Manitoba

Budget Paper C

A NEW FOCUS ON FISCAL RELATIONS

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In the summer of 2005, Manitoba's Finance Minister, the Honourable Greg Selinger, met with both the federal Expert Panel on Equalization and the Council of the Federation's Advisory Panel on Fiscal Imbalance. His presentations to the panels focused on some of the major hurdles facing the federal and provincial governments in addressing the social and economic priorities of Canadians. This Budget Paper summarizes the key ideas that were presented as possible solutions in the current federal-provincial context.

Since the mid-1990s much of the federal-provincial dialogue has centred on questions of vertical fiscal gaps and imbalances, as well as the increasingly critical imbalance among provinces. While the focus has been on the key mechanisms to address them – Canada Health Transfer (CHT), Canada Social Transfer (CST) and Equalization – a third tier of arrangements, and potential arrangements, has gained importance. There are several reasons for this: frustration with the pace of progress in renewing established mechanisms, the apparent widening of fiscal disparities among provinces and between the provinces and the federal government, major regional economic disruptions caused by events like forest fires, BSE and the softwood lumber dispute, and a greater acceptance of the view that the federal government has, at least, a funding role in some provincially administered programs and projects other than major social programs.

Reassessing Fiscal Relationships

Canada has not undertaken a formal review of the roles and responsibilities of both orders of government since Rowell and Sirois were commissioned to do the job back in 1937. Federal-Provincial-Territorial fiscal relations have evolved over the past 69 years and the mechanisms used to give fiscal balance to the federation have undergone such major changes in the intervening period that a comprehensive reassessment would be timely.

In recent years a succession of major studies and reports, beginning with the Séguin Report, continuing with the Conference Board's reports on the fiscal situation of governments and most recently the final report of the Commons Finance Subcommittee have all effectively reached the same conclusion: that fiscal imbalance is a reality and a serious issue. Canada's newly elected Prime Minister, Stephen Harper, in the leadership debate and in a letter to the Council of the Federation, acknowledged the existence of the fiscal imbalance and pledged his administration to its elimination.

Manitoba welcomes this development and believes the time has come to undertake a rational assessment of the responsibilities of each order of government along with their tax authority. Such an examination is long overdue and would inform governments of the implications of the options that are both open and, under current arrangements, closed to them. In the meantime, we need to improve the Equalization Program and, at a minimum, ensure that the federal government restores the funding to post-secondary education and social services it has cut over the last ten years.

In an economically diverse and highly decentralized country like Canada there is both economic justification and public expectation that the federal government play some role in areas of provincial jurisdiction. The current fiscal advantage that the federal government enjoys relative to most provinces has given it the capacity to act – to cut taxes, to pay off debt and to increase program spending in areas of both federal and provincial jurisdiction – in a way that is simply not available to the vast majority of provinces. Over the past decade we have witnessed examples of where it has acted unilaterally, over provincial objections, and examples of where it has acted in concert with the provinces.

While neither order of government has a monopoly on good ideas, it must be recognized at the outset that it is the provinces that have the practical experience and administrative expertise when it comes to managing the vast and complex range of major social programs that Canadians rely upon on a daily basis.

Managing the Federation - The Fiscal Gap and the Tools for Addressing Fiscal Imbalance

Canada's success as a country has been and will continue to be tied to its success in managing its internal fiscal arrangements. That said, Canada is a federation that is fiscally out of balance. One need only contrast the extended string of substantial federal surpluses and projected surpluses with the struggle most provinces have to balance their books, as well as the growing gap between energy-rich provinces and rest of Canada. The fact that we had two First Ministers meetings in 2004 to deal with the two largest transfer programs indicates clearly that existing fiscal arrangements warrant examination and, potentially, change.

The Equalization Program is the main tool to directly promote fiscal balance among provinces (horizontal balance). The CHT and CST are the main tools to address the large difference between the responsibilities of the two orders of government to provide Canadians with services and the financial resources at their disposal to pay for them (vertical balance).

