Federalism and Fiscal Policy: The Politics of Equalization in Canada

André Lecours* and Daniel Béland†

Fiscal equalization is a key political issue in many federal countries, including Canada. Yet, relatively few scholars have paid systematic attention to the political dimensions of Canada's federal equalization program. Taking an historical and institutionalist perspective, this article explores the politics of equalization policy in Canada, with a focus on the mid-2000s, a period when equalization policy suddenly became a major source of intergovernmental conflict. The main objective of the article is to explain why and how such political struggles over equalization developed. The explanation focuses on four factors: (i) the importance of executive discretion over the equalization program; (ii) the "inter-state" nature of Canadian federalism; (iii) the concentration of non-renewable natural resources in certain provinces; and (iv) the perceptions that surround the program.

Introduction

Many scholars have looked at formal mechanisms of fiscal redistribution in Canada as well as other federal systems (e.g. Bird and Tarasov 2004; Boadway and Flatters 1982; Khemani 2007; Musgrave 1965; Oates 1999; Sash 2007; Théret 2002; Watts 1999). Yet, as far as the Canadian case is concerned, relatively few scholars have focused extensively on the political—as opposed to the economic and financial—dimensions of horizontal fiscal redistribution and, more specifically, of the federal equalization program. And, with a few exceptions (e.g. Milne, 1998), most of the political science scholarship dealing with horizontal fiscal redistribution in Canada is not fully centered on equalization (e.g. Stevenson 2007; Telford 2003).[1] One reason for this gap is that the existing literature on federalism and fiscal redistribution tends to be dominated by the study of economic issues rather than by the political dynamics of territorial transfers. As a result, major theoretical questions about the politics of horizontal fiscal redistribution in federal systems remain unanswered. For example, what explains that equalization policy sometimes

*University of Ottawa, a.lecours@videotron.ca
†University of Saskatchewan, daniel.beland@usask.ca

Publius: The Journal of Federalism volume 40 number 4, pp. 569–596
doi:10.1093/publius/pjp030
Advance Access publication 30 October 2009

generates major intergovernmental conflicts? What accounts for the timing of these political conflicts? In this exploratory article, we attempt to address these questions with respect to Canada.

In virtually all federal systems, equalization triggers some discontent amongst federal units. In Australia, traditional contributing states such as New South Wales and Victoria have often complained about equalization while, more recently, the government of Western Australia has argued that the program destroys incentives to develop natural resources. In Germany, Länder routinely squabble over the fairly modest amounts of money involved in the equalization program. This type of relatively low level noise over equalization, more discontent than conflict, characterizes long periods of the political history of equalization in Canada. Yet, from time to time, the level of political tension over the program does increase, as provinces or federal leaders criticize existing fiscal arrangements. For example, Alberta, a contributing province with right of center politics, has often been critical of equalization while Quebec and the Atlantic provinces have typically advocated larger payments. Moreover, since the adoption of equalization in 1957, changes in economic circumstances and fluctuations in tax revenues have triggered significant political debates about the future of this federal program. As most programs that redistribute large sums of money, equalization is likely to become controversial, in one way or another.

Beginning in 2004, however, discontent over equalization in Canada morphed into full-blown intergovernmental conflict as several provincial Premiers publicly attacked the federal government for decisions concerning the program. This article explores the politics of equalization policy in Canada, with a focus on the mid-2000s (from early 2004 to the 2008 federal election), a period during which equalization suddenly became a major source of intergovernmental conflict. The main objective of the article is to explain why and how major political conflicts over equalization developed. The article is divided into three main sections. The first section presents the program and discusses its historical evolution. The second section develops an analytical narrative for recent intergovernmental conflicts. The third section offers a systematic analysis for these conflicts that stresses a combination of specific economic, institutional, and ideological factors.

The Development of the Equalization Program

Equalization is a program entirely administered and funded by the federal government through general tax revenues that provides payments to provinces with a below-average fiscal capability (on the administration of the program see MacNevin 2004, 188–9). For the purpose of equalization, "fiscal capacity" refers to the ability of a province to raise revenues as measured by an examination of a number of different tax bases (Expert Panel on Equalization and Territorial

Formula Financing 2006, 18, 23). At the broadest level, equalization aims to fight regional inequalities without threatening provincial autonomy; it is, therefore, a form of territorial rather than interpersonal transfer and is distinct from regional development policy *per se*. Equalization stems from the idea that fiscal inequality between the provinces "should not be so great that it exposes some Canadians to hardship depending on where they live" (Stevenson 2007, 2). More specifically, the federal equalization program has three main economic objectives: "[1] Reconciliation of equal social citizenship rights with the advantages of decentralized management (...); [2] Reconciliation of intergovernmental income redistribution with the benefits of own-source [provincial] taxation; (...) [3] Provision of interprovincial insurance: The funding of core social programs should remain stable (...). Relying on a regional tax base, provincial revenues at constant tax rates are inevitably subject to higher variance than those of Ottawa, whose taxing effort is spread across all sectors of the Canadian economy" (Richards 2007, 84–85). Since 1982, equalization has been enshrined in the Canadian Constitution, which states that "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" (Constitutional Act 1982: Subsection 36[2]). Although other federal programs like employment insurance feature explicit forms of territorial redistribution, equalization is the most prominent form of horizontal fiscal redistribution in the Canadian federal system (Courchene 1984).

Despite the fact that equalization only emerged as a distinct federal program in 1957, horizontal fiscal redistribution is as old as the 1867 British North America (BNA) Act, which featured statutory subsidies that "contained an element of equalization in that they were per capita grants up to a maximum population" (Courchene 1984, 65). Yet, facing growing political pressures to expand territorial redistribution and fight regional inequalities, the federal government only created a national equalization program in 1957. This federal program differed from the National Adjustment Grants advocated nearly two decades earlier by the Rowell-Sirois commission (Royal Commission on Dominion-Provincial Relations 1939) in two major ways. First, the federal government rejected the commission's need-based, Australian-style approach, which seemed overly intrusive and a threat to provincial autonomy (Milne 1998, 191) by adopting a fiscal capacity approach. "Provinces would receive a grant if the revenue they could generate from three taxes at a given tax rate was less than what the two richest provinces of the day could generate at those same rates" (Marchildon 2005, 422). Second, the federal government rather than an independent commission would manage the equalization program (MacNevin 2004, 188).

From the late 1950s to the early 2000s, the federal equalization program witnessed many changes, most of them incremental in nature. Ordinarily, these changes took place on a quinquennial basis, as the program was reviewed every five years. One significant area of change to the program concerns the type of tax revenues used in the equalization formula. In 1957, this formula included only three provincial revenue sources: income taxes, corporate taxes, and succession duties. At the time, these were the only well-documented taxes applying in all provinces, a situation that explains the federal decision to focus exclusively on them. A decade later, in 1967, the federal equalization formula used no fewer than sixteen provincial revenue sources. In addition to the three above revenue sources, the list included sales tax, motor fuel tax, alcoholic beverage revenues, forestry revenues, and oil royalties, among others (Perry 1997, 128). Over time, the number of revenue sources taken into account would increase even further. By the late 1970s, this number had reached twenty-nine (MacNevin 2004, 193). Such a multiplication of the tax sources used to assess provincial fiscal capacity increased the complexity of the equalization formula. Interestingly, in 1967, when a major increase in the number of revenue sources used in the equalization formula took place, the federal government borrowed the "representative tax system" (RTS) now used to calculate provincial fiscal capacity from a foreign expert panel: the U.S. Advisory Commission on Intergovernmental Relations, which had put forward this model five years earlier (Bird and Slack 1990, 916; on this policy change see also Clark 1969; Lynn 1968).

