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THE PARADOX OF EQUALIZATION

Solving In-equity by Increasing Disparities

BY JAKE FUSS



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EXECUTIVE SUMMARY

The design of the equalization system is a policy concern in Canada because it has extensive political, social, and economic implications. Equalization is intended to ensure all provinces can offer similar public services and to reduce fiscally induced migration across the country. The program is entrenched in the constitution and has been in operation since 1957. However, equalization has been reformed numerous times over the decades and controversy has followed with each new iteration of the system. In 2018-19, fiscal equalization payments will total \$18.96B and will be split between six provinces. Quebec will receive \$11.73B, or 61.88 percent of the total amount, while Prince Edward Island will receive the most per capita at \$2,835. Conversely, the provinces of Alberta, British Columbia, Saskatchewan, and Newfoundland & Labrador will not receive any money.

This project was designed to determine the level of success equalization has had in meeting its own objectives and constitutional obligations. Specifically, the focus of the project is on the service comparability aspect of the equalization system. Analysis was conducted by collecting data from Statistics Canada regarding eight different education indicators by province. Provinces were then compared to the national average in each category and outliers were recorded. This statistical analysis provided insight into how “reasonably comparable” services are across provinces in Canada.

Key themes from the literature review include equalization’s ability to reduce fiscal disparities, promotion of bad fiscal policy, political influence, and the system’s lack of focus on service comparability. Authors suggested that equalization was important for national unity, but also emphasized that the system is designed for political motives rather than economic efficiency. Findings propose that equalization has enabled services to improve across the country, but service comparability appears to have faltered over time. In fact, service disparities between provinces have not disappeared despite the existence of equalization and may even be increasing as time progresses. Additionally, fiscal equalization may have the effect of enabling provinces which receive payments to achieve greater levels of service than non-recipient provinces. As a direct consequence, some provinces may have lower quality education services solely because of the design of the system.

The equalization program is in need of reform. Moving forward, policy should be designed to legislate what “reasonably comparable” levels of service are and develop concrete tools to measure levels of service in order to compare provinces and assess the program’s ability to meet its objectives. In addition, the government should introduce an independent arms-length agency to provide oversight and direction to the equalization program. The agency would be responsible for ensuring effectiveness, making modifications, and achieving the constitutional requirements of the program. As a result, equalization would become de-politicized and progress towards improving service comparability among the provinces. Any policy approach designed to reform equalization should involve expert consultation and a plan to address service disparities.

INTRODUCTION

One of the most contentious issues in Canadian politics is a program called fiscal equalization. Politicians and citizens constantly complain about the program and yet very few people seem to truly understand how it works. Due to the nature of the program, in which some provinces receive funding from the equalization program while others don't, the program is often viewed as a federal government device to pick provincial winners and losers for political purposes. However, the original intention of the program was said to be to enable all citizens to access similar public services, regardless of which province they live in (Dahlby, 2014, 1).

Fiscal equalization is entrenched in the *Constitution Act, 1982*, under Section 36 (2), which states "Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation" (*Constitution Act, 1982*). As a result, equalization is a mandatory program for the federal government to undertake. However, due to the vague wording in Section 36 (2), it is unclear what constitutes reasonably comparable levels of public services or reasonably comparable levels of taxation. Ultimately, whichever federal party forms government is responsible for deciding the definitions for service comparability and taxation. Consequently, the formula that determines equalization payments is subjective and open to political criticism.

The vast majority of media attention and political rhetoric has been directed towards aspects of the equalization formula that calculate levels of taxation across provincial lines and compensate "fiscally disadvantaged" provinces with low fiscal capacities. However, the first element of Section 36 (2) regarding service comparability is frequently ignored in the media sphere as well as in the equalization program itself. The *Federal-Provincial Fiscal Arrangements Act*,

which contains the process for calculating equalization payments, does not include levels of public services in any calculations (*Federal-Provincial Fiscal Arrangements Act, 1985*). In fact, it appears as though service comparability is not considered at all in the equalization formula. Additionally, the federal government has not provided a definition for what constitutes "reasonably comparable levels of public services" or disclosed any mechanisms by which it can track its success (or failure) in ensuring provinces have comparable levels of services.

Service comparability across provinces should be the single most important aspect of the equalization system. If service delivery across provinces isn't comparable, then equalization is an ineffective program that does not accomplish its own objectives. Unfortunately, the federal government has consistently failed to develop evaluation methods to compare service levels across provinces, making it nearly impossible to measure the success of the equalization program. As a consequence, the equalization program could currently be failing to meet its own constitutional requirements and objectives, without the federal government's knowledge.

The focus of this project had to be well-defined and stringent in order to evaluate the equalization program in extensive detail. Thus, the project aimed to answer the following question: To what extent does fiscal equalization achieve its objective of service comparability among the provinces? Understanding the intricacies of fiscal equalization in Canada through the lens of service comparability is critical to creating policy that will lead to an effective equalization program that achieves its original objectives. Since fiscal equalization is such a complex system, it is important to first explain how the system works, the history behind the program, and political rhetoric surrounding it before diving into the analysis section.

BACKGROUND

History of Equalization

The origins of the equalization program date back to the 1950s, when government expenditures increased dramatically after World War II (Feehan, 2014, 2). During this period of time, Ontario had the strongest economy in Canada and most provinces were not able to generate even close to the same amount of revenue per capita (Feehan, 2014, 2). As a result, the majority of provinces struggled to provide the same levels of public services as Ontario for social assistance, education, and healthcare.

In the 1950s, Quebec introduced its own personal income tax system following the recommendation of the Tremblay Commission (Courchene, 2007). The federal government became worried that other provinces would levy their own income taxes too (Courchene, 2007). The government decided to provide each province with a portion of the revenue generated from personal income taxes, corporate income taxes, and succession duties (Courchene, 2007). However, wealthy and populous provinces benefited disproportionately from this policy (Courchene, 2007). As a result, the federal government opted to institute an equalization program that ensured all provinces' revenues from transfers would be elevated to the per person amount of the wealthiest two provinces (Courchene, 2007). Thomas Courchene stipulates that "this tax decentralization would not have been politically acceptable to the 'have not provinces' were it not for the existence of equalization."

In 1957, the federal government formally implemented the equalization program in order to address the service disparities among the provinces (Courchene, 2007). Provinces with weaker economies were provided with fiscal transfers in the form of equalization payments. These payments enabled each province to provide comparable levels of services and prevent fiscally induced migration in Canada (Shah, 1996, 100).

Originally, the equalization formula involved only three revenue sources: personal income taxes, succession duties, and corporate income taxes (Béland and Lecours, 2010, 572). Five years later, the equalization formula was modified to also include 50 percent of each province's natural resource revenues in the calculation for equalization payments (Courchene, 2007). In 1967, a representative tax system (RTS) was introduced into equalization in order to compare provincial tax bases with a national average tax rate (Courchene, 2007). Additionally, the federal government expanded the amount of revenue sources included to thirteen by adding things like sales taxes and sin taxes into the formula (Perry, 1997, 128).

Following the collapse of the National Energy Program (NEP), provinces rich in resources deeply mistrusted the federal government (Courchene, 2007). The resource provinces managed to secure a section 92A provision in the *Constitution Act, 1982*, that granted provinces exclusive authority over the development and taxation of their natural resources (Courchene, 2007). Meanwhile, the equalization program had broad provincial support in Canada and the federal government sought to both reduce the effect of natural resources revenues and exclude Ontario from the mechanics involved in the equalization formula (Courchene, 2007).

The federal government then entrenched the Canadian equalization system under the *Constitution Act* in 1982 (Feehan, 2014, 4). Consequently, equalization is a legally binding program that the federal government must adhere to. Any attempt to eliminate the equalization program would require a constitutional amendment to Section 36 (2) of the *Constitution Act* (Béland and Lecours, 2012, 6). Given the failures of the Meech Lake and Charlottetown Accords, it is obvious why the federal government would not be willing to engage in such discussions.

Some of the more important changes to the equalization program occurred fairly recently. In 2007, a fiscal capacity cap was introduced so that “equalization could not raise a province’s fiscal capacity above that of any province not receiving equalization” (Smart, 2009, 8). Furthermore, in 2009, the federal government altered the fiscal

capacity cap in order to lower the amount of equalization payments provided to provinces with high resource revenues (Smart, 2009, 8). In addition, a floor provision was included to ensure provinces would not experience a nominal decline in equalization payments on a year over year basis (Smart, 2009, 8).

How Equalization Works

The equalization program is an extremely difficult undertaking for the federal government because the system has to address fiscal inequality among the provinces without interfering in provincial jurisdiction (Béland and Lecours, 2010, 571). Furthermore, the equalization formula is inherently complex due to the major differences in tax instruments and revenue sources in each province. As a result, very few journalists, academics, and citizens fully understand how the system works. Contrary to popular opinion, the federal government does not actually transfer any money directly from one province to another (Expert Panel on Equalization and Territorial Formula Financing, 2006, 2). The equalization program is entirely financed through the federal government’s own general revenue pool (Roy-Cesar, 2013, 1). Essentially, Canadian taxpayers pay taxes to the federal government on an individual basis and then the government redistributes these funds to provinces using a complex equalization formula (Expert Panel, 2006, 2).

The equalization formula is used to determine if a province should be considered a *have province* or a *have not province*. A *have province* is described as a province with a high fiscal capacity and is not eligible to receive any equalization payments (Milke, 2014, 2-3). Conversely, *have not provinces* have low fiscal capacities and are eligible to receive equalization payments (Milke, 2014, 2-3). These equalization payments are called unconditional transfers, which means that the federal government cannot tie any conditions to the payments (Expert Panel, 2006, 2). Therefore, *have not provinces* are able to spend the money received from equalization payments however they wish (Roy-Cesar, 2013, 1).

The formula itself calculates the exact dollar amount of equalization payments while concurrently determining which provinces will receive the payments (Roy-Cesar, 2013, 2). Calculating fiscal capacity for each province is one of the most important aspects of the formula. The definition of fiscal capacity in economic terms is a province’s ability to raise revenue at a relatively low marginal cost of public funds (Dahlby, 2014, 4). In other words, a province with a high fiscal capacity is able to raise tax rates without incurring major losses in their tax base. For example, if both Alberta and Quebec raised income taxes by one percentage point, then whichever province experienced a lower net loss (or better net gain) in its tax base would be considered to have a higher fiscal capacity. Conversely, the province that experienced a decline or relatively smaller increase in its tax base would be considered to have a lower fiscal capacity. Fiscal capacity is essentially how easily a province can generate more revenue through additional taxation (Béland and Lecours, 2010, 570).

The primary focus of the equalization formula is to examine five categories of taxation in each province: income taxes, corporate taxes, consumption taxes, property taxes, and natural resource royalties (Roy-Cesar, 2013, 2). The formula determines what each province could produce in exact dollars per capita revenue if every province had the same tax rates (Roy-Cesar, 2013, 2). In addition, up to 50 percent of each province’s natural resource revenues are included in the formula as a measure of fiscal capacity (Crowley and Murphy, 2013, 4).

After calculating the dollar amount for equalization payments, the values are then revised using a three-year moving average of nominal gross domestic product (Department of Finance, "Equalization Program"). Provinces are allocated into categories of *have provinces* or *have not provinces* based on their fiscal capacities. If the equalization formula states that New Brunswick has a below average fiscal capacity, then the province is required to receive an equalization payment during that fiscal year (Roy-Cesar, 2013, 2). Provinces with above average fiscal capacities will not be eligible to receive any equalization payments (Dahlby, 2014, 4).

In order to better understand the equalization program, examining historical data figures may be helpful. For example, in 2010-2011, Alberta registered a fiscal capacity of \$12,091 per person compared to Prince Edward Island, which only recorded a fiscal capacity of \$4,705 per person (McMillan, 2012, 8). During that fiscal year, the national average fiscal capacity per person was \$7,276 (McMillan, 2012, 8). Alberta had the highest fiscal capacity in the country

and Prince Edward Island had the lowest. By simply examining the differences in fiscal capacity between these provinces, it is apparent that Prince Edward Island would receive an equalization payment, while Alberta would not in 2010-2011.

During the 2011-2012 fiscal year, Alberta recorded a surplus fiscal capacity in all five areas of taxation [consumption, income, corporate, property, and resources taxes] (Dahlby, 2014, 4). This means that Alberta's tax rates were much lower than the national average. Comparatively, five provinces in Canada had fiscal deficiencies in every single area of taxation (Dahlby, 2014, 4). This indicates that these provinces had tax rates that were much higher than the national average. As a consequence, the provinces of Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Manitoba were all considered to be constrained in their ability to raise tax revenue. Thus, it is obvious that all five of these provinces were recipients of equalization payments in 2011-2012.