Although these are the main tools, they are not the only ones, since there are unmet needs in other social policy areas as well as in respect of regional economic development. Recently the federal government has sought to establish significant ongoing transfers in respect of provincial programs, such as day care through the Early Learning and Child Care Agreement. As well, Labour Market Partnership Agreements are being bilaterally negotiated with all provinces to address training needs that fall outside of those covered under the Employment Insurance program.

Fiscal balance may also be achieved by uploading responsibility to the federal government as happened in 1940 when the federal government enacted a constitutional amendment, which transferred

FISCAL GAP AND FISCAL IMBALANCE

Vertical Fiscal Gap – a situation in which provincial expenditures exceed revenue-raising ability and the difference is made up through a system of federal transfers.

Vertical Fiscal Imbalance – a situation in which the Vertical Fiscal Gap is not being adequately filled. Federal transfers to provinces fall short of the optimum, such that provinces end up with some combination of expenditures that are too low, taxes that are too high, and deficits that are too high.

jurisdiction over unemployment insurance from the provinces to the federal government.

A Tiered Approach to Fiscal Federalism

Manitoba believes that both aspects of fiscal imbalance – horizontal as well as vertical – must be addressed in order to arrive at a durable solution. In crafting a viable approach to balance, the right tool has to be used for each job. To this end we would recommend that governments look at a "three-tier" approach as a means to deal with fiscal imbalances and a way of articulating the legitimate role the federal government has in bridging the revenue gap faced by provinces in providing key public services.

This approach arises from the basic principle that all Canadians, regardless of where they live, should expect to receive reasonably comparable levels of public services at reasonably comparable levels of taxation – the Constitutional promise. Were Canada a country without provinces, and provincial governments, this would happen in the normal course of events. Since we are a federation, it falls on the federal government, in co-operation with the provinces, to ensure that this happens. Thus, the first tier would involve plugging the leaks in the Equalization Program – ensuring that all the boats can float.

Manitoba believes there is some justification for the existence of a fiscal gap insofar as it provides the federal government with sufficient resources to help provinces expand and improve the quality of programs that are essential to all Canadians, like health care, post-secondary education and social services. The second tier would involve collectively addressing the revenue shortfall and the expectations of Canadians in respect of major social programs – raising the level of all the boats.

While the first two tiers are designed to address larger issues for which there is common interest, there remains a wide range of issues for which national

HORIZONTAL FISCAL IMBALANCE

Horizontal Fiscal Imbalance – a situation in which provinces have unequal fiscal capacities with which to provide their citizens with a comparable level of public services at a comparable level of taxation. To the extent that the Equalization Program does not meet its Constitutional commitment in this regard, differences may arise across provinces in terms of essential public services and tax levels. Budgetary deficits may also arise.

strategies have not been developed or are regional in nature and do not necessarily lend themselves to a one-size-fits-all solution. The third tier would involve dealing with the unique issues facing individual provinces or geographical regions, in a way that respects jurisdictional authority and does not circumvent the proper functioning of the major transfer programs.

In regard to the third tier, Section 36(1) of the Constitution is often overlooked in dealing with the fiscal imbalance. It is important for several reasons: respect for jurisdictional authority; the use of economic development as a method for addressing disparities; and the need for collective action to provide all Canadians with quality public services. This recognizes that from time to time, some boats have rougher water to navigate than others.

Tier 1 is Job 1

Manitoba believes that Tier 1 – the Equalization Program – needs to be Canada's first priority. Without an improved Program, the inequality that exists among provinces in terms of their ability to provide Canadians with reasonably comparable levels of service at reasonably comparable levels of taxation will be perpetuated and the unity of our federation weakened. Ensuring that all governments have the financial ability to provide equivalent treatment to all Canadians, so that there are no second- or third-class citizens, is a prerequisite for moving ahead. The attached Appendix addresses a number of misconceptions about the objectives of the Equalization Program and who pays for it.

First and foremost, Equalization must be improved to deal with the fundamental issue of adequacy. This means addressing the issue of the standard and the inclusion of revenue from all sources. Changes also need to be made to restore the Program's responsiveness to changes in fiscal capacity. The current legislation which fixes the federal payout in each year into the future must be revisited – an unresponsive and inadequately funded Program is too high a price to pay for complete certainty.

