



Notes for a statement by Quebec

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Equalization and Regional Disparities

I- The problem

From 1867 on, federal grants have been paid to the provinces under section 118 of the BNA. This form of financial assistance proved in the long run to be marginal in comparison with the provinces' own financial resources and obligations. That is why, afterward, various formulas were developed by which the federal government could contribute financially to the provinces. Some had conditions: these were joint programs the principle of which was questioned by some provinces, particularly Quebec. Other contributions carried no conditions.

The best-known of the contributions without conditions were obviously the equalization payments set up from 1957 on. Although the way in which payments were calculated has frequently been changed since, the essential nature of the plan has never altered. A number of provinces do not want the principle changed, and would like to see it enshrined in the constitution itself.

The struggle against regional disparity has only recently become a concern of the government. Nevertheless, however effective they really are, a number of programs aimed at reducing regional disparity exist at the present time.

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<sup>1</sup>Equalization involves essentially a system of redistributing to the provincial governments a portion of the revenues the federal government levies in all the provinces. Part of the taxes paid to the federal government are distributed to the provinces according to their relative wealth; the richest provinces receiving nothing, and the poorest provinces receiving equalization payments. These payments are not given for specific purposes; the recipient governments add them to their general revenues and can therefore use them as they wish. Thus, equalization payments set no conditions.

All these matters were brought up when constitutional reform was discussed between 1968 and 1971 and at the time there was almost a consensus on the subject of regional disparities, to appear in the Victoria Charter. In 1975-76, the same ideas were taken up again in a paper forwarded to his colleagues by the Prime Minister of Canada (draft proclamation on the constitution) in which the provinces later suggested that explicit mention should be made of equalization.

During the discussions at the constitutional conference in February 1979, general agreement was reached on the objectives mentioned above, but it was not possible to reach agreement on the advisability of including the principle of equalization in the constitution.

Equalization and the struggle against regional disparity are subjects to which considerable attention has been devoted during discussions on the constitution in recent years.

## II - Equalization: the principles and the method of calculation

Broadly speaking, all the governments have agreed to include this form of payment to the provinces in a renewed constitution. The Government of Quebec would like to reiterate its agreement that provisions be included in the constitution permitting the federal government to make unconditional payments to the provincial governments, to enable them to provide adequate services for their people, without having to impose an excessive tax burden on them. What is involved is enshrining in the constitution a practice which has existed since 1867, in one form or another, and which has been in its present form for over twenty years. This addition to the constitution in no way alters current practice; it would merely confirm it.

As for the specific way in which levels of payment should be calculated, and recipients determined, Quebec, like other provinces, believes that these problems should be examined and, if necessary, periodically altered in response to changes in economic and financial situations. With this in view, the provincial and federal First Ministers could review the question at least once every five years. It goes without saying that more frequent meetings of Ministers of Finance and government officials could ensure that the system works well. This is in fact what happens at present, and would not involve any change.

### III - The struggle against regional disparities

The Government of Quebec is also in agreement with the idea that a formal commitment could be made by all governments in the constitution itself on the subject of regional disparities. The best way of decreasing regional disparities remains undoubtedly, for Quebec, controlling all the tools for its economic development and effectively taking in hand the means that have often escaped it in the past. This commitment to combat regional disparities must therefore be understood and interpreted, first and foremost, as a statement on the part of the provinces that they consider themselves responsible for their own development, rather than an essentially passive entrusting of their economic well-being to Ottawa's tender care.

### IV - Quebec's position

The inclusion in the constitution of the principle of equalization and a commitment to combat regional disparities is therefore not an invitation to the federal government to extend in any way a spending power which has led to abuses. Quebec will have specific proposals to submit when the question of spending power comes up on the constitutional reform agenda.

Quebec does not believe that direct payments to economic agencies or individuals over the provinces' heads, as was done in Quebec in the case of the dispute over the sales tax, is an acceptable form of federal intervention; either such actions should not take place, or they should only take place with the formal consent of the provincial government concerned and following procedures it has approved.

In short, the Government of Quebec is in agreement with the idea of including in the constitution the principle of unconditional federal payments to the provincial governments in the form familiar to us over the last twenty years as equalization payments; such payments should constitute the preferred way to correct regional disparities.

Outside this framework, Quebec is prepared to see included in the constitution the principle of a commitment by all governments to combat regional disparities, but does not accept that by so doing, a new door be opened to increased intervention by the federal government in the development of the regions. Nor does it agree that the fight against regional disparities be used as a noble pretext or justification for further interference by the federal government in areas in which provincial responsibility must remain paramount.

The attached constitutional text, taken mainly from texts which have already been discussed and generally accepted, expresses Quebec's concerns.

## APPENDIX

Quebec's proposalEqualization and regional disparities

1. Without altering the legislative authority of Parliament or of the legislatures or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the governments of the provinces, are committed to
  - a) promoting equal opportunities for the well-being of all Canadians;
  - b) furthering economic development to reduce disparities in opportunity; and
  - c) providing essential public services of reasonable quality to all Canadians.
  
2. Parliament and the government of Canada are further committed to the principle of making equalization payments to provincial governments that are unable to provide essential public services of reasonable quality without imposing an undue burden of taxation.
  
3. The Prime Minister of Canada and the First Ministers of the Provinces shall review together the questions of equalization and regional development at least once every five years at a meeting convened pursuant to section ( ).

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