

NEWS RELEASE

Flawed equalization program can't respond fairly to big changes in Canadian economy

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For immediate release

TORONTO—As traditional “have” provinces struggle economically, Canada’s equalization program is not equipped to adapt to the country’s new economic landscape, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“The economic gap between so-called have and have-not provinces has shrunk, but equalization payments are required to keep growing automatically no matter how much provinces like Alberta and Saskatchewan are struggling,” said Ben Eisen, co-author of *Should Equalization Keep on Growing in an Era of Converging Fiscal Capacity?*

Over the past two years, four provinces—British Columbia, Alberta, Saskatchewan, and Newfoundland and Labrador—did not receive equalization payments, while the rest of the provinces (including Ontario and Quebec) did.

The study shows that over past two years, the provinces that do not receive equalization have collectively seen their fiscal capacity—the ability to raise provincial tax revenue—shrink by 3.5 per cent. By comparison, the collective fiscal capacity of provinces that receive equalization has grown by 8.1 per cent. This means the gap between provinces that receive equalization and provinces that don’t is shrinking.

And as that gap narrows, the total amount Ottawa transfers to the provinces in equalization should shrink, too. That’s how the program has worked at times in the past—equalization payments actually fell for this reason in the early 2000s.

But a 2009 change in the program now requires total equalization payments to increase every year at a rate pegged to national economic growth, regardless of how much the fiscal capacity gap between provinces shrinks.

This rule—introduced to cap equalization increases to ensure program affordability—could actually add as much as \$2.7 billion to program costs over the next two years.

“Last year, Quebec generated more resource revenue than Alberta—that’s a perfect illustration of how the gap between have and have-not provinces has narrowed recently. But the rules in place today will actually force equalization transfers to continue to increase,” Eisen said.

“Policymakers should consider reforming the program to make it more responsive to the changing nature of Canada’s economic landscape.”

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