Another major target for change has been the number of provinces used to calculate the equalization standard. In 1962, for example, it was decided that "equalization would now be based on the average per capita revenue of all ten provinces rather than on the average for the two most revenue-rich provinces" (Perry 1997, 120). Because this change disadvantaged the four Atlantic provinces, the federal government increased the special adjustment grants that had been created for these poorer provinces five years earlier (Perry 1997, 120). This ten province standard survived until 1982, when the federal government imposed a five-province standard that excluded from the calculation both the richest (Alberta) and the four poorest provinces (New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island). The rationale behind this change was the need to exclude Alberta's increasing oil revenues from the calculation of the equalization standard to keep the program from becoming too expensive.

The switch to a five-province standard in 1982 highlights the central role of energy revenues (especially non-renewable natural resources such as oil and gas) in the politics of equalization. The federal government began including fifty percent of provincial natural resource revenues, including energy resources, in 1962. Although Alberta would receive equalization payments for a few more years under a special guarantee provision, this decision transformed the oil-rich province into a "have" province (Courchene 1984, 42–43). A little more than a decade later, dramatic increases in oil revenues stemming from the 1973 energy crisis created a strong fiscal and *political* challenge to the existing equalization system, as this situation boosted equalization payments to poorer provinces while making the "unthinkable" possible: that the powerful province of Ontario would become entitled to equalization payments. "Oil prices continued to increase, and the oil and gas factors in the equalization formula eventually overshadowed all the other factors, converting even Ontario into a province entitled to equalization" (Perry 1997, 133). Because Ontario is the largest Canadian province (about eight million inhabitants in 1976; twelve million in 2006), giving out equalization payments to that province would have considerably increased the costs of the program. Moreover, the idea that a wealthy province like Ontario could receive equalization payments seemed at odds with the rationale of the program (Perry 1997, 133).

In this context, the federal government adopted emergency measures to deal with the impact of higher than expected energy prices and tax revenues on equalization (MacNevin 2004, 193). For example, regarding oil and gas revenues, the 1974 budget introduced an arbitrary distinction in the equalization formula between "basic revenues" and "additional revenues" stemming from the sudden increases in energy prices related to the 1973 crisis. Despite some provincial opposition, the federal government went ahead with this emergency change (Perry 1997, 134–5). In the late 1970s, growing resource revenues meant that Ontario would qualify for equalization payments, something that the federal government and all the provinces including Ontario found unacceptable (Perry 1997, 140). In order to avoid this situation, federal legislation implicitly targeting Ontario excluded "from equalization payments any province with per capita personal income that was regularly above the national average" (Perry 1997, 140). A few years later, after much debate, the above-mentioned five-province standard would represent a more permanent response to the energy resource problem. In the end, the "unthinkable" was avoided, and Ontario did not receive equalization payments from the federal government. Overall, this episode reveals the truly political nature of equalization policy in Canada, as views on what is politically acceptable and what is not in the federal system triggers change.

In the 1980s and 1990s, Canada witnessed a period of fiscal austerity characterized by the quest for balanced federal budgets, which finally materialized in the late 1990s. To achieve this objective, federal officials enacted cuts in federal social programs like unemployment insurance and also in social transfers to the provinces. For example, the 1996 Canada Health and Social Transfer substantially reduced federal resources transferred to the provinces in the fields of health, social assistance, and post-secondary education (Bashevkin 2000; Banting 2005). At the same time, fiscal austerity affected equalization through the advent of ceilings that limited increases in total federal equalization payments "to a rate of growth no higher than that of the gross national product" (Perry 1997, 162). Yet, in contrast to federal social transfers, the equalization program did not become the target of direct, explicit, and politically controversial cutbacks during the 1990s. As David Milne suggests, "no other fiscal program has (. . .) been so insulated from the savage series of federal restraint measures in the 1990s" (Milne 1998, 193). A possible explanation for that situation is the fact that ad hoc adjustments like the equalization ceilings and the shift to the five-province standard in 1982 helped reduce the overall weight of the program as part of the federal budget. "As a share of total federal revenue, [equalization] has fallen from a high of almost 7.8 percent in 1984 to a low of roughly 5.6 per cent in 2001" (Marchildon 2005, 422).

From this perspective, direct cuts in equalization payments simply proved unnecessary as the relative fiscal weight of the program declined over time. The complex and opaque nature of the program may have reduced the scope of the political discontent over this issue. Beyond this, national unity issues related to the status of Quebec within the federation and discontent in Atlantic Canada over cuts in social programs, such as unemployment insurance, may have convinced federal officials that bold direct cuts in equalization payments represented an unreasonable political and electoral risk. Although some economists and policy experts like Dan Usher (1995) strongly criticized the program and called for radical reforms, nevertheless, the political consensus surrounding equalization remained strong within the federal political arena. With the partial exception of the Reform Party, which called for a more targeted program (Milne 1998, 199), all the federal parties explicitly supported equalization. The fact that the Reform Party had no MP in major receiving regions like Quebec and Atlantic Canada may explain its less enthusiastic support for equalization. In contrast, the electoral weight of receiving provinces helps explain the enduring federal support for equalization in the era of fiscal austerity. It is not long after the end of this era that, in a time of large federal surpluses, equalization generated severe intergovernmental conflict. Because the debate on equalization intensified more than half a decade after the advent of federal surpluses in 1997–1998, this fiscal trend alone cannot explain the timing of recent intergovernmental conflict in Canada.

Equalization and Recent Intergovernmental Conflicts

Why has equalization generated so much political intergovernmental conflict in Canada since 2004? This section offers an analytical narrative of the development of recent intergovernmental conflict over equalization by fleshing out the political contexts, the debates, and the behaviors of the federal and provincial governments surrounding equalization.

The main impulse for intergovernmental conflict over equalization came from a broader provincial challenge over fiscal federalism. The tone was set by Quebec, which popularized the notion of a "fiscal imbalance" in Canadian federalism. This concept refers to the idea that provincial governments do not have the revenues necessary to deliver such expensive services as health care and education while the federal government routinely raises more money than it needs to fulfill its constitutional responsibilities. The report of a special commission appointed by the Quebec government to look at this issue concluded that the federal government had too much fiscal capacity considering the nature of its constitutional powers. In addition to recommending various ways to provide greater fiscal resources and autonomy to the provinces, the report denounced the equalization program for the unpredictability of payment amounts from year to year and for the limitations to fiscal redistribution involved in the five-province norm (Commission sur le déséquilibre fiscal 2002, 14). It also recommended that provinces be consulted before any change to the equalization program was implemented.

