	0	-639,405	295,471	0	516,816	-2,004,599
Total	-2,056,364	-417,671	-2,220,977	-1,683,860	-10,144,285	0	-3,481,747	3,281,709	4,531	516,816	-16,201,847

Source: Department of Finance

SERIES 2

Equalization Entitlements- RTS (Current) and Five Macro Variables Using a Ten Province Standard, No Floor or Ceiling

TABLE 1
Equalization Entitlements – RTS (Current) Methodology
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992/93	910,698	173,343	946,248	858,391	3,885,814	0	918,585	532,363	0	0	8,225,442
1993/94	952,891	186,841	973,254	903,189	4,535,981	0	1,003,567	578,148	0	0	9,133,872
1994/95	1,015,292	205,140	1,156,813	1,001,630	4,678,829	0	1,195,419	407,539	0	0	9,660,662
1995/96	975,226	202,336	1,206,776	932,800	4,854,899	0	1,135,333	339,542	0	0	9,646,911
1996/97	1,094,297	224,001	1,289,428	1,106,067	5,005,491	0	1,256,854	212,524	0	0	10,188,662
1997/98	1,156,066	253,988	1,408,067	1,198,079	5,577,292	0	1,182,970	312,121	0	0	11,088,584
1998/99	1,119,028	250,235	1,308,199	1,182,360	5,076,417	0	1,198,346	572,211	0	0	10,706,797
Total	7,223,497	1,495,882	8,288,785	7,182,516	33,614,723	0	7,891,075	2,954,450	0	0	68,650,929

Source: Department of Finance

TABLE 2
Gross Domestic Product (GDP) at Market Prices
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	920,750	184,228	844,105	788,861	2,927,209	0	625,686	623,600	0	0	6,914,437
1993-94	972,823	180,231	948,670	762,423	3,315,920	0	706,782	564,648	0	0	7,451,496
1994-95	988,505	200,920	1,119,456	843,761	3,750,524	0	758,224	555,694	0	0	8,217,085
1995-96	977,736	205,072	1,136,293	730,695	3,818,215	0	685,865	389,313	0	0	7,943,189
1996-97	944,968	174,463	1,182,963	801,439	4,277,067	0	582,726	16,115	0	224,644	8,204,385
1997-98	974,018	188,498	1,247,238	878,538	4,517,749	0	624,591	173,292	0	679,144	9,283,067
1998-99	967,446	234,844	1,302,337	960,043	4,715,958	0	755,794	326,060	0	989,449	10,251,931
Total	6,746,246	1,368,255	7,781,060	5,765,760	27,322,642	0	4,739,668	2,648,722	0	1,893,237	58,265,590

Source: Department of Finance

TABLE 3
Differences Between GDP (Market Prices) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	10,052	10,885	-102,144	-69,530	-958,605	0	-292,899	91,237	0	0	-1,311,004
1993-94	19,932	-6,610	-24,584	-140,766	-1,220,061	0	-296,785	-13,500	0	0	-1,682,375
1994-95	-26,787	-4,220	-37,357	-157,869	-928,305	0	-437,195	148,155	0	0	-1,443,578
1995-96	2,511	2,736	-70,483	-202,105	-1,036,683	0	-449,468	49,771	0	0	-1,703,722
1996-97	-149,329	-49,537	-106,465	-304,628	-728,424	0	-674,128	-196,410	0	224,644	-1,984,277
1997-98	-182,049	-65,489	-160,829	-319,541	-1,059,543	0	-558,380	-138,829	0	679,144	-1,805,517
1998-99	-151,582	-15,392	-5,863	-222,317	-360,459	0	-442,552	-246,151	0	989,449	-454,866
Total	-477,251	-127,627	-507,725	-1,416,756	-6,292,081	0	-3,151,407	-305,728	0	1,893,237	-10,385,339