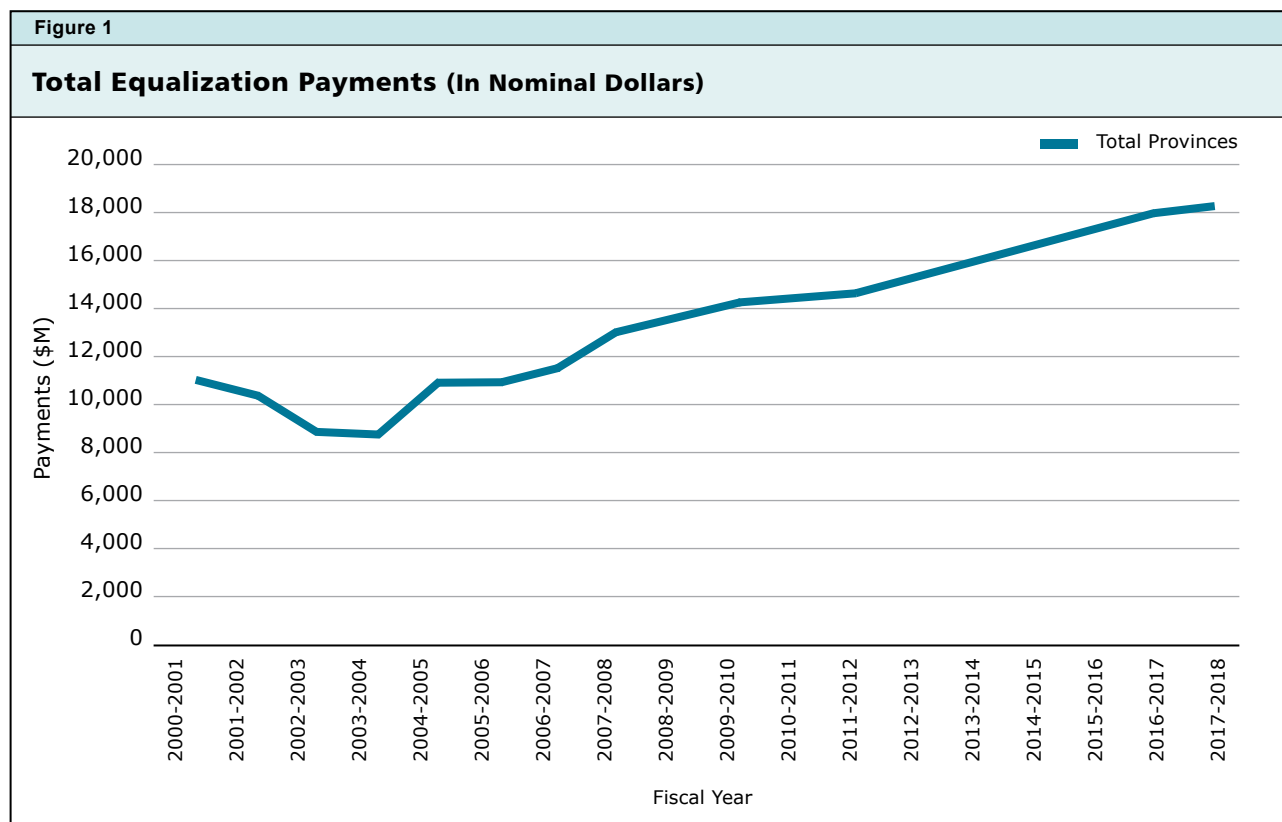
Equalization Payments

Examining which provinces have historically received equalization payments and which provinces have not is critically important to understanding the political climate surrounding the program. In the 1980-1981 fiscal year, total equalization payments amounted to \$3.72B (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). Twenty years later, total equalization payments nearly tripled in value to \$10.95B in nominal dollars [\$5.05B in constant dollars] (Dahlby, 2014, 4). Since then, total equalization payments have continued to grow at a substantial rate. In 2017-2018 total equalization payments amounted to \$18.25B [\$6.16B in 1980 dollars] (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18").

Seven provinces received equalization payments in 1980-1981 (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). Those exact same provinces were still receiving payments in 2000-2001 (Dahlby, 2014, 4). Fast forwarding to 2017-2018, six provinces are currently receiving equalization payments (Department of Finance,

"Equalization Entitlements 1980-81 to 2017-18"). Interestingly, the provinces of Quebec, Prince Edward Island, Nova Scotia, New Brunswick, and Manitoba have received equalization payments every single year since 1980 (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). They have consistently been considered *have not provinces*. In contrast, Alberta has not received any equalization payments since 1962 and British Columbia has only received payments seven times since 1980 (Department of Finance, "Equalization Entitlements 1957-58 to 1979-80"; Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). These provinces have consistently been determined to be *have provinces*.

In 2000-2001, Saskatchewan received the lowest equalization payment at \$208M, or 1.9 percent of the total amount, whereas Quebec received the highest equalization payment at \$5.38B [49 percent of the total amount] (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). Alberta, Ontario, and British Columbia were the only



provinces to not receive any equalization payments during that fiscal year (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). In 2017-2018, Manitoba, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Ontario all received equalization payments (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18").

Quebec maintained its status as the highest recipient by receiving \$11.08B in equalization payments in 2017-18 (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). Ontario, Canada's most populous province, received close to \$1.5B in equalization payments during the same fiscal year (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). Alberta and British Columbia still do not receive any equalization payments (Department of Finance, "Equalization

Entitlements 1980-81 to 2017-18"). In addition, Saskatchewan and Newfoundland & Labrador are now considered *have provinces* as well (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18"). The following three figures demonstrate how much (or how little) payments have grown since 1980, the proportion of the total payments by province, and payments per capita.

After examining the graphs below, obvious patterns begin to emerge. Western provinces such as Alberta and British Columbia appear to have benefited the least from the equalization program, whereas Eastern provinces such as Quebec and Prince Edward Island seem to have benefited the most. As a result, the equalization program can be polarizing and may cause regional cleavages and political divisions within Canada.

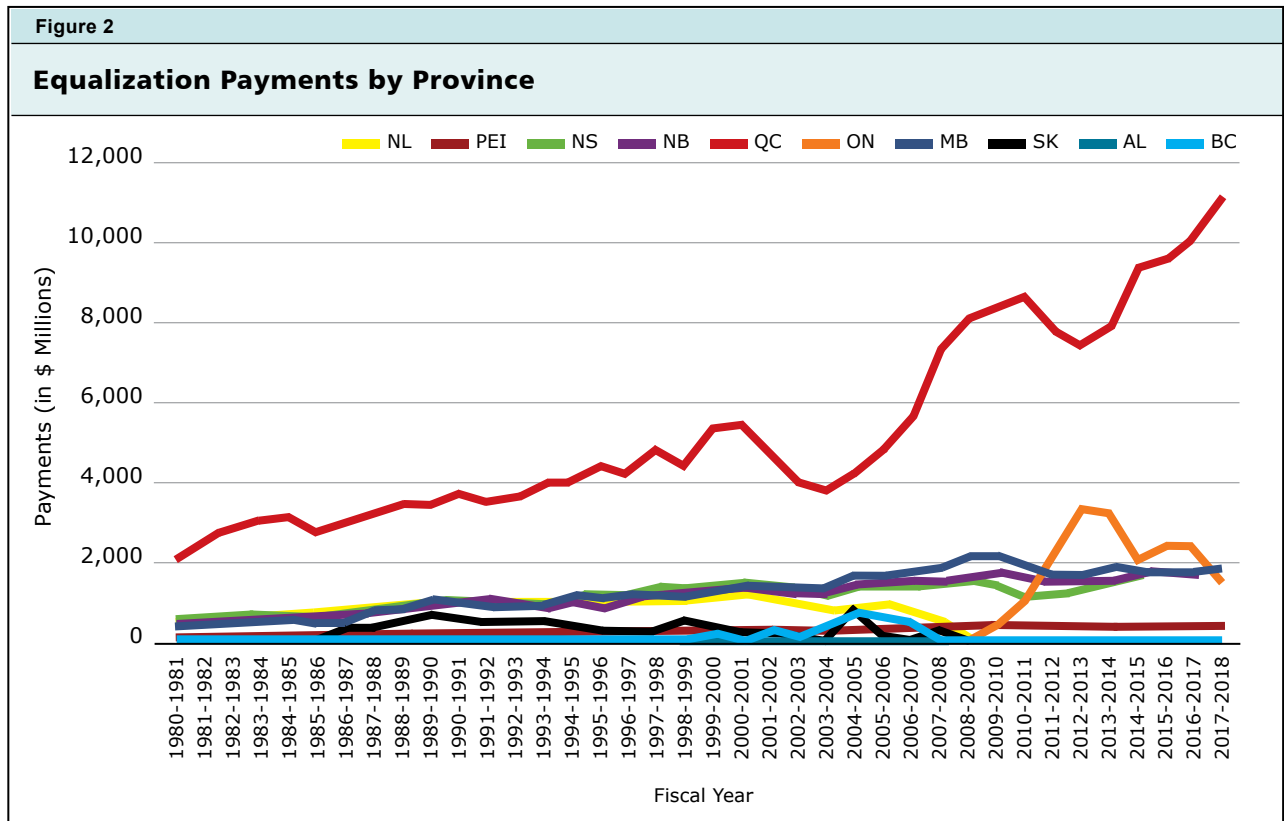


Figure 3

Equalization Proportion by Province

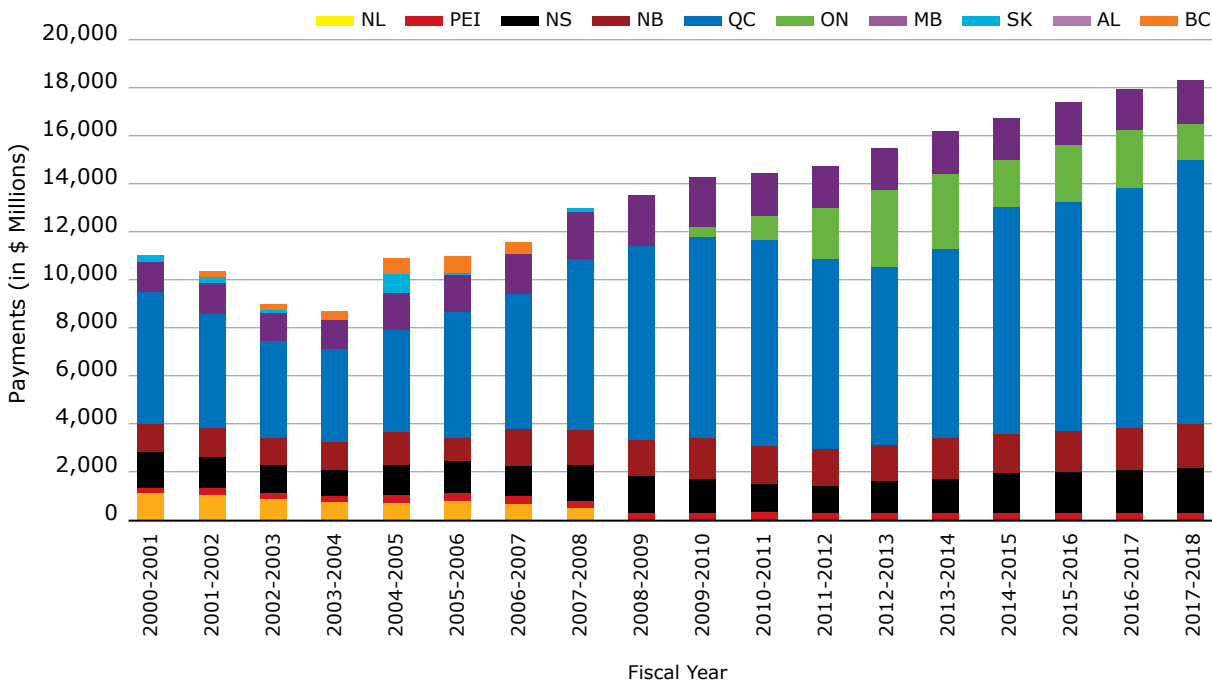
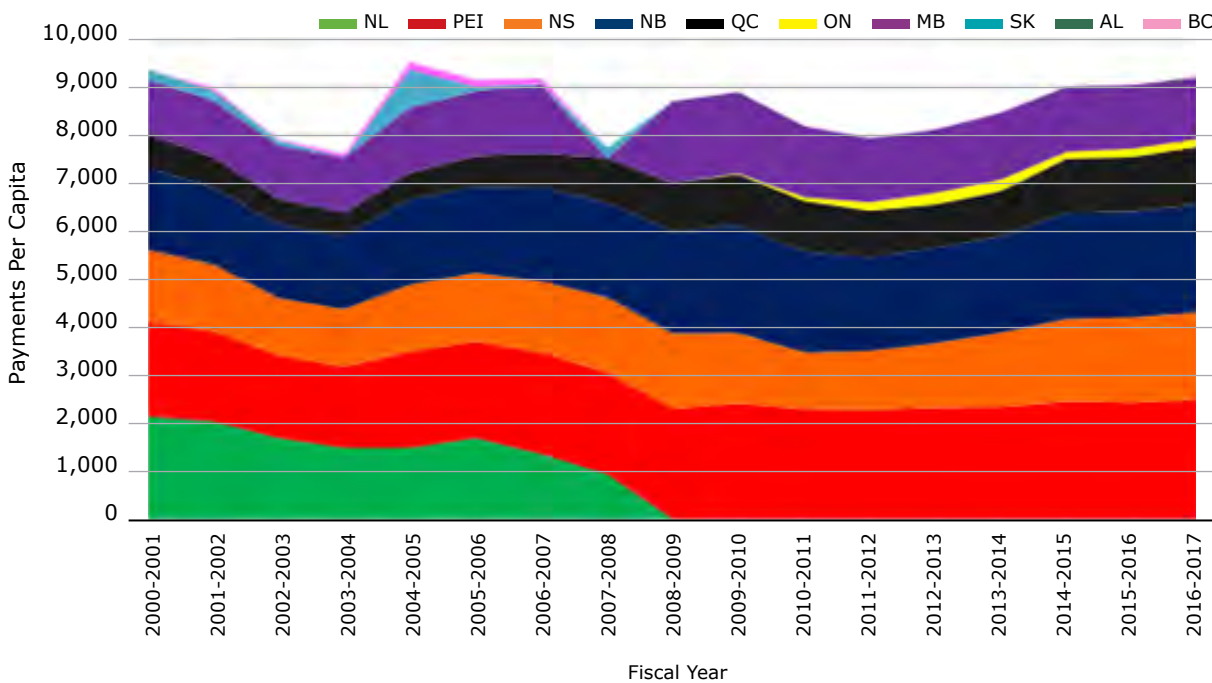


