

NEWS RELEASE

Equalization program can't adapt to rapid fiscal changes among provinces

June 18, 2020
For Immediate Release

TORONTO—Canada's equalization program is not designed to handle the dramatic fiscal changes among provinces happening today, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"As the fortunes of provincial economies change, the equalization program—in its current form—can't adapt to reflect these changes," said Ben Eisen, Fraser Institute senior fellow and co-author of *Equalization and Stabilization post-recession: Is Canada ready?*

For example, under Canada's current equalization program, provincial governments receive or do not receive equalization payments based on their "fiscal capacity"—essentially, their ability to generate revenue.

Crucially, while the gap between recipient and non-recipient (essentially, richer and poorer) provinces has shrunk from 27 per cent in 2014/15 to 6 per cent in 2018/19, program design quirks keep equalization payments growing every year.

The study also finds that "lags" in the equalization formula prevent the program from responding quickly to fiscal changes among provinces.

"If policymakers want the equalization program to better reflect economic reality, they should review how the program responds to Canada's changing fiscal landscape," said Steve Lafleur, study co-author and senior policy analyst at the Fraser Institute.

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