The theme of fiscal imbalance subsequently became prominent in the politics of Canadian federalism as provinces united in applying political pressure on the federal government so it would address the imbalance. By early 2004, as a result of three main developments, provincial governments brought the equalization program into the broader context of fiscal federalism (CBC News 2004). First, payments were expected to dip to $8.9 billion after having reached more than $10.9 billion in 2000–2001 (Expert Panel on Equalization and Territorial Formula Financing 2006, 23), while at the same time the federal government was showing large budgetary surpluses (Table 1). The dip in equalization payments was the consequence of a number of distinct factors, including a slowdown in Ontario's economy and tax reduction in several provinces (Expert Panel on Equalization and Territorial Formula Financing 2006). Quebec was affected particularly adversely

Table 1 Equalization Entitlements in Canada (1999–2009)

Year	Total for All Provinces (Millions of $ CDN)
1999–2000	10,900
2000–2001	10,948
2001–2002	10,310
2002–2003	8,859
2003–2004	8,690
2004–2005	10,894
2005–2006	10,907
2006–2007	11,535
2007–2008	12,925
2008–2009	13,620

Source: Finance Canada.

by the overall reduction in equalization payments. Second, there was a growing sense among provinces with oil and gas resources that factoring these resources into the calculation of provincial fiscal capacity was highly prejudicial and unfair. For example, this was the case for Saskatchewan, which was the focus of an influential article discussing its "vanishing energy revenues" resulting from "confiscatory equalization" (Courchene 2004).

Third, the federal government was particularly vulnerable at that moment. Liberal Prime Minister Paul Martin was in political trouble, having to manage the so-called "sponsorship scandal" that was threatening the party's popularity, especially in Quebec.[2] As for equalization policy, during the 2004 federal campaign, Martin faced strong political pressures from Newfoundland and Labrador Premier Danny Williams, "who asked for 100 per cent of its share of royalties without any equalization payment clawback" (Dawson 2004). Simultaneously, Canadians were worried about the future of their health care system, and, in the run up to the 2004 federal elections (held in June), Martin promised to fix health care "for a generation." After having escaped the elections with a minority government, Martin was keen to reach a "health care deal" with the provinces that would see the federal government transfer important sums of money for better health care financing. In the fall of 2004, the high-profile bargaining process over health care financing (much of it was televised) were conducted in a context where the money available to provinces from the equalization program was decreasing. For Quebec—a large receiving province—no health care deal was going to happen without a revision of the equalization formula. The Quebec government, along with other receiving provinces, pressed hard for a reform of the equalization program that would increase federal spending across the board. Prime Minister Martin's promise to fix health care "for a generation" had unwittingly placed equalization at the top of the political agenda. He now needed to act on equalization to get the anticipated political rewards of a health care deal with the provinces.

In October 2004, the Martin government announced the "New Framework" reform that set the fixed-pool sum for equalization at a minimum of $10 billion. However, there was much in the "New Framework" that could represent a source of political problems for the Martin government. Non-renewable resources were still included in the calculation of provincial fiscal capacity, which was not popular in the resource-rich provinces. To address potential grievances, the government moved quickly to strike Offshore Accords with Newfoundland and Nova Scotia that provided full compensation for any reduction in equalization payment resulting from increased revenue linked to offshore resources.[3] Furthermore, under the New Framework, Newfoundland, a receiving province, would end up having a higher fiscal capacity after equalization than Ontario, a contributing province and the bedrock of Liberal power in Canada. Finally, because a decrease in a receiving province's fiscal capacity would result in lower equalization payments for another receiving province, the New Framework exposed the Martin minority government to the whims of economic forces.

The 2004 reform of the equalization program failed to qualm provincial discontent. It soon became apparent that, while going for a fixed-pool structure stabilized the overall budget for the equalization program, the amount each province would receive annually would vary fairly significantly depending on economic performance. In other words, the New Framework provided predictability for the federal government, but not for the provinces. Sensing a political hot potato, the government announced in the fall of 2004 the creation of the *Expert Panel* on equalization (*Expert Panel on Equalization and Territorial Formula Financing*) to review the program and make suggestions for reform.[4]

On the surface, this was an exercise in de-politicization since presumably neutral experts were to consider equalization. However, the notion of a purely technical policy examination of equalization is problematic at best because the horizontal redistribution of financial resources is an issue deeply embedded in Canadian federalism. When the panel was formed, it immediately reflected the territorial dynamics of federalism. The *Expert Panel* comprised two members from Western Canada (Alberta), one from Quebec, one from Ontario, and one from Atlantic Canada (Nova Scotia). Some of these members had close links with their provincial governments. It was clear, from the beginning, that recommendations on equalization would be negotiated around perceived regional interests. As the largest receiving province, Quebec's interest was to have an equalization formula based on the average fiscal capacity of all ten provinces rather than five so as to increase the amount of money being redistributed. For two Western provinces (Alberta and Saskatchewan) and two Atlantic provinces (Nova Scotia and Newfoundland), all rich in non-renewable natural resources, the priority was to avoid full inclusion of revenues from these resources into the calculation of fiscal capacity. For Ontario, a contributing province, the objective was to activate a cap on equalization payments at the moment when the fiscal capacity of a receiving province would surpass that of the lowest non-receiving province (at that time, Ontario). Workshop and roundtable participants, especially if they formally represented a provincial government, offered perspectives grounded in perceived regional interests. In the end, the core recommendations of the *Expert Panel* were a carefully crafted compromise between the demands of specific provinces.

The panel issued its report (the so-called O'Brien report, named after the Panel's Chair, Al O'Brien, a former Alberta senior civil servant) to the new Conservative government in May 2006. It made several recommendations.[5] Four were particularly important.[6] First, the report suggested dropping the fixed-pool approach and instead suggested using a formula to determine the yearly budget of the equalization program. Second, it recommended that the formula consider the fiscal capacity of all ten provinces rather than going back to the five-province standard used before the "New Framework" of 2004. Third, the report stated that fifty percent of provincial resources revenues should be included in the calculation of provincial fiscal capacity. Fourth, the O'Brien report recommended that "[a] cap be implemented to ensure that, as a result of equalization, no receiving province ends up with a fiscal capacity higher than that of the lowest non-receiving province" (Expert Panel on Equalization and Territorial Formula Financing 2006, 7).[7]

Politics, however, would make it such that the implementation of this arrangement would trigger serious intergovernmental conflict. By 2006, the Martin government was more than ever mired in the "sponsorship scandal" after an enquiry commission released a report incriminating senior Liberal government officials. Sensing an opportunity to take power after thirteen straight years of Liberal rule, Conservative Party leader Stephen Harper decided to make a strong political pitch on equalization: as a way to gain electoral support in provinces such as Newfoundland, Nova Scotia, and Saskatchewan, he promised he would not include revenues from non-renewable resources in a revised equalization formula.