Figure 4

Equalization Payments Per Capita



LITERATURE REVIEW

History of Equalization

There have been a number of reports, research papers, studies, and even books written about the equalization system in Canada. Authors such as Melville McMillan, Errol Black, and Jim Silver are supportive of the system because it aims to correct fiscal inequality among the provinces. In contrast, several other pieces of literature have identified significant problems in the design of the equalization system. However, potential reforms to the equalization program varied wildly among the literature. There were four key features of equalization evident in the literature.

Reduction in Fiscal Disparities

Several authors suggest that equalization is important to Canadian federalism because it ensures each province has the revenue necessary to access quality services. Melville McMillan (2012) remarks that equalization has accomplished its objectives by making a “significant contribution towards funding services” in poorer provinces. He stresses that in 2008-2009, equalization transfers accounted for 7.5 to 19.2 percent of *have not provinces’* budget expenditures (McMillan, 2012, 20). Without the equalization system, some provinces would not be able to fund their core services. As a result, McMillan describes equalization as “the glue holding the Canadian federation together” (McMillan, 2012, 25).

Similarly, Errol Black and Jim Silver characterize the equalization system as a critical building block of Canadian identity. They label it as “the financial foundation of our social programs, and of Canadians’ collective commitment to sharing and social solidarity” (Black and Silver, 2004, 2). Another author, David Milne, argues that equalization is justified “on moral grounds” because of “decency and social justice” (Milne, 1998, 186). Furthermore, Black and Silver suggest that the “historical accident of disparities” due to natural resource development in some provinces justifies the existence of the equalization program (Black and Silver, 2004, 2).

Addressing and reducing fiscal inequity between provinces is the ultimate goal of equalization.

McMillan also claims that there is no trend of “growing dependency on equalization payments in recipient provinces (McMillan, 2012, 2). Instead, he characterizes equalization as the means by which Canada can reduce fiscal disparities (McMillan, 2012, 8). In his words, equalization works by “bringing low capacity provinces up to the average and not by bringing down the capacity of high capacity provinces” (McMillan, 2012, 10). Additionally, McMillan demonstrates that Canada’s GDP has been growing at a faster rate than the size of the equalization program (McMillan, 2012, 17). As a result, the cost of equalization has become smaller over time.

Another benefit of equalization is that it effectively reduces fiscally induced migration in Canada. Fiscally induced migration involves citizens moving from one province to another in order to obtain better public services or relatively lower levels of taxation (McMillan, 2012, 24). Equalization prevents this phenomenon because it ensures that people can remain in their home provinces and access similar services. In one study, the reduction in fiscally induced migration due to equalization was estimated to provide benefits of \$1.61 per dollar of cost of the program (Wilson, 2003).

Bad Incentives

In other literature, equalization has been found to incentivize poor fiscal policy decisions among recipient provinces. The equalization program is designed in a manner that enables *have not provinces* to manipulate tax rates in order to artificially lower their fiscal capacity and maximize their equalization payments (Ferede, 2014, 3). In fact, Ergete Ferede discovered that equalization provides *have not provinces* with an incentive to increase

both their corporate and personal income tax rates (Ferede, 2014, 18). Ferede concluded that business and personal income tax rates would decrease in *have not provinces* if the program used “block grants” instead of a formula (Ferede, 2014, 20). As a result, equalization provides provinces with an incentive to develop fiscal policy that is designed for less than optimal economic efficiency (Ferede, 2014, 2). Furthermore, Ferede determined that for every one dollar increase in equalization payments, *have not provinces* increase spending in their budgets by a further 64 cents (Ferede, 2014, 2). Equalization appears to perpetually increase spending and support irresponsible fiscal policy in recipient provinces.

In 2012, Benoit Tarroux conducted a study in which he compared the distributions of private and public goods, with and without equalization. Through his analysis, he revealed that equalization payments can “worsen the distribution” of well-being in Canada (Tarroux, 2012, 21). Another study in 1998 by Finn Poschmann found that “poor people in richer provinces commonly subsidize the living standards of people who are better off but happen to live in poorer provinces” (Poschmann, 1998, 4). As a result, equalization may have unintended negative consequences, cause economic inefficiency, and actually enhance inequity in Canada.

David MacKinnon conducted a study for the Ontario Chamber of Commerce in 2011 about the equalization program. He concluded that the system was “limiting growth in recipient provinces” and there was no data that examined the effects of equalization on economic indicators such as “growth, consumer spending, productivity, investment or any other important Canadian or provincial economic variable (MacKinnon, 2011, 4; 10).” Additionally, MacKinnon stressed that regional transfer programs have “encouraged the growth of large and inefficient public sectors” and “discouraged labour mobility” in Canada (MacKinnon, 2011).

Political Influence

Literature consistently identifies political considerations as the major driving force behind the design of the equalization program. Some research claims

that the dollar value a province receives in federal transfers has a direct correlation with the voting behavior of that province during federal elections (Joanies, 2014). This can manifest itself in two main ways. First, federal parties often reward specific provinces that voted overwhelmingly for them in the last election with an increase in equalization payments (Joanies, 2014, 13-14). Another manifestation is that federal parties try to entice voters in certain provinces with additional equalization transfers in order to attract voters and win seats (Béland and Lecours, 2010).

Kenneth McKenzie (2005) also observes that the equalization formula itself is a “result of political decisions” and the implementation of equalization is a “matter of political discretion.” His analysis determined provinces’ dependence on federal transfers for revenue generation has created a “perpetual state of vertical fiscal imbalance” in Canada (McKenzie, 2005, 10). Thus, the current design of the equalization system will always face political challenges because one or more provinces will always have a grievance or perception of inequity due to the inherent imbalance.

Daniel Béland and Andre Lecours provide an extensive overview of the politics surrounding equalization in several books and academic articles. They emphasize that tensions between provinces and the federal government over the last two decades in particular can primarily be attributed to the equalization program (Béland and Lecours, 2010, 570). Contributing provinces such as Alberta and Saskatchewan have been extremely critical of the system because they do not receive any payments, while recipient provinces such as Quebec have often lobbied the government for an increase in payments (Béland and Lecours, 2010, 570). As a result, equalization causes major regional conflicts in Canada. Federal politicians attempt to appease certain provinces in order to de-escalate criticisms from one side of the division and enhance their party’s chances of winning the next election (Béland and Lecours, 2010, 580-581).

The politicization of equalization is largely due to the executive discretion exercised over the program (Béland and Lecours, 2010, 580). Unlike Australia, Canada does not have an independent arms-length agency to manage the equalization system (Béland

and Lecours, 2010, 580). Instead, Prime Ministers exert a great amount of control over the design of the equalization program and typically make promises based on their party's electoral prospects (Béland and Lecours, 2010, 580). Due to the nature of executive control, provinces are aware that they have an ability to influence the narrative surrounding equalization and the program will always be seen as the federal government picking "provincial winners and losers" (Béland and Lecours, 2010, 581).

In Alberta, the equalization system is widely viewed as a system that treats the province unfairly and favors other provinces. Béland and Lecours attribute this phenomenon to the concept of "western alienation," in which the western provinces argue the federal government mistreats them and ignores their desires (Béland and Lecours, 2010, 587). In 2005, Ted Morton, former Alberta MLA and Professor at the University of Calgary, provided context to Albertan discontent by stating:

Alberta has watched over \$200 billion leave the province over the past four decades in official and unofficial transfer programs. In the current fiscal year, Alberta will watch its \$9.3 billion in oil and gas royalty revenues be swallowed up by the \$12 billion it will transfer to Ottawa (Béland and Lecours, 2010, 587).

Equalization also causes severe inter-governmental conflict because many provinces perceive Quebec to benefit from the program far more than any other province (Béland and Lecours, 2010, 587-588). Béland and Lecours remark that the threat of Quebec separatism and the importance of winning seats in the province has meant that each party makes concessions in equalization in order to curry favor with the province and obtain power (Béland and Lecours, 2010, 587). Criticism of Quebec favoritism even dates back to 1971 when British Columbia Premier W.A.C. Bennett called for the elimination of equalization because Quebec received 47 percent of the payments (Béland and Lecours, 2010, 587). Today, many Canadians in

have provinces insist that the federal government treats Quebec much better than everyone else because it receives much more money than the province contributes every year (Béland and Lecours, 2010, 587).

Regional discontent and "side deals" have largely shaped the design of equalization today. Federal politicians attempt to address provincial grievances by awarding money to provinces where they need to win seats (Béland and Lecours, 2010, 576). As an example, Béland and Lecours reference Paul Martin's move to strike Offshore Accords with Newfoundland and Nova Scotia, two key provinces in the upcoming federal election (Béland and Lecours, 2010, 576). The federal government made the decision to appease these provinces by compensating them for any reduction in equalization that resulted from increased resource development in the region (Béland and Lecours, 2010, 576). However, there was no economic justification provided for the decision. In response, Saskatchewan was furious that the federal government had not struck a side deal with their province (Béland and Lecours, 2010, 581).

Throughout the literature surrounding equalization, it is apparent that the program is heavily influenced by politics. Even the expert panel that was crafted to reform equalization in 2006 reflected regional divisions within Canada. The panel was made up of two experts from Western Canada, one from Quebec, one from Ontario, and one from Atlantic Canada (Béland and Lecours, 2010, 577). Provincial governments lobbied the panelists to represent the interests of their province (Béland and Lecours, 2010, 577). For example, Alberta and Saskatchewan desired to ensure resource revenues were not fully included in the equalization formula, while Ontario wanted to introduce a cap on equalization payments in a manner that would benefit their province (Béland and Lecours, 2010, 577). Eventually, the Expert Panel developed a "carefully crafted compromise between the demands of specific provinces," rather than focusing on the economic effectiveness of the equalization program itself (Béland and Lecours, 2010, 577).