Source: Department of Finance

TABLE 4
Gross Domestic Product (GDP) at Factor Cost
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	943,693	168,039	864,735	831,893	3,292,521	0	555,442	497,905	0	0	7,154,229
1993-94	983,261	165,111	956,933	837,371	3,524,529	0	664,758	567,445	0	0	7,699,408
1994-95	1,011,984	190,566	1,159,841	881,002	3,665,527	0	743,731	553,441	0	0	8,206,092
1995-96	1,003,119	196,168	1,170,426	772,162	3,740,621	0	694,981	423,072	0	0	8,000,549
1996-97	970,054	164,872	1,187,578	803,488	4,920,254	0	588,763	36,004	0	54,909	8,725,922
1997-98	1,003,989	180,146	1,258,674	893,936	5,230,325	0	599,164	176,497	0	497,532	9,840,263
1998-99	968,879	231,844	1,308,706	948,603	5,266,486	0	788,331	342,960	0	970,016	10,825,826
Total	6,884,978	1,296,745	7,906,893	5,968,456	29,640,263	0	4,635,171	2,597,324	0	1,522,457	60,452,288

Source: Department of Finance

TABLE 5
Differences Between GDP (Factor Cost) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	32,995	-5,303	-81,513	-26,497	-593,292	0	-363,143	-34,458	0	0	-1,071,213
1993-94	30,370	-21,730	-16,320	-65,818	-1,011,452	0	-338,809	-10,704	0	0	-1,434,464
1994-95	-3,308	-14,574	3,029	-120,628	-1,013,302	0	-451,689	145,901	0	0	-1,454,571
1995-96	27,893	-6,168	-36,350	-160,638	-1,114,278	0	-440,352	83,530	0	0	-1,646,362
1996-97	-124,242	-59,129	-101,850	-302,579	-85,237	0	-668,090	-176,520	0	54,909	-1,462,740
1997-98	-152,078	-73,842	-149,393	-304,143	-346,967	0	-583,806	-135,624	0	497,532	-1,248,321
1998-99	-150,149	-18,391	506	-233,757	190,069	0	-410,014	-229,251	0	970,016	119,029
Total	-338,519	-199,137	-381,892	-1,214,061	-3,974,460	0	-3,255,904	-357,126	0	1,522,457	-8,198,641

Source: Department of Finance

TABLE 6
Net Domestic Product (NDP) at Factor Cost
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	1,000,109	176,004	832,736	807,514	2,613,669	0	509,419	778,741	0	0	6,718,191
1993-94	1,057,049	174,164	906,270	795,222	2,798,690	0	588,566	847,186	0	0	7,167,147
1994-95	1,098,218	193,926	1,116,943	889,097	3,302,305	0	657,441	805,369	0	0	8,063,298
1995-96	1,072,294	183,734	1,204,970	789,708	3,174,507	0	724,055	704,778	0	0	7,854,046
1996-97	1,077,009	161,010	1,192,519	778,181	4,274,622	0	622,494	385,078	0	0	8,490,913
1997-98	1,137,055	197,396	1,287,581	805,529	4,442,216	0	674,845	637,833	0	249,798	9,432,253
1998-99	1,041,738	228,612	1,341,359	972,153	4,817,797	0	673,793	691,440	0	710,553	10,477,446
Total	7,483,473	1,314,846	7,882,378	5,837,403	25,423,806	0	4,450,614	4,850,424	0	960,351	58,203,295

Source: Department of Finance

TABLE 7
Differences Between NDP (Factor Cost) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	89,411	2,661	-113,513	-50,877	-1,272,145	0	-409,167	246,378	0	0	-1,507,251
1993-94	104,158	-12,677	-66,983	-107,968	-1,737,291	0	-415,001	269,038	0	0	-1,966,724
1994-95	82,926	-11,214	-39,870	-112,533	-1,376,524	0	-537,978	397,829	0	0	-1,597,364
1995-96	97,068	-18,602	-1,806	-143,092	-1,680,392	0	-411,278	365,235	0	0	-1,792,866
1996-97	-17,288	-62,990	-96,909	-327,886	-730,869	0	-634,360	172,553	0	0	-1,697,748
1997-98	-19,011	-56,591	-120,486	-392,550	-1,135,076	0	-508,125	325,711	0	249,798	-1,656,330
1998-99	-77,289	-21,623	33,160	-210,207	-258,620	0	-524,553	119,229	0	710,553	-229,351
Total	259,975	-181,036	-406,407	-1,345,113	-8,190,917	0	-3,440,461	1,895,974	0	960,351	-10,447,634