When the report came out, resource-rich provinces were seriously displeased. The most vocal provincial critic of the report, Newfoundland Premier Danny Williams, said it was "out of left field" and gave "Newfoundland and Labrador a sledgehammer over the head" as it proposed to include fifty percent of natural resources revenues in the calculation of provincial fiscal capacity (Laghi 2006). At the same time, Mr. Williams said he was not too worried about the recommendation because Stephen Harper had promised that natural resources revenues would be excluded from the calculation. In the same vein, Saskatchewan Premier Lorne Calvert said that he was "at best, very disappointed" with the report and that "if these recommendations were to be followed, they would penalize the people of Saskatchewan."[8] (Laghi 2006) Alberta Premier Ralph Klein and Ontario Premier Dalton McGuinty, at the head of two contributing provinces, both said they would fight against the enrichment of the program.

The four recommendations outlined previously formed the core of the revision to the equalization program announced later in the year by Prime Minister Stephen Harper, whose Conservative Party had just formed a minority government following the 2006 elections.[8] For the Conservative Prime Minister, implementing the provisions of the report of an expert panel set up by a Liberal government may have seemed like the best course to avoid charges of favoritism.[9] Also, implementing the report meant more money for Quebec, a province where the Conservative Party had made its first inroads since 1988 and which was counted on for a future Conservative majority. Harper did leave it open for provinces to choose between zero or fifty percent inclusion of resource revenue since the cap would make sure that equalization payments stopped when these revenues pushed a province's fiscal capacity above that of the lowest contributing province.

Resource-rich provinces were incensed with the Conservative government's decision to implement most of the report's recommendations and accused the Prime Minister of having broken a promise.[10] They replied in a variety of ways. Newfoundland Premier Danny Williams took out a full page advertisement in a national newspaper (*The Globe & Mail*) to denounce Prime Minister Harper for a "promise not kept." Williams, a Conservative Premier, proceeded to urge Newfoundlanders not to vote for his federal counterparts (Canadian Press 2007). Saskatchewan Premier Lorne Calvert called the implementation of a cap on equalization payments a "betrayal" (Scoffield 2007). In June, he announced that Saskatchewan would launch a lawsuit against the federal government over equalization payments (CBC News 2007b). Other Premiers took their disappointment public. Nova Scotia Premier Rodney MacDonald responded to federal Finance Minister Jim Flaherty's comments that a few provinces were "grumpy" about the equalization reform in the budget: "Am I grumpy? Yes, and I should be grumpy" (CTV News 2007a). British Columbia's revenue minister complained that his provinces got a small amount of money compared to Quebec (Canadian Press 2007).[11] At the same time, federal political parties were facing off on equalization. Finance Minister Jim Flaherty started taking shots at how the previous Liberal government had dealt with equalization, saying they had made a mess with the program with "side deals" on resources (Campbell 2006). Liberal leader Stéphane Dion counter-attacked by denouncing the Prime Minister for breaking a promise (CTV News 2007b).

By 2008 new lines of conflicts developed. In May, a TD Bank Financial Group report predicted that Ontario would qualify for equalization beginning in 2010–2011 (TD Bank Financial Group 2008). Ontario Premier Dalton McGuinty immediately took an aggressive stance towards the federal government, demanding reform to the equalization program because it involved Ontario being a net contributor at a time when its economy was not doing nearly as well as the economy of provinces that were still net recipients (Benzie and Ferguson 2008). "Were we to become a recipient, we would rescue ourselves with our own money. That's how perverse and nonsensical this financial arrangement is," McGuinty said (Benzie and Ferguson 2008). A few days later, Premier McGuinty said it was time to "end [the] outdated federal equalization program" (Shuffelt 2008).

This analysis of the development of intergovernmental conflict over equalization in the past few years highlights one critical feature about the process of horizontal fiscal redistribution in Canada: it is immensely political. Indeed, decisions on equalization policy are heavily guided by an appreciation of which province is going to be most displeased and what that displeasure could mean for the federal party in power. As we now look to gain a deeper theoretical understanding of why equalization in Canada has recently generated such intense intergovernmental conflict, its political nature needs to be given foremost consideration.

Explaining Political Conflict

Accounting for intergovernmental conflict over equalization requires grasping why it has become part of Canadian politics and why the politics of equalization seems particularly conducive to conflict in Canada. The explanation we propose is multi-dimensional. It focuses on four factors: (i) the importance of executive discretion over the equalization program; (ii) the "inter-state" nature of Canadian federalism, which involves competitive relations between the federal government and provinces; (iii) the concentration of key natural resources in certain provinces combined with the changing market value of these resources; (iv) and the perceptions that surround the equalization program as well as its relationship with natural resources. The first two factors are institutional, while the third and fourth factors point to economic and ideological forces, respectively.

Executive Discretion

Equalization is a federal program whose parameters are defined by the federal executive power and whose implementation is the responsibility of the federal Department of Finance.[12] There is no arms-length agency similar to Australia's Commonwealth Grant Commission to provide a sense of technical neutrality to equalization. On the contrary, federal party leaders, in government and in opposition alike, give an explicit political and partisan dimension to equalization insofar as they often make promises about the program. It is no coincidence that serious intergovernmental conflict over equalization began in 2004 when the Paul Martin Liberal minority government (the first minority federal government in almost twenty-five years), mired in the "sponsorship scandal" and facing a now-united right-of-center Conservative Party,[13] was desperately looking to hold on to support in many provinces. In contrast, the ten previous years of majority Liberal government, led by Jean Chrétien, had seen virtually no executive decisions about equalization (Milne 1998). Thus, in a context of growing electoral competition and increasing oil prices, the actions and strategies of Prime Minister Martin help account for the timing of recent conflicts over equalization.

Promises, or the actual decisions on equalization, are often guided by political strategy. For example, the details of the 2007 reform that resulted in a boost of funds for Quebec were announced just a week before a provincial election where the federalist Quebec Liberal Party was in a tight three-way contest with more nationalist parties. This was widely seen as a move by the (minority) Conservative government, not only to help a federalist ally in Quebec, but also to court the crucial Quebec "soft" nationalist vote that could help the Conservatives form a majority government at the next election. Speaking about the equalization reform and the 2007 budget more generally, Saskatchewan Premier Lorne Calvert rhetorically asked: "Where does he [Prime Minister Stephen Harper] need to win seats? He needs to win seats in Central Canada, Ontario, and Quebec" (Calvert cited in Bryden 2007).

There are at least two important consequences of the politicization of equalization stemming from executive discretion. The first is that provinces are quite aware of their potential to exert influence on the design of equalization. This awareness was reflected by the provincial opposition towards emulating the Australian model of having an independent body, briefly considered by the *Expert Panel* (Expert Panel on Equalization and Territorial Formula Financing 2006, 39). Indeed, compared to the Australian system where many decisions about equalization are made by an arms-length agency, the Commonwealth Grants Commission (Galligan 1995), Canada's federal institutional arrangements favor the overt politicization of equalization policy because provincial leaders can pressure the federal government to amend the program to their advantage (Stevenson 2007).