Service Provisions

The original intention of equalization was to ensure service comparability in Canada. However, the equalization literature tends to shy away from this aspect or only vaguely mentions it. Bev Dahlby discussed the fact that Canada's equalization system has "never incorporated provincial variations in the costs of providing public service or variations in measures of the need for services" (Dahlby, 2014, 27). Conversely, the Australian government does incorporate cost measures in its version of the system (Dahlby, 2014, 27).

Peter Gusen proposed a model for Canada that would integrate variations in costs, geographic issues, and service requirements in every province (Gusen, 2012). Dahlby determined Gusen's model could "broadly correct for differences in the costs and demographic characteristics across provinces" (Dahlby, 2014, 31). Similarly, Mendelsohn and Courchene argue that Gusen's suggestions would correct many of the problems inherent in the equalization program (Mendelsohn, 2012; Courchene, 2013). Courchene believes Ontario has been "short changed" because the province has very high costs associated with delivering public services (Courchene, 2013, 4). Gusen's model would result in increased equalization payments to Ontario, while Quebec and Prince Edward Island would receive lower payments each year (Dahlby, 2014, 31).

Although Gusen's model has received support in the literature, it is not without its criticism as well. Jim Feehan suggests that Gusen's model would be incredibly difficult to implement because of "data requirements, the potential for intrusion into provincial spending priorities, measurement issues, etc." (Feehan, 2014, 23). He also argues that Gusen's model would further erode economic efficiency in equalization and "reduces the incentive for provinces to use their fiscal resources wisely" (Feehan, 2014, 24). Dahlby discusses public sector wages as being an enormous factor in calculating the cost of public services in each province (Dahlby, 2014, 28). He cautions that Gusen's model provides an incentive to provinces to massively increase public sector wages in order to receive more equalization payments (Dahlby, 2014, 28). Thus, the incentive effects of

a "needs and cost model" can have a significantly negative impact on the equalization system.

Dahlby and Feehan also emphasize that equalization does not provide a definition or attached legislation that specifies exactly what "reasonably comparable" services are. Therefore, it is very difficult to determine whether or not equalization actually meets its constitutional obligations and objectives. However, in 2013, Mark Milke conducted a study to analyze service comparability among the provinces. His analysis was unique, as there are very few reports assessing service delivery as a function of equalization in Canada. Milke's study categorized each province on the basis of being a "giver" or "taker" on a relative per capita basis from 2005 until 2013 (Milke, 2013, 14). He used nineteen indicators in the areas of healthcare, education, and public-sector employment to evaluate service comparability (Milke, 2013, 35).

Milke discovered that the *have not provinces* possessed higher levels of services in thirteen categories (Milke, 2013, 35). In contrast, the *have provinces* only possessed an advantage in three categories (Milke, 2013, 35). As a result, he concluded that some services may be cheaper or more accessible in *have not provinces* (Milke, 2013, 36). Milke posited that it "might be useful to account for the various costs of providing services in one province, when compared with another" (Milke, 2013, vi).

In an earlier study, Eisen and Milke (2010) determined that equalization subsidizes government spending in *have not provinces* so much that "more services at a more generous level are available" than in *have provinces* (Eisen and Milke, 2010, 5). The authors state that *have not provinces* have more doctors and nurses per capita, long-term care beds per capita, readily available daycare spaces, and lower undergraduate tuition rates than the four *have provinces* (Eisen and Milke, 2010, 4-5). Furthermore, for six out of the seven indicators of government service levels, Albertans and British Columbians receive substantially lower levels of service than Quebec citizens (Eisen and Milke, 2010, 34).

David MacKinnon's 2011 study reached similar conclusions to Eisen and Milke. However, MacKinnon also discovered that there is a difference in service levels between *have* and *have not provinces*. He found that Ontario had fewer physicians and nurses per capita, less access to childcare spaces, higher undergraduate tuition fees, and less access to residential care beds than almost all recipient provinces (MacKinnon, 2011, 5-6). In addition, Ontario only had 211 hospitals compared to 90

hospitals between Manitoba, Prince Edward Island, and Nova Scotia despite having a population more than six times the combined population of those provinces (MacKinnon, 2011, 8). MacKinnon also emphasized that the Atlantic provinces, with a population of two million, were able to fund 16 universities, while Ontario, with a population of 13 million, could only fund 21 universities (MacKinnon, 2011, 8).

METHODOLOGY

This project was designed to determine how successful the equalization system is at ensuring levels of service are reasonably comparable across provinces in Canada. The focus was on identifying methods to compare services among the provinces and criteria by which service levels can be measured. Research was concentrated exclusively on education services to simplify the project. Health and social assistance programs have federal funding in addition to equalization payments through the Canada Health Transfer (CHT) and Canada Social Transfer (CST) (Dahlby, 2014, 10). As a consequence, education is the best measure to isolate the equalization program's impact on service comparability in Canada. This project extends the work of earlier researchers such as Eisen, Milke, and MacKinnon by covering a greater number of years in analysis and solely focusing on the impact of equalization on education outcomes.

In order to identify the success (or failure) of equalization in ensuring service comparability, quantitative data was gathered from Statistics Canada for eight different education indicators. These criteria include tuition fees, post-secondary student to educator ratios, public school student to educator ratios, school expenditures, bachelor's student debt at graduation, college student debt at graduation, post-secondary participation, and indigenous post-secondary participation.

Method of Analysis

To conduct the analysis of service comparability, annual education data was collected for the years between 2002 and 2017. For every education indicator, provinces were compared to the Canadian average in each year and analyzed according to their position above or below the mean. Additionally, standard deviation values were calculated on an annual basis and provinces that were more than one standard deviation away from the mean were considered outliers.

For the purposes of this project, a reasonably comparable service level was defined as all provinces existing plus or minus one full standard deviation from the mean in each indicator category. The analysis of the data was conducted using Microsoft Excel spreadsheets to uncover common trends and divergences. The eight indicator categories were selected on the basis of the availability of data, the years of evaluation, and the potential for comparison across provinces.

Limitations

Education service levels are quite difficult to measure and these eight categories are only a simple snapshot of what education services look like in each province. Data on education services in Canada was quite limited and there were significant challenges in finding quality data from all provinces. Additionally, there was several data sets for which Statistics Canada either stopped collecting data or hadn't collected recent data. This limited the selection of education indicators to only eight categories for analysis. As a result, the findings from this project may present an incomplete picture of service comparability due to the lack of data available for analysis.

Another limitation is that education services are not solely paid for through equalization payments in *have not provinces*, so it is very difficult to determine how much services would actually differ without the equalization program. Finally, other variables not included in this analysis may affect outcomes in particular cases. For example, the educational qualifications of Indigenous people vary from province to province, so the numbers enrolled in post-secondary education may vary for reasons having nothing to do with equalization. Nonetheless, the findings offer a comprehensive overview of service comparability as it pertains to education services in Canada and gives us some ability to judge whether the equalization program is achieving its objectives.

FINDINGS

Several common trends and themes emerged when conducting the data analysis for education service comparability in Canada. Regardless of the year or category examined, there was always a minimum of two provinces that were more than one standard deviation away from the mean and could be considered outliers. *Have not provinces* such as Quebec typically had education service results that were better than the national average. Conversely, *have provinces* like Alberta achieved poorer levels of education services than the national average.

Expenditures per Student

In this category, data was collected for the fiscal years between 2002 and 2015, regarding the expenditures per student (in real dollar terms) at the public elementary and secondary school levels. Although the national average expenditure did increase substantially from \$8,348 to \$11,630 per student in constant dollars over this time period, there remained significant service gaps between provinces (Statistics Canada, "Table 478-0014"; Statistics Canada, "Table 477-0037"). Over the thirteen-year timeframe, *have not provinces* of Quebec and Manitoba were able to spend more on their students' education than the national average in every single year. In contrast, British Columbia and Newfoundland & Labrador, which stopped receiving equalization payments in 2007 and 2008 respectively, spent less than the national average per student from 2008 onwards. Thus, it appears that *have not provinces* provide more funding to their students than *have provinces* and are able to offer greater opportunities to their students.

Service comparability in all eight categories either stayed the same or got worse as time progressed. Often, more provinces moved more than one standard deviation away from the mean over time. These findings are at odds with the objectives of equalization because as payments increase over time, service comparability should at a minimum improve if the system works properly. Additionally, *have not provinces* should not have better services than *have provinces*.

Initially, in 2002, three provinces registered expenditures per student that were more than one standard deviation away from the national average of \$8,348. By 2008, four provinces recorded amounts that were further than one standard deviation away from the mean. This number subsequently grew to five provinces by the 2014/2015 fiscal year. Given this observation, it is apparent that differences in the expenditures per student among the ten provinces are increasing rather than decreasing. Service comparability is getting worse as equalization payments increase. As a result, expenditures per student cannot be deemed as reasonably comparable between the provinces.

In Figures 5 and 6, expenditures per student in each province are shown during 2002/2003, as well as in 2014/2015. The blue bars represent the expenditures per student specific to each province, while the red horizontal line represents the national average expenditure per student. In addition, the black 'I' lines represent the standard deviation from the mean. If any blue bar is above or below the black 'I' line, then that indicates that the province is more than one standard deviation away from the national average expenditures per student.

Figure 5

Expenditures Per Student (2002/2003)

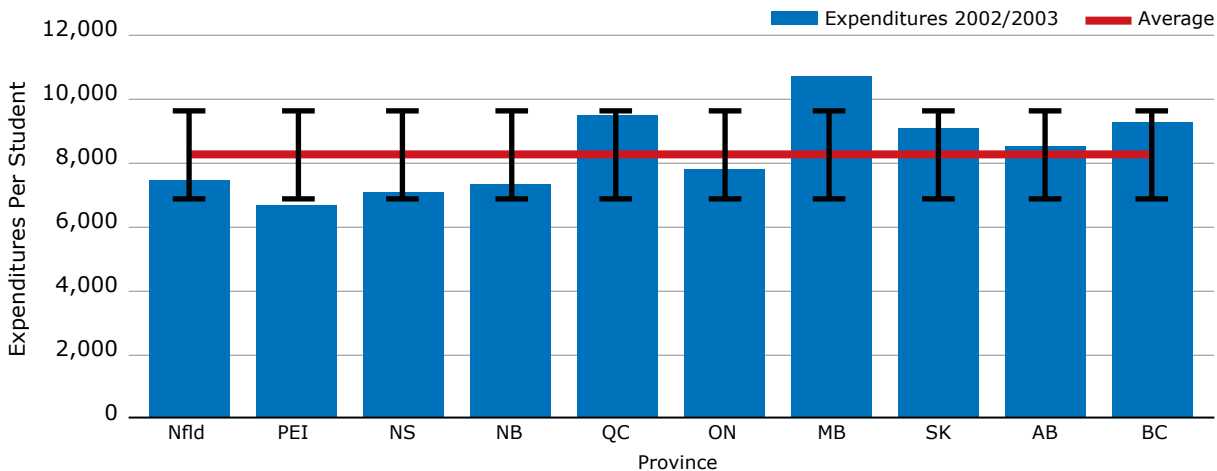
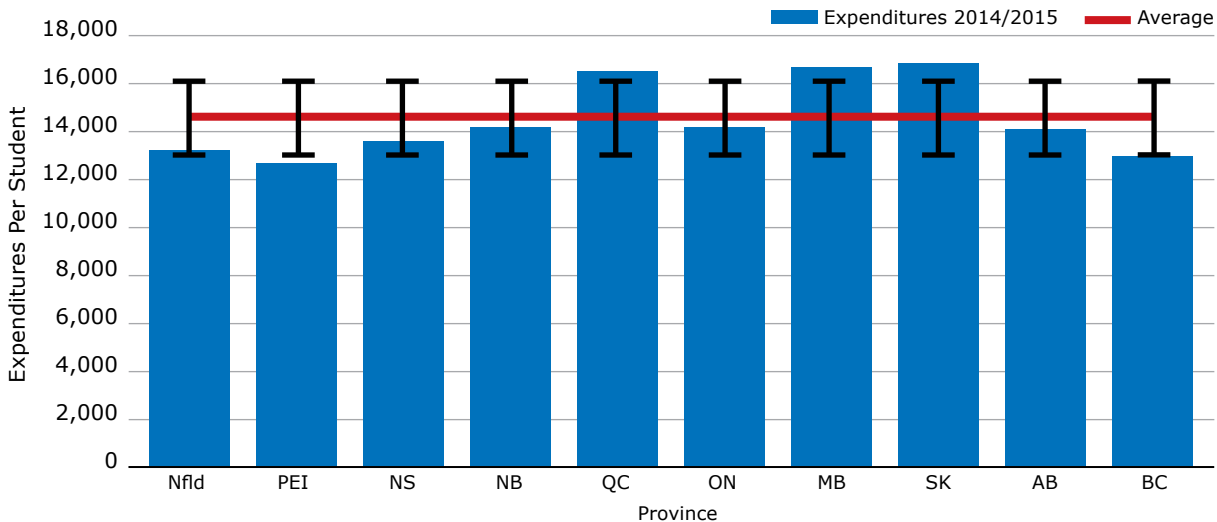


Figure 6

Expenditures Per Student (2014/2015)



Student to Educator Ratio

For this category, data was collected from Statistics Canada Tables 477-0037 and 477-0109 to determine the number of students and full-time educators in the public elementary and secondary school system from 2002 until 2016. In each province, the number of students was then divided by the number of educators in order to come up with a student to educator ratio. Despite the national average student to educator ratio declining from 17.38 to 15.21 over the 14-year timeframe, service comparability did not improve at any point. Each year, Alberta had a student to educator ratio that was above the national average. British Columbia and Saskatchewan also recorded ratios higher than the national average once they became *have provinces*.