> **"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."**
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> **Fourteenth Report of the Standing Senate Committee on National Finance**
> **March 2002**

The yardstick used to measure fiscal capacity and disparities must be as comprehensive and as reflective of actual taxing practices of provinces as possible. In this regard, we agree with the Senate Committee Report on Equalization, which concluded that "provincial non-renewable natural resources belong in the Equalization program." Manitoba believes that the best measure is one that includes all provinces and all revenues. For this reason we have recommended to both Panels that they work with the current Representative Tax System (RTS) and consider the technical changes that have been advocated to improve the results of the Program. Manitoba believes that there is a need to assess all revenue bases comprehensively – both renewable and non-renewable.

For example, the price volatility associated with natural resources, especially with respect to oil and natural gas, has created serious challenges to budget planning for both resource-rich provinces as well as for Equalization recipient provinces. Measures have been proposed which could help temper the shocks associated with resource price volatility. In principle, we would support the use of moving-average prices or other mechanisms to smooth the impact of swings in non-renewable resource prices which impact provincial revenues. Manitoba recognizes that the adoption of a smoothing mechanism to deal with this issue will make the Program less responsive, but considers this to be a reasonable trade-off.

Manitoba does not support the idea of exempting non-renewable resource revenue from the estimation of fiscal capacity. The fact of the matter is that all provinces utilize their revenues, regardless of whether or not they come from so-called "non-renewable" sources, for the same three purposes – to pay for public services, to pay off debt and to maintain tax competitiveness.

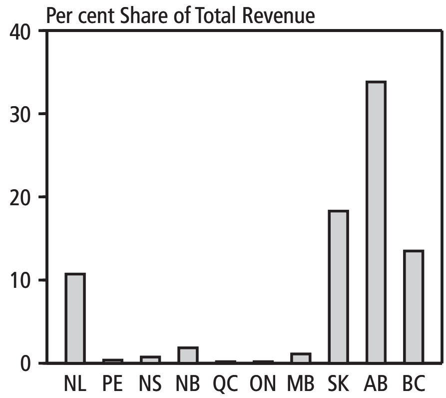
Moreover, it is clear that revenue from other tax bases, such as those paid by manufacturing industries, may not last forever. So-called "renewable" resources can also be depleted, as we have witnessed with some fisheries and forests. Climate change could also have a dramatic impact on these industries, as well as on agriculture and the generation of hydro-electricity. One need only consider the economic contraction in the garment industry or the announced closures in the auto industry to realize that no tax base of any kind can be counted on to continue indefinitely. Revenue, regardless of its source, is revenue and all should be treated the same under the Equalization Program. Manitoba believes that seeking special treatment because revenue is "non-renewable" is invidious and attempts to make a distinction where, for all intents and purposes, no difference exists.

Natural resources are unevenly distributed across Canada and are, arguably, the single most important reason for fiscal disparities among provinces. Chart 1 illustrates this point. While most provinces derive less than two per cent of their revenue from non-renewable natural resources, the rest derive substantially more. While this does not tell the whole story, it is clear that, by and large, resource-rich provinces have a substantial advantage and are much less reliant on other forms of taxation to provide public services and balance their budgets – an imbalance that the Equalization Program is designed to directly address.

Reforming the Equalization Program along the lines we recommend (10-province standard with full revenue inclusion and measures to deal with resource revenue volatility) would be consistent with the principles we advocate, and readily affordable within the current federal fiscal framework as outlined in the federal Conservative Party's Fiscal Plan. Manitoba would support an approach that would see the new framework initially implemented at something less than 100% with a clear plan to reach that level within a fixed timeframe.

Chart 1

Provincial Non-Renewable Natural Resource Revenue, 2005/06



Note: Non-renewable natural resources include those from forestry, mining, oil, natural gas and Crown leases.

Sources: Finance Canada, Manitoba Finance

PRINCIPLES, NOT CONDITIONS

Federal transfers in respect of PSE and Skills Training should flow from a coherent set of principles which reflect the current values and future needs of Canadians:

- Excellence
- Affordability
- Accessibility
- Comprehensiveness
- Lifelong Learning

With agreement on these basic principles, provinces need not be artificially constrained by conditions that compromise their ability to innovate and tailor solutions to local needs. Both orders of government will have to work together to flesh out these broad principles, along with others such as portability. Developing an effective strategy for PSE and Skills Training will require adequate and secure funding arrangements.