The second consequence is that reforms are unavoidably seen in terms of the federal government choosing provincial "winners" and "losers." For reasons linked to the nature of Canadian federalism discussed below, the provinces that lose from a reform (or, more accurately, provinces whose leaders judge their province to have been short-changed) typically come out aggressively against the federal government. This creates a political problem for the federal government (especially in a minority situation), and it often looks to compensate "losers" to rescue some political support in these particular provinces. The signing in 2004 of the Offshore Accords with Newfoundland and Nova Scotia met this logic very well[14] as has a "settlement" between the federal government and the government of Nova Scotia, announced in 2008, that saw Ottawa transfer over $800 million to Nova Scotia to compensate for the province having lost its claim to a Crown share in offshore projects.[15]

This type of deal-making, aimed at quelling discontent in a specific province, usually ends up creating more resentment about equalization.[16] For example, Saskatchewan governments have continued stressing the unfairness of their situation as the only receiving province rich in natural resources that does not have a "side-deal" with the federal government to shield its resources revenues from equalization formula. The political move to compensate provinces that perceive themselves as the "losers" of equalization is so compelling for the federal party in power that the pattern continued, as the 2008 Crown share settlement with Nova Scotia shows, even after the Conservative government endorsed the *Expert Panel*'s recommendation to have a principled approach to equalization that excluded "the need for separate agreements with individual provinces" (Expert Panel on Equalization and Territorial Formula Financing 2006, 43).

Inter-State Federalism and Provincial Mobilization

Canadian federalism is competitive in nature. Intergovernmental relations are managed by executives that have to mount a political defense of whatever outcome resulted from negotiations. For the federal government, the essence of this defense rests in arguing that intergovernmental discussions in First Ministers Conferences or high-profile bilateral meetings have contributed to strengthening national unity, a strong economy, and a robust welfare state. Provincial governments, for their part, have to frame the negotiations' outcomes as consistent with their province's perceived interests; or, if this is not possible, they must point the finger at the federal government. In other words, provincial governments will take credit for something that has been "gained" for their constituents or, if the outcome is not what they wanted, blame the federal government for a perceived loss or injustice.

Such a dynamic is a function of Canada's "inter-state" federalism (Théret 2002). In a federal model where constituent units have no effective representation in central institutions and therefore cannot shape federal policy-making within these institutions, provincial governments have no real competition when representing their residents in Ottawa and they show a vigorous will to protect and promote their perceived interests *vis-à-vis* the federal government (Simeon 1972). Furthermore, federal and provincial political parties are completely distinct organizations; which means that, quarrels between parties sporting the same tag do not create any kind of internal tension.

This "inter-state" federalism, which is central to Canada's "federal condition" (Smiley 1987), also involves the existence of a strong sense of provincial autonomy and identity. In addition to Quebec where the national identity underpins separatist and strongly autonomist currents, virtually all other provinces have their own sense of being a political community within the Canadian federation. In fact, territorial identities in Canada are dual in the sense that most Canadians identify with both Canada and their province, albeit to varying degrees (Figure 1). The strength of provincial identities varies across the country (they are strongest in Quebec and Newfoundland and weakest in Ontario), but they condition the nature of intergovernmental relations in the country.

Contrary to some other federations such as Australia and Germany, provincial governments in Canada know they are very likely to get support from their constituents in a public dispute with the federal government. In this context, provinces have an incentive to be aggressive when they deal with the federal government on issues they can frame as affecting their interests and/or identities. In the words of Stevenson (2007, 2) commenting on fiscal federalism in Canada: "A cynic might say that provincial politicians have nothing to gain, and much to lose, by appearing to be satisfied. (. . .) [I]t is far easier and more convenient to attribute the deficiencies of one's highways, hospitals, universities or schools to the

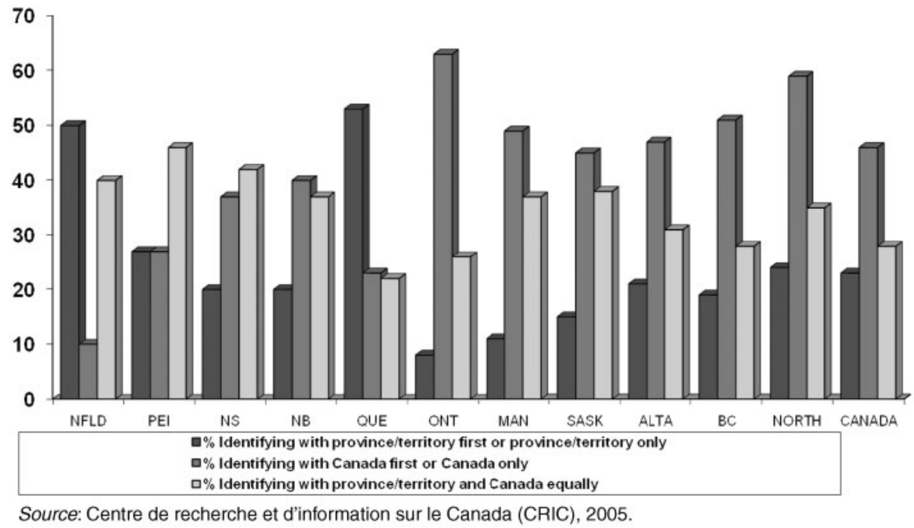

Figure 1 ‘‘People have different ways of defining themselves. Do you consider yourself to be: a Canadian only, a Canadian first but also a [name of province/territory], equally a Canadian and a [name of province/territory], a [name of province/territory] first but also a Canadian, or a [name of province/territory] only?’’

distant federal government, which is generally inhibited by constitutional propriety and self-respect, from responding to the verbal abuse that is thrown in its direction, than it is to repair the deficiencies.’’ From this perspective, criticism of the equalization formula is tied to ‘‘the politics of blame avoidance’’ (Weaver 1986).

This is exactly what happened when the Harper government decided to implement the recommendations of the *Expert Panel*, including a cap that would ensure that equalization payments to a province would stop at the point where its fiscal capacity would exceed that of the ‘‘poorest’’ contributing province. Premiers of Newfoundland, Nova Scotia, and Saskatchewan were completely unafraid to take on the federal government publicly and to accuse it of a serious sleight with (in the case of Danny Williams) promises of electoral problems for the federal Conservative Party in the province. Premier Williams even went as far as launching a website entitled ‘‘Anything but Conservatives’’ (http://www.anythingbutconservative.ca/) during the 2008 federal campaign. Moreover, the enshrinement of equalization in the Constitution provides provincial leaders with another potential resource in their confrontations with the federal government. The Saskatchewan government, then formed by the left-wing New Democratic Party (NDP), even contemplated a constitutional challenge to the federal government. Premier Lorne Calvert said the “suit would be based on the sections of the constitution that require the equalization program to be fair and equitable” (CBC News 2007c). The fact that no such section exists did not deter Calvert from keeping the threat of a constitutional challenge alive, and other arguments that were developed linked primarily to the constitutional stipulation that provinces own their natural resources and have full taxing authority over them (Whyte 2008). His party was in an unfavorable political situation in his home province and picking a fight with the federal government over equalization presented some potential to muster support for the forthcoming election, which his party ended up losing anyway. In July 2008, nine months after gaining power in the province, Saskatchewan Party Premier Brad Wall, who has close ties to the federal Conservative Party, decided to withdraw the legal challenge against the federal government initiated by his NDP predecessor Lorne Calvert (CBC News 2008).