Comparatively, *have not provinces* of Nova Scotia, New Brunswick, and Quebec had significantly better levels of service and maintained student to educator ratios that were below the national average throughout the entire 14-year period. Once again, students in *have provinces* had lower quality education services available to them than *have not provinces*.

The provinces of Alberta and British Columbia were consistent outliers and often had six more students per educator than Quebec and five more than Manitoba. As equalization payments have increased over time, service comparability has largely remained the same for student to educator ratios. At a minimum, three provinces recorded student to educator ratios that were more than one standard deviation from the mean in a given year. In fact, this number even frequently expanded to four provinces over the course of the time period. However, by 2015/2016, there were once again only three provinces more than one standard deviation from the mean. Having said that, student to educator ratios simply cannot be considered to be reasonably comparable. The differences in student to educator ratios between provinces did not diminish in any given year and at least thirty percent of the provinces were outliers despite the increase in equalization payments.

The graphs in Figures 7 and 8 exhibit the student to educator ratios in 2002/2003 and 2015/2016. Notably, levels of service do not appear to be comparable in either fiscal year when applying the standards of being less than one standard deviation above or below the national average.

Figure 7

Expenditures Per Student (2002/2003)

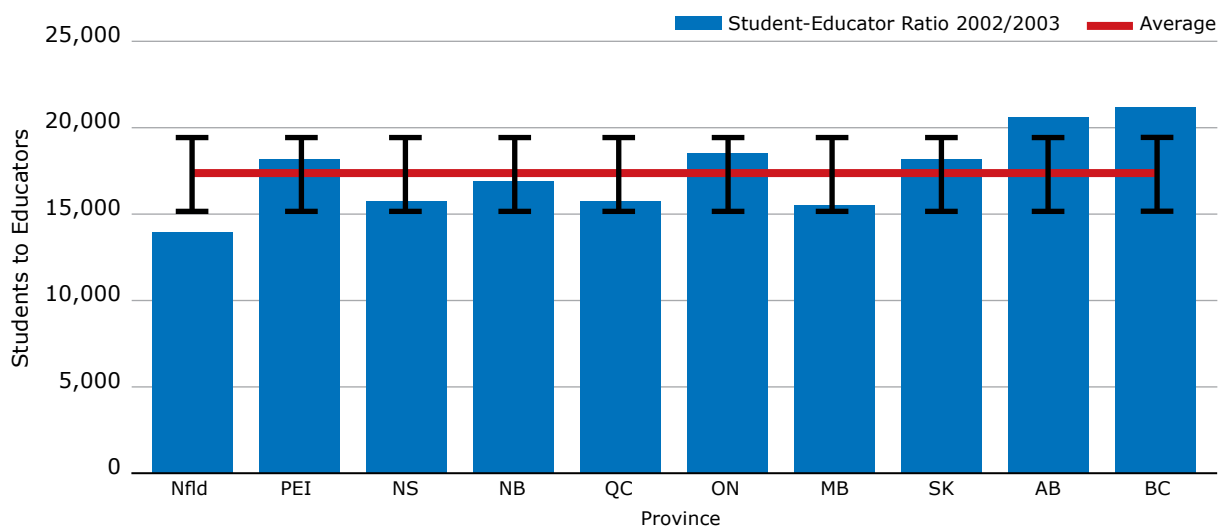
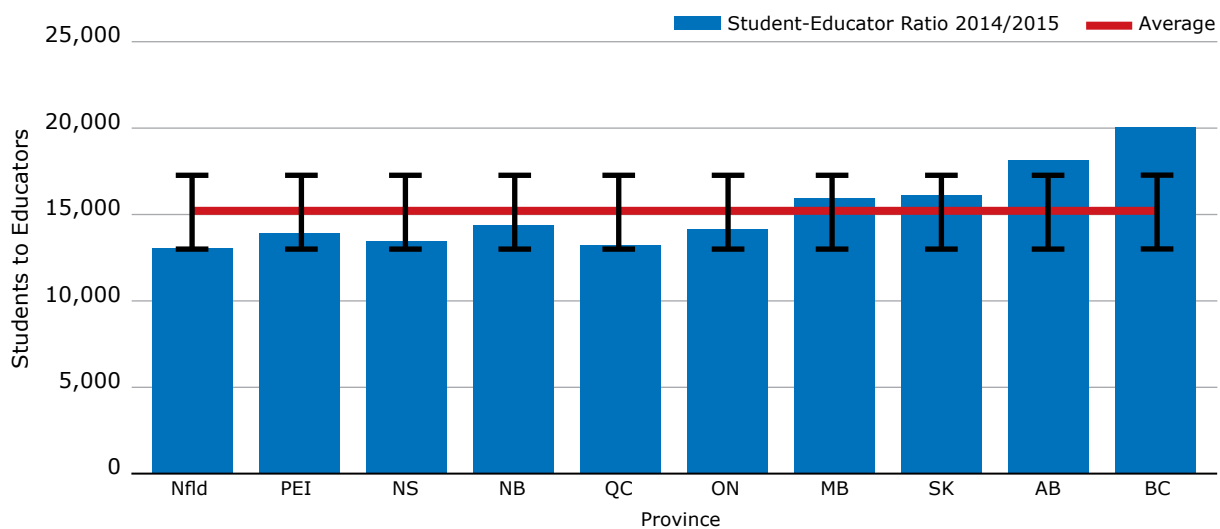


Figure 8

Student to Educator Ratio (2014/2015)



Post-Secondary Student to Educator Ratios

The category of post-secondary student to educator ratios clearly identified major differences in levels of education services between the provinces. Data regarding post-secondary enrollments and full-time teaching staff were gathered from Statistics Canada Tables 477-0019 and 477-0017. The student to educator ratio was then calculated by dividing the number of full-time teaching staff by the total number of students enrolled in post-secondary institutions for each province. Unfortunately, the data in this category was limited to the years between 2002 and 2011 because Statistics Canada stopped tracking the number of full-time post-secondary teaching staff in 2011/2012. However, several important trends emerged during the analysis stage.

Throughout the entire nine-year period, *have not provinces* of Nova Scotia, New Brunswick, Prince Edward Island, and Manitoba recorded student to educator ratios below the national average. In contrast, Alberta consistently had a higher than average student to educator ratio. Additionally, despite total equalization payments growing from \$8.86B to \$12.34B in constant dollars over the nine years, service comparability actually declined. In the 2002/2003 fiscal year, only two provinces

registered ratios that were more than one standard deviation away from the national average. However, by the 2010/2011 fiscal year the number of outlier provinces had doubled. Two of these provinces even recorded ratios (25.80 and 25.18) that were approximately 10 students per educator less than the national average (35.60) and almost 20 students per educator less than British Columbia (43.90).

From 2002 until 2011, most *have not provinces* clearly had lower post-secondary student to educator ratios than *have provinces*. The presence of four provincial outliers from 2008/2009 onwards also does not bode well for the idea that equalization has achieved reasonably comparable levels of services between provinces. In fact, the equalization program may even be inhibiting service comparability when examining these ratios. As payments increase, levels of service should become more similar, rather than more different. This seems to be at odds with the original intention of equalization, as *have not provinces* are achieving greater levels of service than *have provinces*. In Figures 9 and 10, post-secondary student to educator ratios are displayed for the 2002/2003 and 2010/2011 fiscal years.

Figure 9

Post-Secondary Student to Educator Ratios (2002/2003)

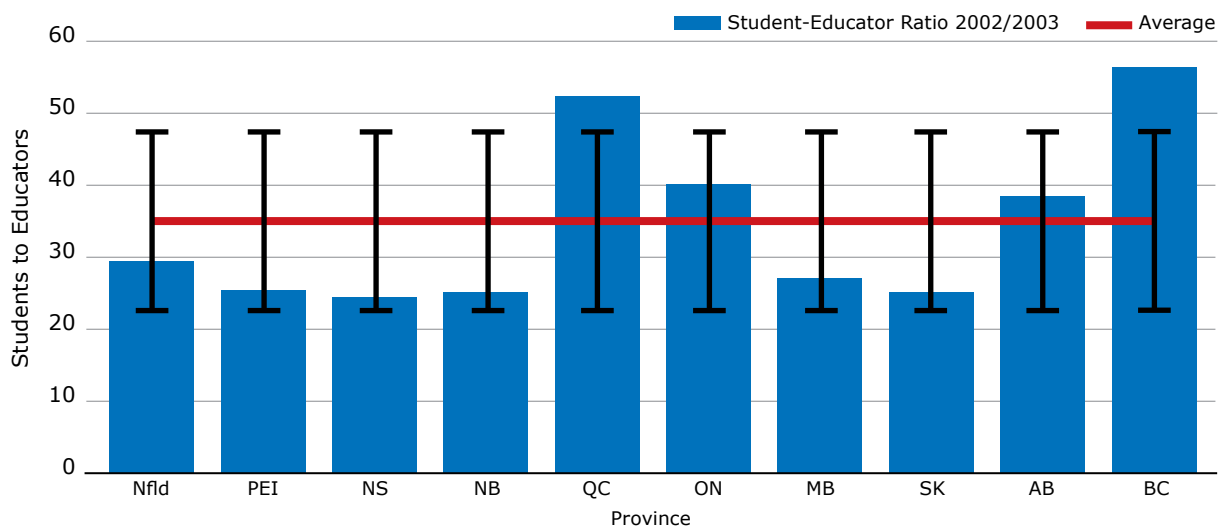
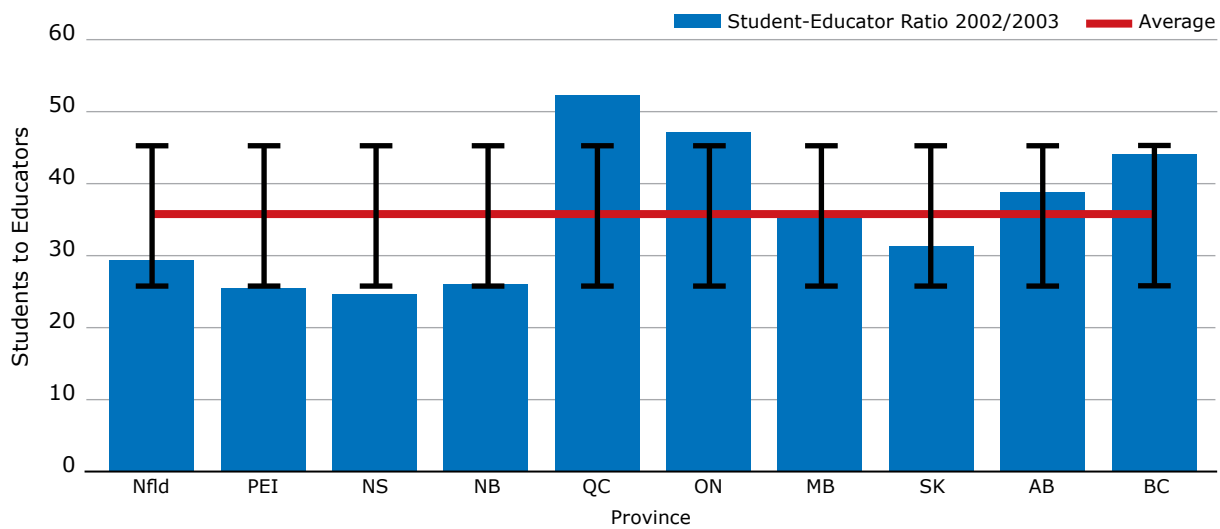


Figure 10

Post-Secondary Student to Educator Ratios (2010/2011)



Post-Secondary Participation Rates

Statistics Canada defines post-secondary participation rates as the percentage of adults aged 18 to 34 who are enrolled in the post-secondary system in a given province (Statistics Canada, 2017). For this category, participation rates were collected in each province from 2008 until 2016. Initially, the national average participation rate was 20.79 percent, with a standard deviation of 0.0244. Nine years later, the national average participation rate increased to 21.52 percent. However, service comparability failed to improve over the time period.