Source: Department of Finance

TABLE 8

Net Domestic Product (NDP) at Market Price
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	965,828	193,414	813,649	761,689	2,291,613	0	596,397	882,846	0	0	6,505,436
1993-94	1,034,521	190,161	904,087	715,532	2,664,201	0	647,573	803,847	0	0	6,959,921
1994-95	1,059,001	205,284	1,076,913	845,349	3,451,598	0	686,391	771,812	0	0	8,096,350
1995-96	1,033,549	195,661	1,161,095	739,842	3,342,840	0	709,545	626,560	0	0	7,809,092
1996-97	1,031,679	172,622	1,186,455	779,738	3,635,726	0	610,351	308,317	0	0	7,724,888
1997-98	1,082,248	204,305	1,270,035	801,505	3,747,520	0	692,313	563,143	0	495,911	8,856,980
1998-99	1,029,067	232,539	1,329,117	981,700	4,254,749	0	653,840	619,318	0	772,102	9,872,432
Total	7,235,894	1,393,986	7,741,350	5,625,356	23,388,247	0	4,596,409	4,575,844	0	1,268,014	55,825,099

Source: Department of Finance

TABLE 9
Differences Between NDP (Market Prices) and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	55,130	20,071	-132,600	-96,701	-1,594,201	0	-322,189	350,483	0	0	-1,720,006
1993-94	81,629	3,320	-69,167	-187,657	-1,871,780	0	-355,995	225,699	0	0	-2,173,950
1994-95	43,710	145	-79,899	-156,281	-1,227,231	0	-509,028	364,273	0	0	-1,564,312
1995-96	58,324	-6,675	-45,681	-192,959	-1,512,058	0	-425,788	287,018	0	0	-1,837,819
1996-97	-62,617	-51,379	-102,972	-326,330	-1,369,765	0	-646,503	95,793	0	0	-2,463,774
1997-98	-73,818	-49,682	-138,032	-396,573	-1,829,772	0	-490,658	251,022	0	495,911	-2,231,604
1998-99	-89,961	-17,696	20,917	-200,660	-821,668	0	-544,506	47,107	0	772,102	-834,364
Total	12,397	-101,896	-547,435	-1,557,161	-10,226,476	0	-3,294,665	1,621,394	0	1,268,014	-12,825,829

Source: Department of Finance

TABLE 10
Personal Income
Total Equalization Entitlements
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	567,994	122,727	607,665	644,415	1,549,488	0	488,571	719,496	0	0	4,700,355
1993-94	593,660	119,710	625,287	632,987	1,669,914	0	522,726	711,866	0	0	4,876,150
1994-95	596,089	132,783	697,368	692,103	1,953,996	0	474,259	806,396	0	0	5,352,995
1995-96	590,012	125,952	747,044	668,374	1,857,273	0	474,852	716,172	0	0	5,179,679
1996-97	697,948	120,375	757,625	641,472	2,804,153	0	383,013	580,254	0	0	5,984,839
1997-98	748,126	145,107	780,935	654,186	2,786,774	0	432,682	869,210	0	0	6,417,022
1998-99	755,345	164,984	839,391	745,148	2,946,325	0	405,527	729,545	0	350,063	6,936,328
Total	4,549,173	931,638	5,055,315	4,678,686	15,567,923	0	3,181,630	5,132,940	0	350,063	39,447,367

Source: Department of Finance

TABLE 11
Differences Between Personal Income and RTS
\$ Thousands

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	Receiving
1992-93	-342,704	-50,616	-338,583	-213,976	-2,336,326	0	-430,014	187,133	0	0	-3,525,086
1993-94	-359,231	-67,131	-347,966	-270,202	-2,866,067	0	-480,842	133,717	0	0	-4,257,722
1994-95	-419,203	-72,357	-459,445	-309,527	-2,724,834	0	-721,160	398,857	0	0	-4,307,668
1995-96	-385,214	-76,383	-459,732	-264,426	-2,997,626	0	-660,481	376,629	0	0	-4,467,232
1996-97	-396,349	-103,626	-531,803	-464,595	-2,201,338	0	-873,841	367,730	0	0	-4,203,823
1997-98	-407,941	-108,880	-627,133	-543,892	-2,790,518	0	-750,288	557,089	0	0	-4,671,562
1998-99	-363,683	-85,251	-468,809	-437,212	-2,130,092	0	-792,819	157,334	0	350,063	-3,770,469
Total	-2,674,324	-564,244	-3,233,470	-2,503,830	-18,046,800	0	-4,709,445	2,178,489	0	350,063	-29,203,561

Source: Department of Finance