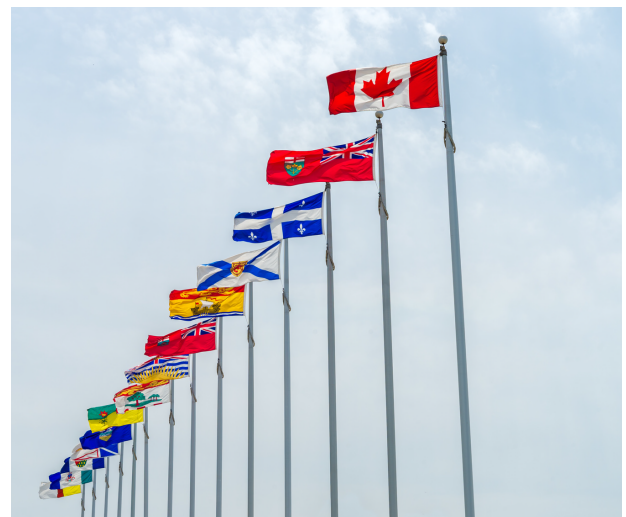


Issue

When it was started in 1957, the equalization program had a noble intention: to ensure that all Canadians have access to a similar level of services from their provincial government, regardless of whether they live in richer or poorer provinces. Equalization was seen as a way to unite the country.

Unfortunately, that is not how it turned out. The program is unfair and inefficient, both for citizens of richer provinces that do not receive equalization payments like Alberta and Saskatchewan—whose economies are hurting because of the downturn in the oil sector—and for citizens of provinces that have been on the receiving end for decades (Manitoba, Quebec, Nova Scotia, New Brunswick and PEI), because it keeps these provinces in a state of dependency and underdevelopment.



Equalization payments encourage recipient provinces to maintain large public sectors, keep taxes high, and intervene more in their economies, which drives out investment and lowers employment and productivity. They don't have the correct incentives to make their economies more competitive and develop their natural resources, because more private sector growth will lead to smaller equalization payments. It's a poverty trap.