

Policy Paper



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Not All Quiet on the Equalization Front

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CONTEXT

- Equalization is a federal program to even out fiscal capacity of provinces
- It is part of the Canadian Constitution
- Program objective is help ensure comparable delivery of services
- Funds transferred to provinces come exclusively from federal revenues
- Over the years Equalization has often been source of controversy
- Core issue is the formula used to determine provinces that qualify
- Central to calculation is treatment of provincial natural resource revenues
- Newfoundland and Labrador have issued a constitutional challenge
- Saskatchewan has also been vocal in its criticism of Equalization



CONSIDERATIONS

- The issues raised in the Constitutional challenge:
 - Failure to consider costs by province in providing services
 - Method of determining the fiscal capacity cap
 - Inequitable distribution of excess Equalization funding
 - The Gross Domestic Product ceiling
- Key issue is treatment of Quebec's hydro resource revenues
 - Hydro rates are purposefully kept artificially low by Quebec
 - As a result, province qualifies for Equalization
 - This year Quebec will receive \$13.3 billion in Equalization
- Resource revenues ensure, AB, SK, and N-L do not receive Equalization
- Issues of geography, population distribution not taken into account

QUESTIONS

- How important is Equalization in terms of Canadian federalism?
- Does Newfoundland and Labrador have a sound argument?
- What are the primary policy criticisms of Equalization?
- Should natural resource revenues be excluded from the calculation?
 - What the arguments for and against?
- Should there be a new review of the Equalization formula?
- Should the issue be left to the Court?
- Is the Court competent to address the inherent complexities?