Addressing the shortcomings of the Equalization Program could also have some positive benefits for the non-recipient provinces as well. If Canada had a more fully funded and comprehensive Equalization Program in place, a case might be made to eliminate the current tax-point value adjustment on federal transfers for health care, post-secondary education and social services, allocating both CHT and CST cash payments on an equal per capita basis.

Tier 2 – The Major Social Programs

The issues at the heart of the second tier are anything but secondary to the vast majority of Canadians. In particular, health care, education and day care have been front and centre in the public's mind in the recent federal election and in meetings of First Ministers and Ministers responsible for these areas.

Although the process was a bit rocky in places, the negotiations prior to and during the September 2004 First Ministers' Meeting on Health Care Financing successfully concluded with the unanimous signing of a 10-year agreement on health care funding. Although it does not fill all the gaps, it resulted in a substantial increase in the federal funding commitment to health care and dealt with the concern that all of the increase in federal funding in the 2003 Health Funding Arrangement was either "one-time" or conditional and not built into the base. The only part of the 2004 Health Care Financing Agreement that is not built into the base is that dedicated to reducing wait times.

Manitoba believes that mature established programs, such as health care, are best served by the block funding mechanism. This recognizes both their high priority to Canadians and the fact that the operational expertise resides with the provinces.

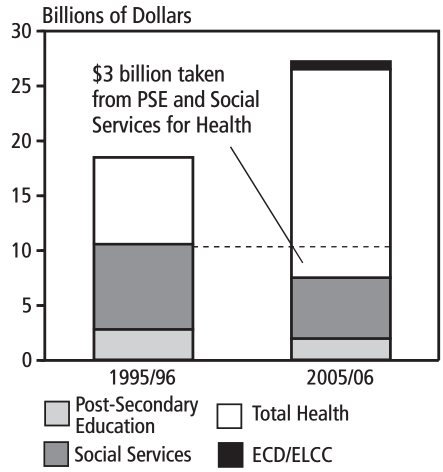
While the federal government has stepped up to the plate in respect of health care, it has yet to do so in respect of PSE and social services. In splitting the Canada Health and Social Transfer (CHST) into the CHT and CST, the federal government boosted its support for health care at the expense of its commitment to social services and PSE. In fact, federal funding for these programs in 2005/06 was $3 billion less then it was a decade ago (see Chart 2). In fact, the $8.2 billion provinces and territories received in 2005/06 is less than they received in 1989/90. Beyond the fact that the real value of the transfer has been eroded by inflation, additional responsibilities have been placed on provinces and territories to deliver services in respect of both the early childhood development (ECD) and early learning and child care (ELCC) initiatives.

Although federal support of social programs, aside from health care, has declined since the mid-1990s, the newly elected Conservative government promised to increase funding for PSE and training and create a new Education and Training Transfer, separate from the current CST. Provincial governments have had to backfill for the federal government and Premiers have called for the federal government to restore PSE and Social Services funding to their pre-CHST level, at a minimum. Along with improvements to the Equalization Program, this would be a necessary prerequisite for the comprehensive review Manitoba is advocating.

Manitoba has long advocated a split of the CST into separate transfers in respect of PSE and Social Services as a more effective and transparent way of targeting federal funding. Manitoba welcomes the idea of a separate dedicated transfer in respect of PSE and Skills Training. The creation of a new PSE and Training Transfer would provide an effective mechanism to better integrate the funding objectives of some of the current federal programs that support PSE but are not effectively co-ordinated with provincial programs. In so doing we could optimize the delivery of services, avoid unnecessary duplication and conflict, and ensure that the infrastructure is in place to handle the increase in demand for education and training that we seek to promote.

Chart 2

Canada Health and Social Transfer Split



Sources: Finance Canada, Manitoba Finance

Manitoba has consistently supported federal-provincial funding arrangements that improve accountability to Manitobans and Canadians.