Natural Resources

Non-renewable natural resources have been central to the intergovernmental conflict over equalization. From a purely materialist standpoint, the concentration of oil and natural gas in certain provinces (primarily Alberta, but also Saskatchewan, Nova Scotia, and Newfoundland) means greater inter-provincial disparities in fiscal capacity than if these resources were evenly distributed (Figure 2).

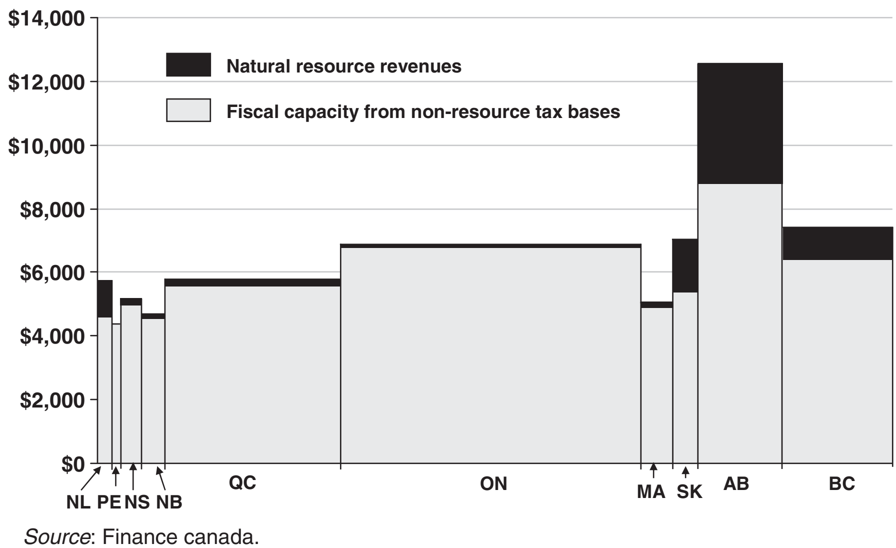

Figure 2 Provincial–local governments’ per capita fiscal capacity [2008–2009 (Due to the data lags and moving averages in the Equalization formula, fiscal indicators for 2008–2009 reflect outcomes for the fiscal years 2004–2005, 2005–2006, and 2006–2007)].

Greater disparities between provinces mean that receiving provinces are likely to seek greater territorial redistribution through equalization while contributing provinces are likely to push for a less substantial program. The federal government is left to arbitrate these different demands and can quickly become a target for provincial pressures.

Adding to the tension-producing potential of the concentration of oil and gas resources in certain provinces is the fact that the value of these commodities has fluctuated in recent years. Shifting energy prices create uncertainty about existing arrangements (e.g., which province receives payments and for how much) and any adjustment involves a highly political process that is likely to engage provinces that see their interests at stake. The fact that global economic forces pushed oil prices up from about $30 a barrel in July 2003 to nearly $75 a barrel in July 2006, and more than $145 a barrel in mid-July 2008 before prices began to fall, fueled intergovernmental conflicts over equalization. It is unclear if there is a specific price range for oil and gas that leads to intergovernmental tensions around the equalization program. When the price of oil and gas is much higher (for example, over $100 a barrel), inter-provincial inequalities in fiscal capacity become wider, presenting potential for intergovernmental conflict. During these periods, however, provinces with oil and gas typically complain less about losing equalization revenues. When oil and gas prices are lower (e.g, between $40 and $80 a barrel), there is more frustration over resource revenue reducing equalization payments.

As for renewable resources, a prominent issue for hydro-rich provinces like Manitoba and Quebec is the relationship between hydroelectricity revenues and the calculation of equalization payments.[17] For example, it has been reported that Quebec's equalization payments have been boosted by the fact that its publicly-owned utility (Hydro-Quebec) sells electricity at relatively low prices. "The Quebec government artificially reduces its 'fiscal capacity'—thereby qualifying for higher equalization payments—by allowing provincially owned Hydro-Quebec to charge consumers, especially large industrial ones, a price far below the market value" (Yakabuski 2008, B2). Interestingly, on average, hydroelectricity has been much less central to political debates on equalization than oil revenues.[18] Yet, it has been argued that "including the true value of the hydro resources in the equalization equation would" prove highly controversial (Yakabuski 2008, B2).[19]

In general, when it comes to equalization, there is more to the issue of natural resources than meets the eye. In other words, considering the impact of resources on intergovernmental conflict over equalization from a purely materialist standpoint does not reveal the whole picture. Resources have been problematic also because of specific understandings of where natural resources fit within Canadian federalism as well as perceptions of how equalization works.

Perceptions about Equalization

Ideational factors (Parsons 2007), sometimes grounded in specific regional political cultures and often involving contentious perceptions of the equalization program, have played a key structuring role in recent intergovernmental conflicts over that program. Turning to such factors helps understand the debate on natural resources but also broader aspects of the politics of equalization in Canada. Three major ideational factors directly impact the contemporary debate on equalization.

First, there is the idea that revenue from natural resources is somehow different from the revenue stemming from all other sources. This idea underpins the argument that revenue from natural resources should not be factored into the calculation of provincial fiscal capacity. Politicians and opinion leaders in resource-rich provinces have based that argument on the fact that the Canadian constitution specifies that provinces have ownership of natural resources. Especially in the Western provinces of Alberta and Saskatchewan, such actors have claimed that natural resource revenues should be excluded from the calculation of provincial fiscal capacity because these resources belong to the provinces. Another argument is that resources such as oil and gas should be treated differently *because* they are non-renewable, that is, not part of an endless revenue stream.

In Alberta most particularly, oil and gas define much of the province's economy and politics (Tupper et al. 1992, 35–36). Memories of the 1980 National Energy Program that saw Ottawa impose price control and tax oil and gas production mean that provincial government have a tendency to depict any direct connection between the federal government and Alberta resources as a threat emanating from that government. This connection can simply take the form of calculating revenue from oil and gas in a federal program that explicitly favors territorial redistribution. But the highly symbolic role of natural resources and their connection to provincial identity and perceived interests is not only present in Western Canada. For example, in 2008, while the government of Newfoundland was proud to announce that it would soon no longer be a recipient of equalization payments, it still resented the fact that the cap in the equalization formula was going to cost the province. From that perspective, the federal government was penalizing Newfoundland for its success in developing resources by cutting off equalization money.