In 2008, four provinces had post-secondary participation rates that were more than one standard deviation away from the national average. These provinces were Alberta, Saskatchewan, Quebec, and Ontario. Later, in 2016, the exact same four provinces remained outliers. Somehow, huge disparities in service levels still existed despite Ontario and Quebec receiving more than \$83B combined (constant dollars) in equalization payments during this time (Department of Finance, "Equalization Entitlements 1980-81 to 2017-18").

Quebec also had a post-secondary participation rate that was above the national average in every single year from 2008 until 2016. The *have provinces* of Saskatchewan and Alberta were always below the national average. Furthermore, Quebec and Alberta were outliers in all nine years, which demonstrates that equalization has not reduced the service gap between these provinces. To highlight the level of service disparity, Alberta never recorded a participation rate greater than 16.30 percent, while Quebec never recorded a participation rate less than 17.37 percent. During 2014, Quebec even registered a participation rate that was more than 10 percentage points higher than Alberta.

Given these incredible service disparities and the lack of improvement seen in areas of comparability, equalization has failed to bridge the gap in participation rates among the provinces and has actually exacerbated disparities in favor of the recipient provinces. *Have provinces* are subsidizing services in *have not provinces* and enabling them to acquire greater rates of participation. Thus, it appears that education services cannot be deemed to be reasonably comparable in the category of post-secondary participation rates. The graphs in Figures 11 and 12 demonstrate this phenomenon.

Figure 11

Post-Secondary Participation Rate (2008)

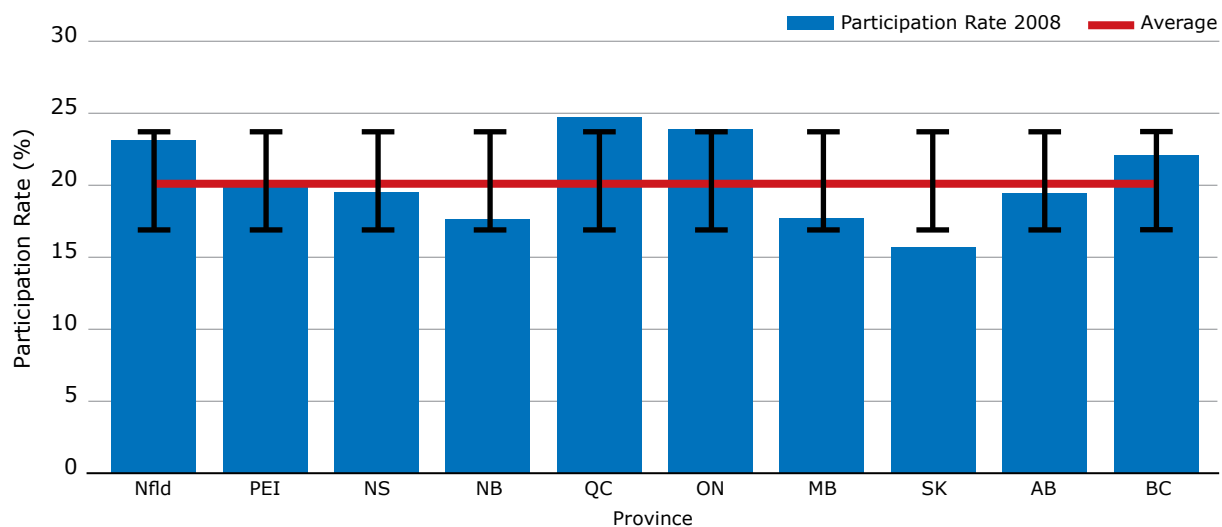
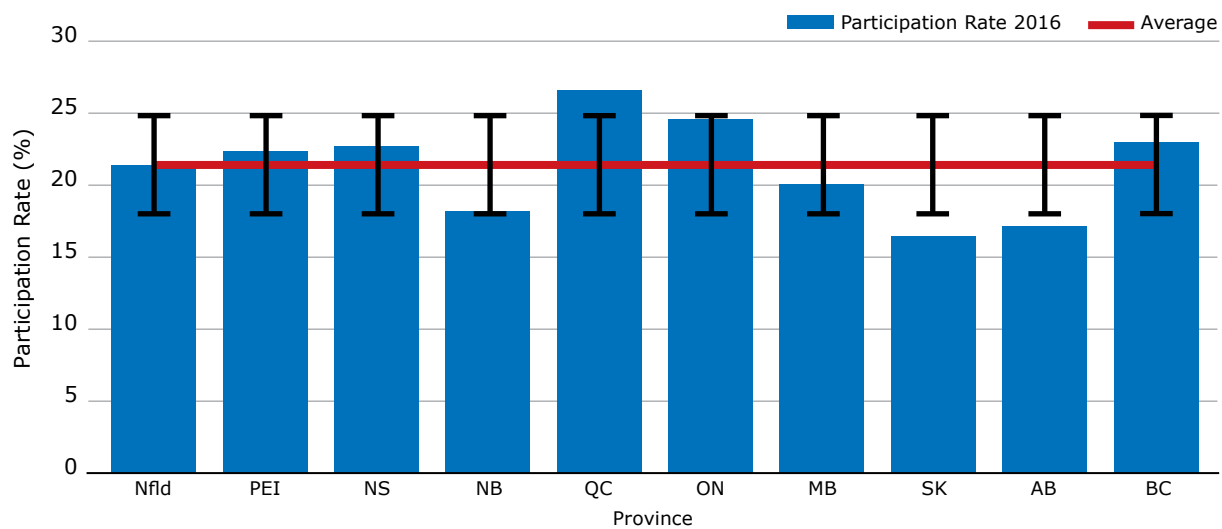


Figure 12

Post-Secondary Participation Rate (2016)



Indigenous Post-Secondary Participation Rates

In this category, Statistics Canada defined Indigenous post-secondary participation rates as the percentage of the indigenous population between the ages of 18-34 that attended post-secondary institutions between 2008 and 2015 (Statistics Canada, 2017). Indigenous status means that the student self-identified in any Aboriginal group such as North American Indian, Metis, or Inuit (Statistics Canada, 2017). However, this data was only collected for indigenous students that were living off-reserve (Statistics Canada, 2017). In addition, Statistics Canada did not record data in either New Brunswick or Prince Edward Island for this category.

In 2008, the national average indigenous participation rate was 17.84 percent, with a standard deviation of 0.0365. During this year, the *have provinces* of British Columbia, Saskatchewan, and Alberta each had participation rates below the national average. Furthermore, four provinces registered indigenous participation rates that were more than one standard deviation away from the national average. By 2015, there were still four provinces that recorded values outside the zone of comparability. In fact, not only was Alberta below the mean in every single year, it was also more than one standard deviation below the mean throughout the entire eight-year period. Conversely, *have not province* Quebec was above the national average during each year.

Service comparability basically stayed at the same level from 2008 to 2015. This is very surprising, especially when considering the more than \$110B (in constant dollars) doled out over this timeframe in equalization payments to correct this exact problem. With four provinces outside the realm of reasonably comparable service levels, the equalization program clearly failed to achieve its objective to reduce service gaps between provinces in this category. It is especially troublesome that *have provinces* such as Alberta, Newfoundland & Labrador, and British Columbia recorded lower indigenous post-secondary participation rates in 2015 than they did in 2008. In contrast, *have not provinces* like Nova Scotia and Ontario were able to record much higher participation rates in 2015 than they did in 2008. As a result, it appears that *have not provinces* are experiencing improvements in service delivery at the expense of *have provinces*. Figures 13 and 14 exhibit the level of service disparities for indigenous participation rates in 2008 and 2015.

Figure 13

Indigenous Post-secondary Participation Rate (2008)

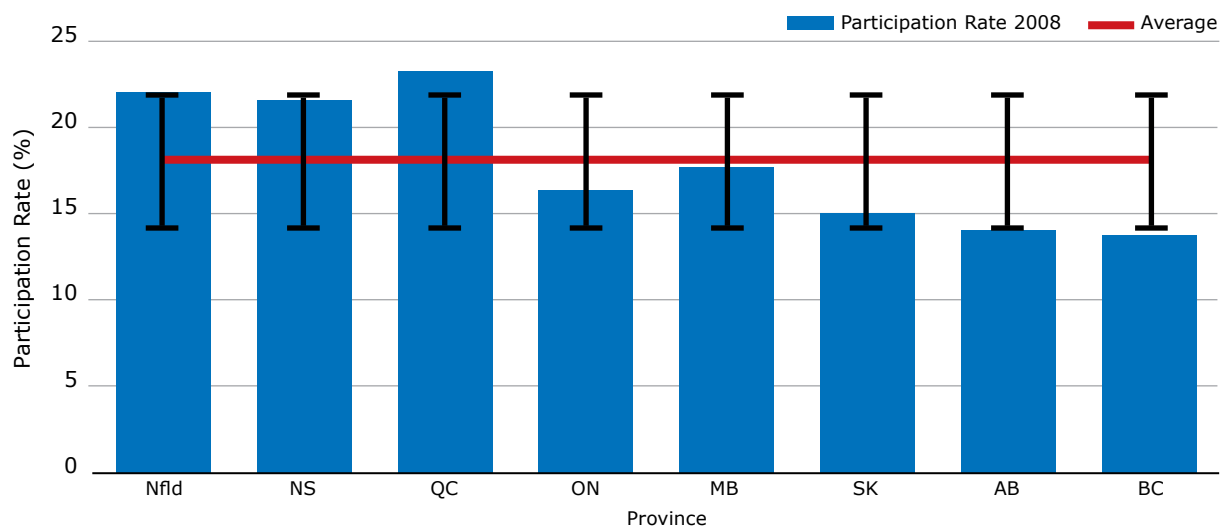
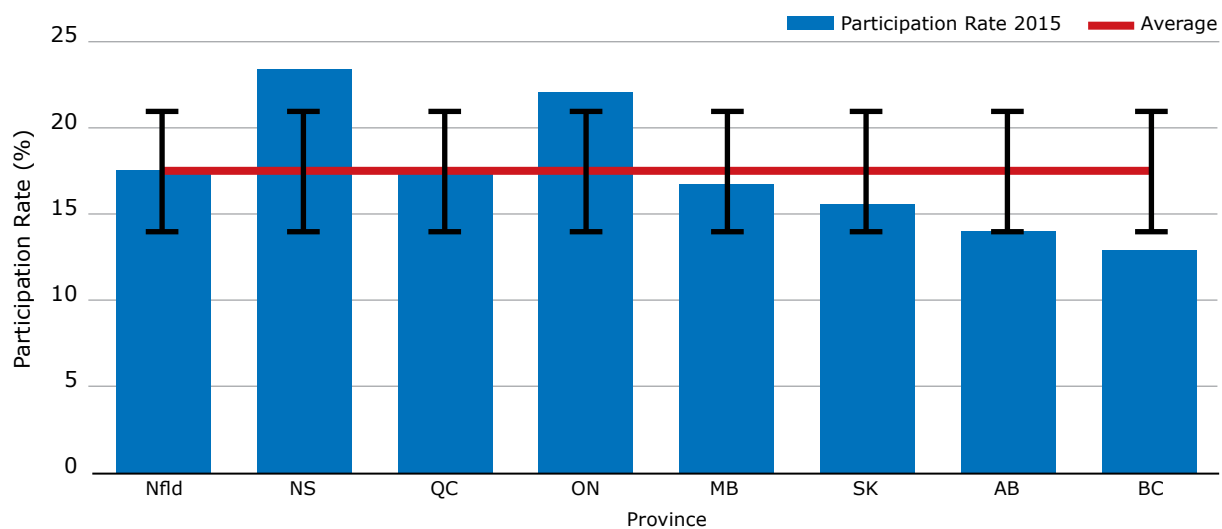


Figure 14

Indigenous Post-secondary Participation Rate (2015)



College Student Debt

Student debt is another critical education indicator because it typically demonstrates the accessibility, or lack thereof, to post-secondary institutions in a province. High amounts of student debt signal less accessibility and lower quality service levels. Statistics Canada collected data for College student debt in 5-year increments from the year 2000 until 2010. Unfortunately, data was not available beyond that period. The data values present in this analysis come from a National Graduates Survey contained in Statistics Canada Table 477-0070. Average debt owed at graduation was observed for each province and then compared to the national average.