Manitoba also recommended to the panels that a new block transfer, dedicated to children's programs, be established. Funding would be comprised of the existing ECD and ELCC funding in the CST, as well as the funding included in the new child care agreement that Manitoba signed with the federal government in November 2005.

Manitoba has consistently supported federal-provincial funding arrangements that improve accountability to Manitobans and Canadians. The measures Manitoba has proposed – a further split of the CST into separate transfers for PSE and Training, Social Services and Early Childhood programs – will similarly improve the visibility and accountability of the federal government in helping provinces fund these public programs.

Tier 3 – A Comprehensive Approach to Regional Issues

Although they sometimes seem to advance at a glacial pace, federation fiscal arrangements and relations in Canada are not static and continue to evolve. Over the past five years, the range of issues over which provinces have jurisdiction and in which the federal government has sought to exert influence has grown. While there may be a number of reasons for this, it would appear to reflect, in large measure, a federal government looking for ways to utilize its fiscal advantage vis-à-vis the provinces and increase its visibility directly with Canadians, even though it might mean venturing into areas of provincial/territorial jurisdiction.

Beginning in the late 1990s, tied-cost funding became the method of choice for the federal government in implementing new programs and initiatives that fell under provincial jurisdiction. Provincial concern over tied funding has arisen because many of these programs have been implemented without consultation or negotiation, even though they affect the provision of services for which provinces have constitutional responsibility. While these programs are of some value, participation in them often commits provinces to ongoing expenditures. As well, they often include “sustainability” clauses that require the provinces to administer and carry forward these programs long after the federal financial commitment has ended. Arguably many of the initiatives could have been accommodated and more efficiently administered through existing provincial programs.

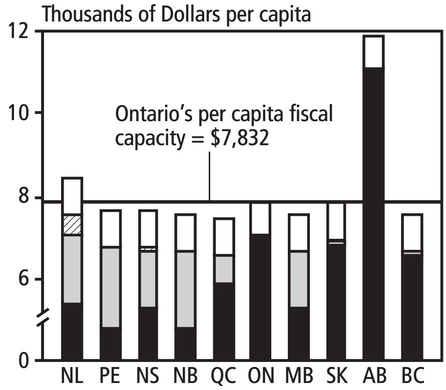
Over this period, these tied-cost funding programs have often conflicted with provincial programs and distorted spending priorities. The public promotion of these new programs, combined with the observed inclination of the federal government to approach community organizations and municipal governments prior to discussions with provinces, heightened both expectations and public demand, making it very difficult for provinces to resist participation. Indeed, tied-cost programs have the potential to worsen disparities among provinces. Less affluent provinces may not be able to afford to take full advantage of the programs or may be “induced” to do so at the expense of core program funding, tax competitiveness or debt reduction.

The instances where shared-cost programs have worked are those in which the intent and spirit of the Social Union Framework Agreement (SUFA) have been honoured. SUFA demonstrates that the federal and provincial governments understand what it means to constructively work through funding priorities; the challenge is to actually follow through. The new federal administration has an opportunity to reverse the negative aspects of tied funding and foster a healthier and more co-operative political environment at the same time.

Despite taking frequent exception to the way in which the federal government has advanced its agenda, provinces, both individually and collectively, have called upon the federal government to take on a bigger share of the cost of improving the quality and expanding the availability of services, addressing regional problems and sharing the burden of risk

Chart 3

Provincial Government Fiscal Capacities, 2005/06



Own-Source Fiscal

Equalization Payments

Atlantic Offshore Offset

Health and CST

Note: Equalization estimates reflect the October 2005 calculation of provincial fiscal capacity (2004 Equalization Renewal basis) and are based on the 5-Province Standard.

Sources: Finance Canada, Manitoba Finance

associated with major economic disruptions. The latter goes beyond the traditional scope of disaster relief, which is narrowly focused on natural disasters like floods, to include such things as SARS, BSE and international trade disputes like softwood lumber. This also acknowledges the simple fact that the federal government, given its greater size and diversity of revenue sources, has a significantly greater capacity to manage this kind of risk, compared to individual provinces. For the federal government this would represent a complementary role on the expenditure side to that which it provides through the Equalization Program on the revenue side. It is well known that the Equalization Program played a major role in stabilizing provincial revenue during the flood of the century in Manitoba in 1997.

