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Time to bring equality to equalization

This spring's election campaign has been dominated by the odour of scandal, the promise of a revitalized healthcare system, and talk of the need to protect Canadian values. Sadly, there has been no talk of the way both Liberal and Conservative governments have, by scandalously undermining Canada's system of equalization payments, contributed to the underfunding of healthcare and the weakening of social solidarity.

In Manitoba, twelve departments have had their funding frozen or cut, an additional 400 civil service positions are to be eliminated, and continued reductions in personal and corporate income taxes are being offset by the imposition of more regressive taxes. The only province that is protected from these intense fiscal pressures is Alberta, where Premier Klein and his cabinet colleagues talk about soon being debt-free, eliminating the personal income tax, and going it alone on important social programs.

> **It makes no sense for the federal government to continue to rack up large surpluses while most provinces, with the exception of Alberta, are struggling to stay out of a deficit position by cutting jobs and squeezing spending.**

This situation is a manifestation of a multi-faceted problem inherent in the present federal-provincial financial arrangements. While these arrangements include both the equalization program and the Canada Health and Canada Social Transfers, reform must begin with the Equalization program.

Equalization was a response to the fiscal chaos that accompanied the Great Depression when many poorer provincial governments found themselves on the verge of bankruptcy, unable to provide basic social, health and educational services to their citizens. To prevent the emergence of first- and second-class provinces the Rowell-Sirois Commission recommended the creation of a system of National Adjustment Grants to provide have-not provinces with the ability to spend and tax at levels comparable to the national average. When the Equalization program was created in 1957, the national average—called the 'national standard'—was the average revenues of the two wealthiest provinces. The federal government provided equalization grants to all provinces with revenues less than the average of the two wealthiest provinces. In 1962, the standard was changed to an average of the per capita revenue of all ten provinces. Under this system the federal government made equalization payments that brought each province's revenue up to the ten-province standard. Province's with incomes above the standard did not receive grants.

The glue that holds the country together

Canada's Equalization program has been called "the glue that holds Confederation together." It is a means by which the wealthier provinces share with the less well-to-do provinces, and thus is an expression of important Canadian values. So important is our Equalization program that in 1982 it was added to the Constitution as Section 32.2, which commits the federal government to make Equalization payments sufficient to enable provinces "to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

Ironically, in the very same year, this commitment was compromised when the federal government panicked in the face of OPEC-initiated hikes in crude oil prices and unilaterally adopted what is called the "representative five-province standard" as a basis for equalizing revenues. The five-province standard excluded the revenues of Alberta and the Atlantic provinces from the calculation of equalization payments. The explicit intention was to exclude the oil and gas riches of Alberta from the calculation of the size of equalization payments, in order to hold down the size of those payments. There was no reason *in principle* for moving to the representative five-province standard. It was a cost-cutting measure.

And it achieved its goal: Since 1982, revenues of provinces that receive equalization payments have fallen further and further behind the revenues of Alberta. Experts in the field of federal -provincial relations have condemned the federal government for compromising the principle of Equalization, the ability to "provide reasonably comparable levels of public services at reasonably comparable levels of taxation." Alberta's vast oil and gas revenues enable the province to offer services to Albertans at lower levels of taxation—for example, Alberta has no provincial sales tax. The have-not provinces receive lower equalization payments from the federal government because Alberta's oil and gas revenues are excluded from the equalization calculation. This enables Alberta to strip have-not provinces of professional workers in the health care and educational sectors. Attempts by have-not provinces, such as Manitoba, to keep pace with Alberta's ability to cut taxes simply make matters worse, because they then have even less revenue to fund health and education and social services, and become locked into a race to the bottom.

We must return to a 10-province standard that includes in the calculation of equalization payments all revenues generated in the provinces, including the oil and gas riches of Alberta. It is important to note that including Alberta's oil and gas revenues in the calculation of Equalization payments does *not* mean taking more money out of Alberta, since Equalization payments are made from federal revenues.

Under a 10-province standard in 2002, total equalization payments, paid out of federal coffers, would have been $14.2 billion. This is $ 4.5 billion more than was paid out under the five-province standard. All recipient provinces (currently all provinces except Ontario and Alberta) would gain with this change. Manitoba would have been entitled to an additional $333 million in 2002 alone.

The Canadian Centre for Policy Alternatives is estimating a surplus of $8.5 billion, and continued surpluses over the next several years totaling over $20 billion, and CCPA estimates have been more accurate than those of the federal government over the past ten years. This is more than sufficient to cover the additional Equalization costs associated with the shift to a 10-province standard. And if it were not sufficient, we would strongly recommend raising personal income taxes to cover the cost. Doing so would be consistent with the letter and the spirit of Canada's Constitution, and would be consistent with what Canadians have repeatedly said, in public opinion polling.

It makes no sense for the next federal government to continue to rack up large surpluses while most provinces, with the exception of Alberta, are struggling to stay out of a deficit position by cutting jobs and squeezing spending on things that Canadians repeatedly say are priorities. It makes perfect sense to move to the ten-province standard, and since the Equalization program is currently being renegotiated, now is the time to do it.

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Errol Black and Jim Silver are the authors of Equalization: Financing Canadians' Commitment to Sharing and Social Solidarity, *published by the Canadian Centre for Policy Alternatives and available at www.policyalternatives.ca.*

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