In 2000, the national average debt owed at graduation was \$11,650. This figure subsequently grew to \$11,947 by 2005 in constant dollars. Three provinces obtained values more than one standard deviation away from \$11,650 in 2000. Ten years later, there were still three provinces that remained outliers. Moreover, Quebec had a college student debt level below the national average and was an outlier during each of the periods in 2000, 2005, and 2010. In addition, the variation between provinces grew from a standard deviation of 2156.96 in 2000 to 2343.59 in 2010. *Have provinces* of British Columbia, Alberta, Newfoundland & Labrador even had college student debts nearly double the value of Quebec at \$8,800 in 2010.

Given these numbers, it is very apparent that college student debt levels are not reasonably comparable between provinces. Not only did the number of outlier provinces fail to go down over time, but the variation between the provinces also increased. In fact, *have not provinces* of Manitoba and Quebec only experienced debt level increases of 13.6 percent and 14.3 percent respectively. Comparatively, the *have province* of Alberta experienced an increase in debt amounting to 47.7 percent from 2000 to 2010. These are astronomical differences in service levels and there is a familiar pattern of *have not provinces* achieving higher levels of service than *have provinces*. As further evidence, Figures 15 and 16 highlight the large differences between provinces regarding college student debt.

Figure 15

College Student Debt at Graduation (2000)

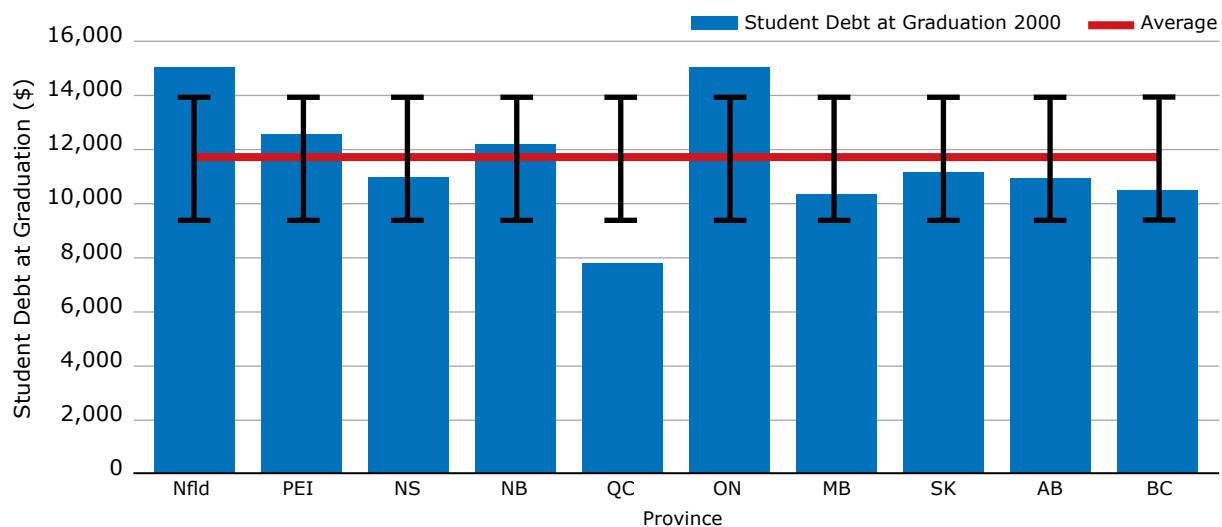
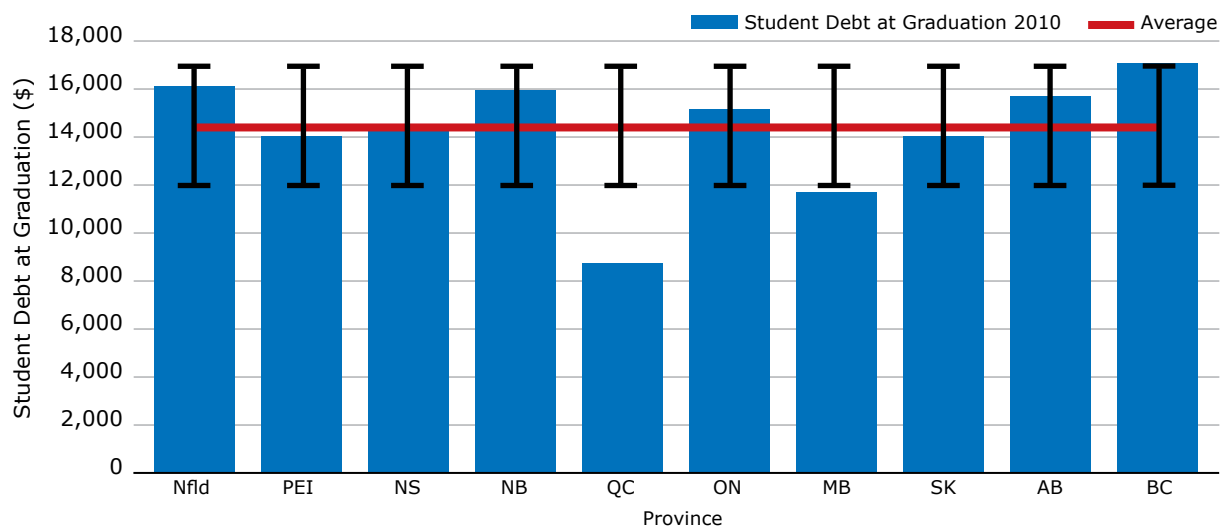


Figure 16

College Student Debt at Graduation (2010)



Bachelor Student Debt

Bachelor student debt is another important barometer for service comparability in Canada. Provinces with high bachelor student debt typically have more expensive post-secondary programs that limit accessibility and offer services to less students than provinces with lower student debt. Data for this category was collected through Table 477-0070 from Statistics Canada and demonstrates the average debt at graduation for students in bachelor degree programs in each province. Similar to the college student debt figures, bachelor student debt was only presented in five-year increments from 2000 until 2010.

In 2000, equalization payments totaled \$10.95B and the national average bachelor student debt at graduation was \$20,920. During this year, the provinces of Newfoundland & Labrador and Quebec each recorded average student debts more than one standard deviation away from the \$20,920 figure. By 2010, equalization payments had increased substantially to more than \$11.77B in constant dollars. However, there were still two provinces more than one standard deviation away from the national average. In addition, the variation between provinces nearly doubled from a standard deviation of 3853.26 in 2000 to 6085.85 in 2010. As *have not provinces*, Quebec and Manitoba remained below the national average bachelor student debt

level during each of the 2000, 2005, and 2010 years. Furthermore, Quebec was an outlier during all three time periods. Conversely, all four *have provinces* in 2010 recorded student debt values that were above the national average. Additionally, Alberta, Newfoundland & Labrador, Saskatchewan, and British Columbia, recorded average student debt levels in 2010 that were 121.01 percent, 129.41 percent, 132.77 percent, and 143.7 percent more than Quebec's debt level respectively. In dollar terms, British Columbia's average bachelor student debt at graduation was \$29,000 per person compared to Quebec's paltry \$11,900.

Given the lack of improvement in service comparability and the growing disparity between *have provinces* and *have not provinces*, equalization has failed to result in reasonably comparable service levels in regards to bachelor student debt. In fact, Quebec debt levels actually fell by 9.16 percent from 2000 to 2010, while debt rose 42.8 percent in British Columbia and 44.5 percent in Alberta. Clearly, access to services and expenses incurred in these provinces is still very different. Moreover, *have not provinces* have greater access to services than *have provinces* and the disparity is growing over time. As further evidence, Figures 17 and 18 indicate the service disparities over the ten-year period.

Figure 17

Bachelor's Student Debt at Graduation (2000)

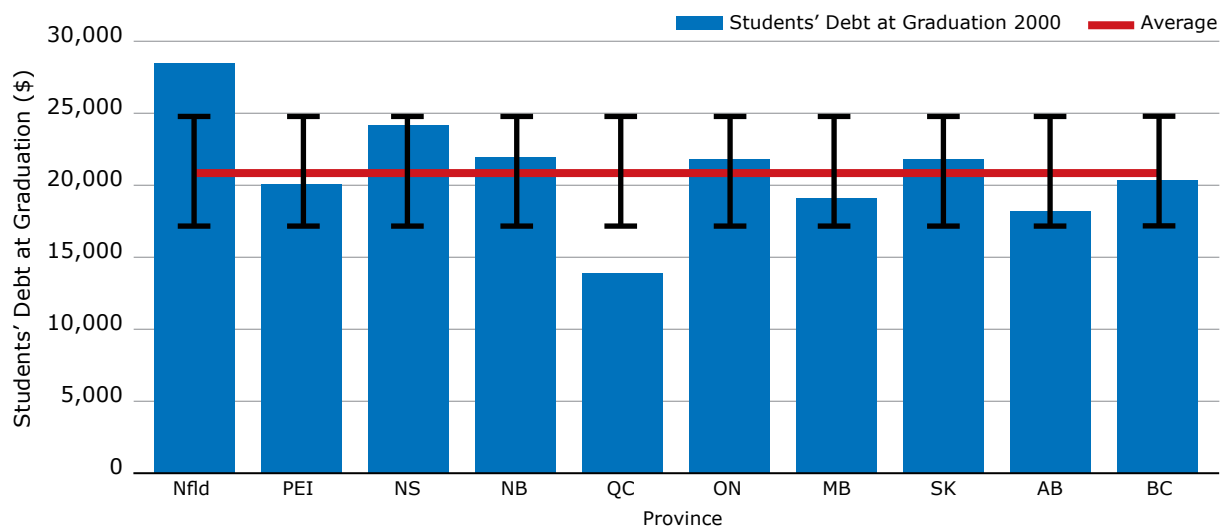
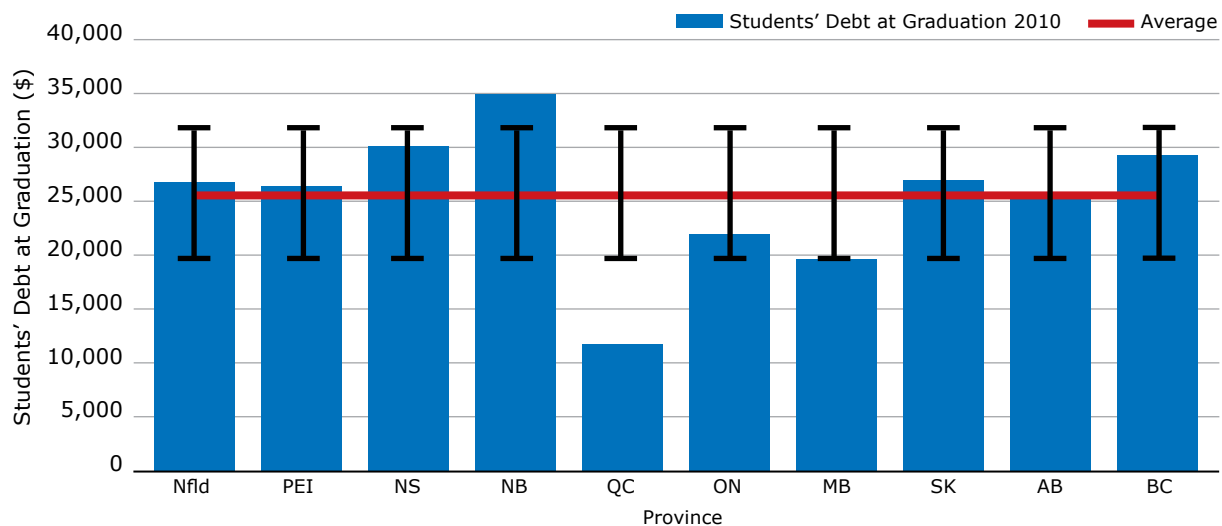


Figure 18

Bachelor's Student Debt at Graduation (2010)



Tuition Fees

Tuition is vitally important in assessing education service comparability because it demonstrates service accessibility and affordability. Provinces with low tuition fees provide greater access to education for students than other provinces and can be considered as having higher levels of service. The data for tuition fees was pulled from Statistics Canada Table 477-0077 from the fiscal year 2006/2007 until 2017/2018. However, the analysis was limited to Canadian undergraduate students in order to examine the differences between the bulk of the student population for each province.