The demand to address provincial problems was most evident in the negotiation of the Atlantic Offshore Offset Payments for Newfoundland and Labrador and Nova Scotia, the reaction to which raises issues of its own. These third tier "side deals" have widened the apparent fiscal disparities among provinces and created a situation in which, on the face of it, the fiscal capacity of Newfoundland and Labrador, along with Alberta and Saskatchewan, now exceeds that of Ontario (see Chart 3).

It may be argued that the real tragedy with the way these Offset Payments have been characterized is that they have inadvertently undermined the credibility of the Equalization Program, even though they have been struck outside of the Program. Perhaps more significantly they have weakened the sense of unity among provinces on the fiscal imbalance issue making collective action and co-operation more difficult to achieve. While much attention has been focused on the narrowing of disparities between Ontario and the less-affluent provinces, this concern may be misdirected insofar as the largest disparity is, in fact, the one that has opened up between Alberta and the rest of Canada (see Chart 3).

This example highlights the serious implementation problems that exist when dealing with what are essentially third tier issues. Provinces all want to be treated equitably, yet argue for acknowledgement of their unique circumstances. Achieving a proper balance speaks to the need mentioned earlier for a comprehensive review of our fiscal relationship.

Integral to the concept of a third tier of fiscal arrangements is the idea that we need a rational way of ensuring that they are not simply turned into a way of "getting around" the equity that we have sought to achieve through the first two tiers of transfers. It is clear that an evaluation framework will need to be established so that we may be assured that the third tier does not end up subverting the intent of the first and second tiers. While we would fully expect some variation from year to year, over time we would expect results to be consistent with the goal of achieving fiscal balance among provinces.

It is well understood that the focus of economic growth within a country shifts over time and that to maximize the benefits of our natural and human resources, labour and capital need to be free to move to the areas of its most productive use. Inevitably, this means that some percentage of the workforce trained in one area of the country end up working and paying taxes in another area. The federal government has a role in internalizing the cost of these provincial externalities by funding a portion of the training costs that provinces incur. In so doing the federal government could make a positive contribution to ensuring that, in aggregate, labour market needs are met and that individual provinces' taxpayers are not saddled with the cost of training individuals who will be contributing to another province's economy and tax base.

In recent years several major issues have gained prominence in terms of public interest and although some progress has been achieved, national strategies have not been fully developed in areas such as Aboriginal issues, social and economic infrastructure,

SECTION 36(1) AND FISCAL IMBALANCE

Section 36(1) of the Constitution is often overlooked in dealing with fiscal imbalance. It is important in a number of regards: respect for jurisdictional authority, the use of economic development as a method for addressing disparities, and the need for collective action to provide all Canadians with quality public services.

DISASTER PREVENTION

The UN estimates that $1 in mitigation investments can save at least $2 in disaster-related costs. Extending federal cost-sharing to include preventative measures would save the federal government money over the long run and provide greater stability in terms of the Equalization Program by tempering regional economic shocks.

homelessness and disaster assistance. In this regard, it is evident that regional differences and community preferences exist and that it may not be optimal to try to shoehorn everyone into a single solution. Respect for jurisdictional authority, experience and the desirability of innovation mean that flexibility needs to be built into the final arrangement. This means that it is critical to reach agreement on the overarching program principles to avoid unnecessary conditionality which would put a straightjacket on creativity and resourcefulness in solving these serious problems. Indeed, basic resource differences among provinces would likely mean that different approaches need to be taken to optimize the value of program investments.

While fiscal disparity provides the Equalization Program with a logical basis for allocation, and population provides the same for major social programs, there may be additional measures that provide a more appropriate rationale for allocation of resources aimed at addressing other “needs” of Canadians.

Factors such as age and Aboriginal populations are two demographic factors that have gained some acceptance in recent years as illustrative of divergent needs among provinces. Indeed, Manitoba is keenly aware of how population mix can affect needs since it is home to over 15% of the country’s Aboriginal population, a segment of the population with significant unmet needs, but with the potential to generate significant economic development if education and labour market biases, for example, could be overcome.