Second, a common perception is that equalization involves a direct transfer from "have" to "have not" provinces. This perception is widely present in media reports. For example, when it was announced in 2008 that Ontario would qualify for equalization payments, media headlines tagged Ontario with the status of being a "have not" and "welfare recipient" province (Artuso 2008; Callan 2008). Premier Danny Williams, whose own province was to exit the category of "have not," even declared that Newfoundland would be there to support the weaker sisters of the Confederation (Scoffield 2008). Although the equalization program is financed from general federal tax revenues collected across the country, this type of language suggests that equalization takes money away from wealthy provinces to give it to poorer ones and, as such, feeds grievances against the program and its "agent," the federal government.

In Alberta, these grievances are understood through the lens of "Western alienation:" the idea that Western provinces do not get a fair deal from existing federal institutions and programs (Lawson 2005). Provincial politicians in Alberta often suggest that equalization involves Alberta sending money to fund other provinces' visions. In the words of MLA Ted Morton (2005, 3): "Alberta has watched over $200 billion leave the province over the past four decades in official and un-official federal transfer programs. Last October's First Ministers' Conference on Equalization appears to guarantee that this figure will continue to grow. 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." Although it is not true that equalization reduces the fiscal capacity of non-receiving provinces, presenting the program as taking money directly from them to give it to the "have not" provinces builds in contributing provinces the type of criticism that nourishes intergovernmental conflict.

A last idea that contributes to intergovernmental conflict over equalization is that the program benefits Quebec first and foremost. Quebec's strong and sustained separatist movement has meant that the federal government has devoted much energy to accommodate the province. As a result, many Canadians in the rest of the country believe that Quebec gets political and economic favors from the federal government or, in other words, that it receives from Canada much more than it contributes. In this context, equalization is often viewed as a program that funnels enormous amounts of money to Quebec, and this feeling is not new. As far back as 1971, for example, British Columbia Premier W.A.C. Bennett stressed that Quebec was the main beneficiary of equalization as he called for the dismantlement of the program: "The Government of Canada has paid out over $5,500,000,000 in equalization payments since their introduction in 1957, and they continue to increase substantially each year. One province, Quebec, received 47 percent of this amount" (Bennett, cited in Resnick 2000, 23).[20] It is true that Quebec has received a significant portion of the equalization money because, with twenty-four percent of Canada's population, it has been the receiving province with the most residents (until Ontario qualified for payments in 2009). Media reports, however, have not only highlighted the fact that Quebec receives "the lion's share" (Howlett and Carmichael 2008) of equalization money but they also have stated these amounts in absolute terms rather than per capita. For example, while Quebec has indeed "received $33.4 billion in equalization payments in the past six years"

(Campbell 2008), other recipient provinces depend far more on equalization payments than Quebec on a per capita basis (Perry 1997, 170). For 2007–2008, equalization accounted for nineteen percent of Prince-Edward-Island's total revenues; seventeen percent of New Brunswick's; fourteen percent of Nova Scotia's; and thirteen percent of Manitoba's. For Quebec, this figure was seven percent.[21] The idea that Quebec is by far the main beneficiary of equalization because of political clout has created resentment towards the program and the federal government, especially in a province like Alberta. As Morton (2005, 3) commented, "Alberta's fate appears to be the opposite of Quebec's: the more it contributes financially, the less it receives politically."

Conclusion

This article has shown how equalization in Canada is an inherently political phenomenon shaped not only by exogenous economic trends like fluctuating energy prices but also by powerful institutional and ideological logics that mediate the policy impact of such economic trends. Four main factors accounts for recent intergovernmental conflict about equalization within the Canadian federal system: executive discretion; the competitive and inter-state nature of Canadian federalism; changing energy prices; and ideational factors linked to resources and the workings of equalization. Indeed, if we were to think of a state where equalization payments would be decided by an agency at arm's-length from executive power (a situation coherent with the "intra" rather than with the "inter"-state model of federalism), where there would be less non-renewable resources than in Canada, and where the equalization program would be less present in the media and therefore less tied to contentious and problematic popular perceptions, we could expect lower levels of intergovernmental conflict. Although an in-depth comparative study could further validate such a claim, the Australian case fits quite well with the above-mentioned description, and contemporary intergovernmental debates around equalization in that country are less intense on average than they are in Canada. The article has also shown how a greater politicization of equalization started during the fragile Paul Martin minority government in 2004, as the Prime Minister took equalization away from the bureaucrats and brought it in the arena of intergovernmental relations in the hope of gaining additional support in provinces like Quebec and Newfoundland. This move, combined with rising oil prices, largely explains the timing of intergovernmental conflict around equalization.

Intergovernmental conflict in Canada does not follow party lines, as would be the case in other federal countries like the United States, where Governors have a tendency to engage with the federal government based on their party affiliation. In Canada, because provincial parties are truly autonomous from their federal counterparts, a Conservative Premier like Danny Williams could encourage residents of his province to vote against the federal Conservative party in order to punish Prime Minster Harper for his stance on equalization. This example points to the fact that, in Canada, party affiliation is much less important than provincial identities and interests.

Considering this discussion, what, then, is the future of equalization in Canada? The program is now facing pressures from a new source: the province of Ontario. Traditionally a contributing province that assumed its role without protest, Ontario's position has been changing in recent years as a result of economic and political transformations. In a context of rising commodities prices and a weakness in the industrial sector, Ontario's economy has been declining in comparison with the economic performance of resource-rich provinces such as Alberta and Saskatchewan. From a political perspective, Ontario's government began to show more assertiveness towards the federal government in the late 1990s. The willingness to more forcefully place Ontario's demands at the center of intergovernmental relations was spurred by the fact that, through 2008, Ontario was still a contributor to the equalization program at a time when its economy was struggling while some recipient provinces were awash in resource revenues.

The politics of equalization in Canada is already being shaped by Ontario's new assertiveness. Premier Dalton McGuinty created a website called "fairness" (http://www.fairness.ca) where he makes the argument that his province is short-changed by the structures of fiscal federalism in Canada. This argument has been backed up by studies, some of which sport provocative titles (Courchene 2008). At the beginning of the 2008 federal election campaign, McGuinty wrote to all federal party leaders as well as to all Ontario candidates seeking their support to achieve "fairness" for Ontario. On equalization the Premier asked: "If Ontario qualifies for Canada's Equalization program, will you ensure that Ontario receives no less than its full share of funding payable under the Equalization program as it exists today?"[22] Although Premier McGuinty's equalization rhetoric in previous months had featured calls to scrap the program,[23] the election campaign presented the opportunity for a more realistic demand to the federal government: leave the program as is, so that Ontario, when it qualifies, can benefit the same way other provinces did in the past.

The Ontario government only partially got its wish. In November 2008, Federal Finance Minister Jim Flaherty announced that Ontario would begin collecting equalization payments the subsequent year, but that the total pool of equalization money ($14.2 billion in 2009) would be linked to GDP growth. This move was necessary because the budget for equalization would have spiked to over $20 billion in 2010–2011 with Ontario as a recipient province (Ivison 2008). As a result of these reforms, Quebec and Newfoundland Premiers Jean Charest and Danny Williams cried out that their provinces had been shortchanged. Danny Williams even stated that Prime Minister Stephen Harper was retaliating against his ABC (Anything But Conservative) campaign. Williams' influence was clearly felt when the six federal Liberal MPs for Newfoundland voted against the Conservative government's budget, which was supported by the Liberal Party (MacGregor 2009).