In 2006/2007, the national average value for tuition fees was \$4412.80, with a standard deviation of 1297.74. Three provinces had tuition fees that were more than one standard deviation away from the mean during this fiscal year. By 2017/2018, the number of outliers expanded to four provinces despite the \$4B increase (in constant dollar terms) in equalization payments over that timeframe. At a minimum, there were three outlier provinces in each year. As a result, tuition fees do not appear to be reasonably comparable between provinces. In fact, as time progresses, service comparability appears to get worse. *Have not provinces* of Quebec and Manitoba had tuition rates below the national average during every single fiscal year, while *have provinces* like Saskatchewan and Alberta were above it every year except one.

Quebec was more than one standard deviation away from the mean during each year from 2006 until 2018. In 2006/2007, Quebec had an average tuition fee of \$1,932. More than a decade later, Quebec's tuition rate had only grown to \$2,889, while British Columbia and Alberta had grown to \$5,635 and \$5,749 respectively. Quebec now had

a tuition rate that equaled 51.27 percent of British Columbia's and 50.25 percent of Alberta's tuition value. In other words, students from Quebec were receiving education for half the price of students from the most western *have provinces*. Additionally, tuition fees in Manitoba only grew by 25.28 percent to \$4,158, while they grew by 50.92 percent in Saskatchewan to average \$7,205.

There is clearly a substantial difference between *have provinces* and *have not provinces* in relation to tuition fees. As time progressed, more provinces became outliers and service levels became more differentiated. The presence of this service disparity signals that education services are not reasonably comparable, despite the efforts of the equalization program. Furthermore, *have provinces* appear to be subsidizing tuition fees in *have not provinces* and there has been an increase in service disparities. Figures 19 and 20 from 2006/2007 and 2017/2018 highlight the differences between the provinces in immense detail.

Figure 19

Tuition Fees (2006/2007)

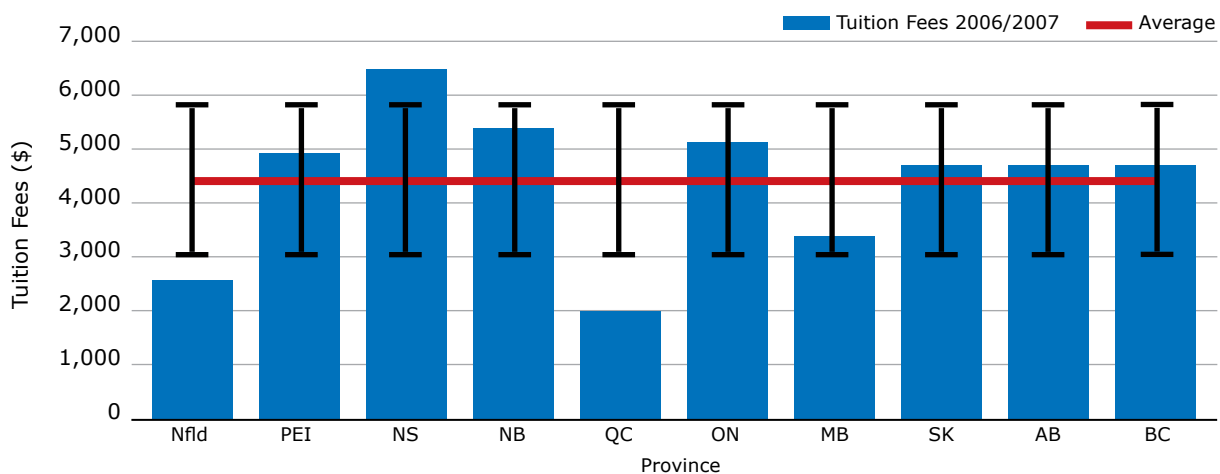
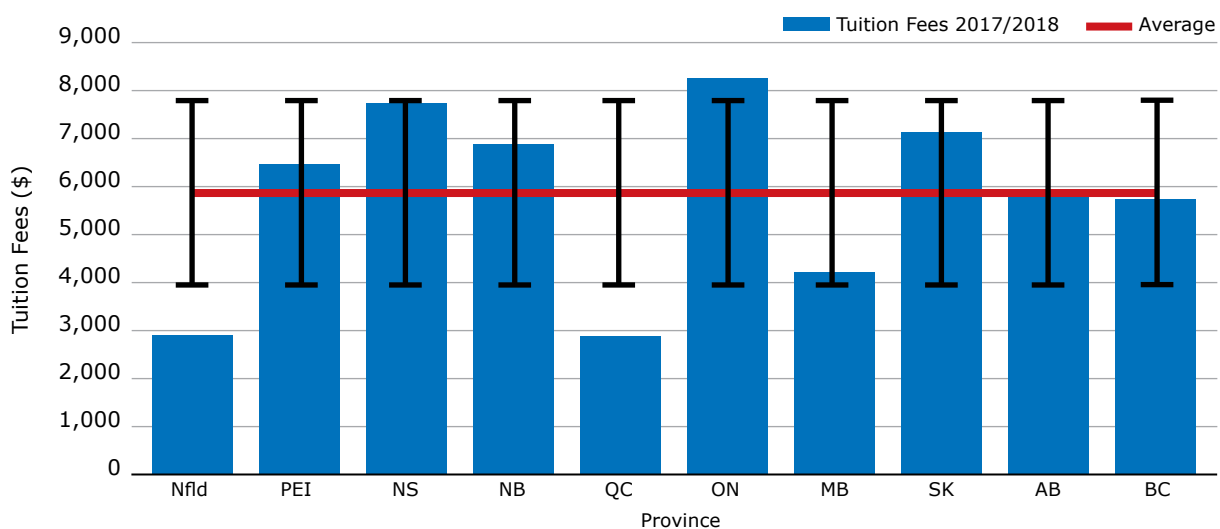


Figure 20

Tuition Fees (2017/2018)



Summary

Table 1, next page, provides a summary of the findings in relation to the eight different education indicators and equalization program. Although service levels have improved in many categories over time, service comparability between the provinces has gotten worse despite the increase in equalization payments. As time progressed, more provinces recorded values that were greater than one standard deviation away from the national average. In addition, *have not provinces* such as Quebec and Manitoba also enjoyed better education services than *have provinces* such as Alberta or British Columbia. Equalization is supposed to reduce service disparities between provinces and ensure poorer provinces are not disadvantaged.

However, the findings in this project make it clear that service disparities still exist and may even be growing. Equalization appears to have actually accentuated service disparities in favor of *have not provinces*. In other words, *have provinces* do not have the same access to services that *have not provinces* do. This is the opposite of expected outcomes from the equalization system. Equalization has produced perverse outcomes and effectively subsidized greater services in *have not provinces*, while using money from *have provinces* to do so.

Table 1	
Summary of Findings	
Education Indicator	Findings
Expenditures per student	<ul style="list-style-type: none"> • <i>Have not</i> provinces Quebec and Manitoba spent more than national average every year • <i>Have</i> provinces Newfoundland and British Columbia spent less than national average • Service comparability got worse, as the number of provinces more than one standard deviation away from the mean grew from three to five
Student to educator ratios	<ul style="list-style-type: none"> • <i>Have not</i> provinces Nova Scotia, New Brunswick, and Quebec had ratios below the national average each year • <i>Have</i> provinces Alberta, Saskatchewan, and British Columbia had ratios above the national average each year • Service comparability remained the same, as the number of provinces more than one standard deviation away from the mean was either at three or four over time
Post-secondary student to educator ratios	<ul style="list-style-type: none"> • <i>Have not</i> provinces Nova Scotia, New Brunswick, Prince Edward Island, and Manitoba had ratios below the national average each year • <i>Have</i> province of Alberta had a ratio higher than the national average each year • Service comparability got worse, as the number of provinces more than one standard deviation away from the mean grew from two to four
Post-secondary participation rates	<ul style="list-style-type: none"> • <i>Have not</i> province of Quebec always had a rate higher than the national average • <i>Have</i> provinces of Alberta and Saskatchewan were always below the national average • Service comparability did not improve, as the number of provinces more than one standard deviation away from the mean remained at four
Indigenous post-secondary participation rates	<ul style="list-style-type: none"> • <i>Have not</i> province of Quebec had a participation rate above the national average each year • <i>Have</i> province of Alberta had a participation rate below the national average every year • Service comparability failed to improve, as the number of provinces more than one standard deviation away from the mean remained at four
College student debt	<ul style="list-style-type: none"> • <i>Have not</i> province of Quebec had an average student debt below the national average each year • <i>Have</i> provinces of British Columbia, Alberta, and Newfoundland had average debts nearly double the value of Quebec in 2010 • Service comparability remained the same, as the number of provinces more than one standard deviation away from the mean stayed at three
Bachelor student debt	<ul style="list-style-type: none"> • <i>Have not</i> provinces Quebec and Manitoba had average debts below the national average during each year and Quebec was always an outlier • All four have provinces recorded 2010 student debt values above the national average • Service comparability did not improve, as the number of provinces more than one standard deviation away from the mean remained at two
Tuition fees	<ul style="list-style-type: none"> • <i>Have not</i> provinces Quebec and Manitoba registered tuition fees that were below the national average during each fiscal year • <i>Have</i> provinces Alberta and Saskatchewan registered tuition fees that were above the national average during every year except for one • Service comparability got worse, as the number of provinces more than one standard deviation away from the mean grew from three to four

CONCLUSION

Policy Implications

Fiscal equalization has often been criticized based on which provinces receive transfers and which ones don't, as well as the size of the payments made to provinces each year. However, very little attention has been given to service comparability in both the political sphere and in academic research. The success of the equalization program depends on its ability to improve service comparability between provinces and ensure provinces with relatively less wealth can provide adequate services to their citizens.

Unfortunately, fiscal equalization has failed to achieve its own objectives. Provinces do not have reasonably comparable levels of education services as required in Section 36 (2) of the Constitution. In many cases, equalization may even be subsidizing *have not provinces to provide greater levels of services than have provinces* can offer. As equalization payments grow, both in nominal and constant dollars, the program appears to have increased or maintained service gaps across the country. This is counter-intuitive and presents a major flaw in the equalization program.

Equalization has resulted in *have not provinces* achieving greater levels of education services than *have provinces*. The program has actually enhanced service disparities in education across the country and produced adverse results. The failure of equalization to address service disparities is especially troublesome because the federal government has recently just re-upped the program under status quo pretenses. Provinces do not have reasonably comparable services and each successive government seems to have no desire to fulfill its constitutional obligations. As a result of inequitable policy design, some provinces have substantially less accessibility than others to education services. *Have provinces* should not be at a disadvantage in delivering services and provinces such as Quebec should not be provided \$11B every year to subsidize significantly better services than their provincial counterparts. In regards to service comparability, equalization is a broken system.

Recommendations

The findings from this project indicate that there are significant faults inherent in the design of the equalization system. To improve the service comparability aspect of the equalization program, the federal government should consider three fundamental changes. First, the legislation guiding the program needs to be updated to include definitions of what constitutes levels of services and what reasonably comparable levels of service are. It is impossible to understand service comparability without these definitions. In addition, the lack of definitions enables the government to impose political considerations by picking winners and losers.

Secondly, the federal government needs to determine a method for measuring levels of services in order to compare the values among provinces and understand if the program is working as intended. It is imperative that the measures be well-researched before implementation. This step will be particularly difficult but establishing a panel made up of academic experts and ordering committee reports to study service comparability would be a good place to begin. Emphasis should be placed on ensuring service comparability without infringing on provincial jurisdiction.

Thirdly, the federal government should create an independent arms-length agency to monitor the equalization program and its operations. This would help to depoliticize the composition of the equalization formula and provide an oversight mechanism that can objectively evaluate the program. The agency could examine service levels over time and make periodic design changes to ensure services are reasonably comparable and the program is working effectively. The independent agency will advise the federal government to alter funding formulas in future years if comparability does not improve. There will be a much higher possibility of achieving greater service comparability through equalization because the agency's sole focus will be on the program itself. Equalization is a flawed policy, but these three changes can rapidly improve the program's design and ensure all provinces truly have access to similar services.

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