

Reform of Canada's Equalization Program Is Sorely Needed

By Conrad Black

Once again, the equalization program is being challenged by a number of provinces that feel themselves to be short-changed by it. This was always a program that was going to invite controversy and set individual provinces against each other. It was set up initially by the government of Louis St. Laurent in 1955 and 1956 as a response to Quebec Premier Maurice Duplessis's imposition of a provincial income tax.



For decades, Duplessis had pointed out in vain that under the British North America Act, whose provisions in this respect have been carried forward into the present Canadian Constitution, direct taxes were a concurrent jurisdiction of the federal and provincial governments. The provinces were responsible for education, welfare policy, property, and civil rights, though a constitutional amendment during the war allocated the responsibility to create and fund a system of unemployment insurance to the federal government.

During World War II, all of the provinces except Ontario conceded their entire taxing jurisdiction to the federal government in exchange for amounts of compensation, to be agreed, to facilitate Ottawa's funding of the war effort. Prime Minister W. L. Mackenzie King attempted to persuade the provinces and Ontario to continue these arrangements after the war and transform Canada from a confederation into, in fiscal matters, a unitary state. Duplessis, who had been premier before the war and lost the election in 1939 but returned for another four terms starting in 1944, rejected this initiative and began agitating for an equitable division between federal and provincial access to concurrent taxing jurisdictions, in order to enable the provinces to discharge their constitutional responsibilities in education and welfare spending.

Finally, after a decade of absolute stonewalling from King and his successor, St. Laurent, Duplessis announced a provincial income tax and declared that if, for purposes of calculating federal income tax, the federal government did not deduct the Quebec tax from the federally taxable income of Quebecers, he would invite the voters of Quebec to express their preference between the two policies and the two governments, his and St. Laurent's.

At this, St. Laurent and his finance ministers, Douglas Abbot and his successor Walter Harris, retreated before the provincial governments but covered their jurisdictional retreat with a complicated system of equalization and stabilization cross-payments. By a measurement of average per capita income in each province and in the whole country, a sum of money that would be calculated according to a complicated formula and seeking to provide equal services for all Canadians in all parts of the country, would be assessed on a proportionate basis [against the wealthiest provinces](#) for redistribution to those provinces whose average income was below the average for the country as a whole.

This was the principal cornerstone in a vast and ambitious program designed to entrench the principle of equality of

basic services throughout the country, and with it, of the indispensability of the federal government to the welfare of the majority of provinces that, under their formula, were recipients of equalization assistance.

In practice, Ontario, Alberta, and British Columbia [doled out money](#) to the other provinces, and Quebec was the largest of these recipients. During the separatist crisis, from the first election of the Parti Québécois in 1976 to well after the hair's-breadth referendum on sovereignty and association for Quebec in 1995, the payments to Quebec were supplemented by a great many other programs in what was an extravagant, but in the agreed national interest of maintaining the integrity of the country, a justifiable investment in the preservation of Canadian confederation.

In the last 10 years, Quebec has been a model of intelligent government in pursuit of economic growth and has effectively ceased to be a sub-average per capita income province.

During the McGuinty-Wynne years (2003–2018) in Ontario, the horrifying blunder of shutting down electricity plants in the interest of pursuing the green will-o'-the-wisp, and a farrago of other administrative errors, toppled Ontario from its position as a great source of equalization payments.

The war of both Trudeau governments upon the oil and gas industry—conducted by Pierre Trudeau to enable the federal government to take a greater advantage from the growth of that industry, and by Justin Trudeau to try to shut the industry down for spurious ecological reasons—has naturally infringed upon Alberta's status as a so-called "have province."

Now, British Columbia, Newfoundland, and Saskatchewan are among the provinces challenging or threatening to challenge the [equalization program](#). The federal government has chosen to give \$750 million to Quebec to deal with refugees while withholding money from B.C., which also has to deal with refugees, though in smaller numbers. Under its formula, Ontario, because of a show-stopping record of former economic self-misgovernment, is to receive \$421 million in equalization

payments. Effectively, Quebec is no longer a national charity case, but demands federal payoffs as in olden times with the implicit threat of rattling the separatist sabre again.

Ontario is no longer in a position to foot the bill, and while high oil prices may permit Alberta to maintain an open spigot to some extent, understandably that province has a prodigious lack of enthusiasm about doing so. B.C. is quite right to object to not receiving any compensation for the influx of refugees for which the federal government's posturing and prodigality are chiefly responsible.

This impasse is not going to be solved by this government with its present policies in the 15 or so months before the next federal election. The resolution of it will require a comprehensive combination of policy course corrections. The war on oil and gas must end; the cost of the acquisition of federalist votes in Quebec must be reduced, if not eliminated; and financial arrangements between Ottawa and Quebec will have to include the resuscitation of the rights of employees and customers to speak and write in English in dealing with the federal government in Quebec and federally chartered corporations in Quebec, including the post office and the banks.

Any updated equalization plan must start from the premise that, essentially, people moved to resources and not the other way around, and it does not reside within the powers and prerogatives of the federal government to equalize the implacable inequalities of geography, only to alleviate them to a limited extent. And any such program must in effect reward provinces for wealth-creation and economic growth and not penalize them for it. A great deal has changed on this issue, economically and otherwise, in the 70 years since St. Laurent and Duplessis, and the government with a fresh mandate in the autumn of 2025 will have to make this and related issues a high priority.

The hand of Quebec is strengthened because of its improved

economic performance, and the inability of the federalists to pitch as strongly as before on the economic cost of Quebec's independence. But the collapsed birth rate in a secularized Quebec in the last 50 to 60 years has forced that province, in order to maintain a significance if declining share of Canada's population, to encourage the immigration of a large number of ostensible francophones from North Africa, Lebanon, and Haiti. These people are, for the most part, not pillars of French civilization but they do pass as francophones and they have no initial interest whatsoever in Quebec nationalism.

It is for these reasons that the Quebec government has not threatened us recently with another independence referendum, but relentlessly—and with the passive complicity of Ottawa—discriminates against the English language within Quebec. It will be a very complicated and difficult matter, but this too cannot go on indefinitely.

What we are seeing now with the restiveness about the equalization program is just the tip of the iceberg.

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