That said, it will be difficult to address the serious methodological issues that arise in assessing need and to achieve agreement on objective measures. For that reason, our Province would recommend that an independent commission, permanent or otherwise, be established to assist the federal and provincial governments with the identification and evaluation of indicators of need for the purpose of allocation third tier funding.

Conclusions/Summary

To summarize, as a federation, Canada needs to sharpen its focus and decide just how it intends to meet the expectations of its citizenry and avoid the trap of inaction that continues to plague us on many fronts. There is some sense of urgency to address the country's fiscal imbalance as we approach the point at which rising costs of an ageing population clashes with the retirement of the baby boom generation. Against such a backdrop, it is apparent that the longer we take to confront these issues, the fewer choices we will have.

In its meetings with the federal Expert Panel on Equalization and the Council of the Federation's Advisory Panel on Fiscal Imbalance, Manitoba recommended taking the following steps to move forward and put the necessary structures in place, so that the present and emerging demands Canadians are placing on governments across Canada can be effectively addressed.

- The Equalization Program needs to be improved by restoring the 10-province standard, with full revenue coverage and technical adjustments to deal with resource volatility.
- The federal government needs to step up to the plate with respect to funding other major social programs.
- The CST should be split into separate transfers for (1) PSE and Skills Training, (2) Social Services and (3) Early Childhood Initiatives for reasons of efficiency and accountability.
- Third tier issues with significant regional components, such as Aboriginal issues, infrastructure and economic development and disaster assistance should be dealt with explicitly and transparently outside of the Equalization Program and the major established block transfers for health and social programs.
- The federal government should consider whether it is possible to develop transfer mechanisms

There is some sense of urgency to address the country's fiscal imbalance as we approach the point at which rising costs of an ageing population clashes with the retirement of the baby boom generation. Against such a backdrop, it is apparent that the longer we take to confront these issues, the fewer choices we will have.

based on need for these third tier priorities in consultation with the provinces and supported by the advice of an independent commission.

Appendix: EQUALIZATION – WHO PAYS?

The federal Equalization Program is often misrepresented as being funded by the "have" provinces, or as a transfer from the wealthy to the less wealthy provinces. In fact, it is a program that the federal government funds out of its general revenue. Individual Canadians and businesses in every province and territory pay the same federal taxes at the same rates. People in Toronto pay the same federal taxes as do those in St. John's. People in Quebec City have to pay GST just the same as those in Red Deer. A business in Steinbach pays the same corporation tax as one operating in Vancouver.

Equalization payments are provided to provinces and territories to ensure that all of these individuals and businesses who pay an equally fair share of their earnings to the government of Canada receive, as Canadian citizens and businesses, a reasonably comparable level of service at a reasonably comparable level of taxation. The principle of Equalization, which is enshrined in Canada's Constitution, can be understood as a national commitment to fair treatment for all Canadians, regardless of where they live in this country.

The most recent published data indicate that the federal government obtains about 44% of its revenue from individuals and businesses in Equalization-recipient provinces and just under 56% from those in non-recipient provinces. Since non-recipient provinces have roughly 49% of the population, they contribute about 7% more than their population share to federal programs, including Equalization. This 7% difference is a reflection of the fact that their per capita personal incomes are 7% higher than the national average. As well, their corporation profits, on a per capita basis, are 26% above the national average.

COMPARATIVE STATISTICS, EQUALIZATION RECIPIENTS AND NON-RECIPIENTS, 2003

	Recipient Provinces	Non-Recipient Provinces
Individuals' and Businesses' Contribution to Federal Revenue	44%	56%
Population Share	51%	49%
Difference	(7%)	7%
Personal Income per capita relative to the national average	(7%)	7%
Corporation Profits per capita relative to the national average	(25%)	26%

Note: Recipient provinces include British Columbia, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Non-recipient provinces include Alberta and Ontario, as well as the territories, which receive an alternative form of support under the Territorial Formula Financing Arrangement.

Sources: Finance Canada, Manitoba Finance and Statistics Canada