Considering that severe intergovernmental conflicts around equalization do not seem to be coming to an end, why are new institutional arrangements that could de-politicize adjustments in the formula not being designed? The historical institutionalist literature provides some insight into this question (Lecours 2005). This literature makes a key point for understanding the resilience of an institutional arrangement through the concept of path dependency (Pierson 1994). Path dependency suggests that once an institution is created it often gets 'locked-in' because specific constituencies remain committed to it. Therefore, sub-optimal outcomes (e.g. severe conflict) might not necessarily lead to reform. In this context, historical institutionalism highlights the role of timing and sequence in politics. *When* an institution is created is as important, if not more, than the nature of that institution and the outcomes it yields (Pierson 2004).

Thus, historical institutionalist insight suggests that crafting new institutional arrangements for equalization could be difficult. The program was created to be managed by the federal government and, over the years, provinces have grown accustomed to the political bargaining and leverage its structures afford them. Although they do not always "win," they are unlikely to support an institutional reform that would have them lose the influence they think they have. Of course, the federal government does not have to consult with provinces to alter the equalization program; as such, change is possible. Two conditions would need to be present for the federal government to go towards an arrangement, such as an Australian-style, arms-length agency, that could help de-politicize equalization by removing much of the executive discretion over it. The first is a majority government. In the context of a minority government, the party in power is constantly preoccupied with the prospect of an election and is unlikely to take on provinces for fear of facing a campaign of the type staged by Newfoundland Premier Danny Williams in 2008. The second is for either the Liberal or the Conservative party to come to the conclusion that equalization has become a perpetual political "hot potato" and that unloading decision-making on the allotment of the equalization pool to an arms-length agency made up of experts will provide the federal government with political coverage. As of now, these parties still seem to think that political gains can be made with equalization.

Notes

1. A number of quantitative studies have also explored some of the political dimensions of equalization in other countries, or using a large-*N* sample (e.g. Grossman 1994; Khemani 2003; Porto and Sanguinetti 2003; Worthington and Dollery 1998).
2. The ‘‘sponsorship scandal’’ corresponded to abuses of power and mismanagement around a program aimed at promoting the Canadian ‘‘brand’’ in Quebec.
3. These Offshore Accords could also have been motivated by the high debt situation in Nova Scotia and, especially, Newfoundland. From this perspective, they represented a form of ‘bail-out.’ This, again, emphasized the political nature of equalization. These Accords were the extension of the 1987 Atlantic Accord, providing for *partial* compensation of reductions in equalization payment stemming from increased revenue due to the development of offshore resources.
4. Provinces also had a variety of technical concerns around equalization, for example, the issue of property tax measurement.
5. As its name indicates, the O'Brien panel also explored the issue of ‘‘territorial financing,’’ which is not discussed here because of its limited relevance for this article's topic.
6. There were other recommendations, for example to keep the Representative Tax System (RTS).
7. In 2006, another report on fiscal federalism was released. Commissioned by the Council of the Federation, this report focused on the broad issue of ‘‘fiscal imbalance.’’ Yet, tellingly, the report featured one chapter on equalization policy (Gagné and Stein 2006).
8. As adopted as part of the 2007 budget, the reform adopted a ten-province standard, ‘‘a new approach to the treatment of natural resource revenues,’’ ‘‘a fiscal capacity cap to ensure that Equalization payments do not unfairly bring a receiving province's overall fiscal capacity to a level higher than that of any non-receiving province,’’ ‘‘An improved measurement of fiscal capacity (...); a simplified measure of capacity that reduces the number of tax bases to from 33 to 5; and a simplified estimate and payment system to increase the predictability and stability of payments’’ (*The Budget Plan 2007*, cited in Richards 2008, 80).
9. This assertion does not exclude the fact that the Conservative government could have seen the report's key recommendations as leading to significant improvements of equalization, most importantly a simplification of the program.
10. Premiers of resource-rich provinces denounced Prime Minister Harper for having broken his promise to exclude resource revenue from the calculation of fiscal capacity even he gave them the zero percent exclusion choice because they saw that the cap would actually lead to a *de facto* significant inclusion.
11. The British Columbia government was also upset that the new property tax provisions disadvantaged the province, but it did not make a big deal out of it. Of all the provinces, Newfoundland was by far the most vocal in its opposition to the equalization reforms.

12. Technical and strategic information relating to adjustments in the formula are not accessible to the public since the 1985 Access to Information Act stipulates that the federal government does not have to disclose information that "could reasonably be expected to be injurious to the conduct by the Government of Canada of federal-provincial affairs" (article 14) or that represents "advice or recommendations . . . for a government institution" (article 21-a). This secrecy, combined with the complexity of the equalization program, means that "facts" cannot easily serve to tell who is "right" and who is "wrong" in debates around equalization.
13. In the 1990s and the early 2000s, there were two federal parties on the right: the Reform Party (which became the Canadian Alliance) and the Progressive-Conservative Party.
14. Sometimes, these moves backfire, even in provinces that are compensated. When Newfoundland Premier Danny Williams did not like the federal offer, in December 2004, he ordered the removal of all Canadian flags from provincial buildings.
15. Nova Scotia had originally gained such a claim as part of the 1980 New Energy Policy, but when the Conservative government of Brian Mulroney eliminated the policy in 1984, the province's entitlement disappeared. A compensation regime was passed into law in 1988, and the 2008 settlement, decided by an expert panel, represents the actual compensation.
16. A newspaper article (accurately) remarked that "Finance officials have long opposed the offshore accords, which they see as political bribery aimed at winning votes on the East Coast" (Maher and Jackson 2008, A1).
17. For instance, the 2006 O'Brien report devoted several paragraphs to this issue (Expert Panel on Equalization and Territorial Formula Financing 2006, 113).
18. This political situation is reflected in media coverage. For example, searches using the Canadian Newsstand (ProQuest) database reveal that, for the 2004–2008 period, the term "oil" is used much more frequently than the term "hydro" (or "electricity") in Canadian newspaper articles mentioning "equalization" and "Quebec" (or "Manitoba").
19. The controversial nature of this issue is explicitly acknowledged in the O'Brien report (Expert Panel on Equalization and Territorial Formula Financing 2006, 113).
20. Bennett also questioned the usefulness of equalization: "There is little evidence these unconditional grants, which have been paid to certain provincial governments, have increased the relative standard of living of the citizens in the areas in which they have been received" (Bennett, cited in Resnick 2000, 23).
21. These figures are drawn from Finance Canada and Statistics Canada sources.
22. http://www.fairness.ca/english/standup/lettertoFPL.asp.
23. Premier McGuinty was supported by the conservative, Toronto-based *National Post* (2008).

Acknowledgements

The two authors contributed equally to this article. They wish to thank Angela Kempf, Gregory Marchildon, Patrik Marier, Carol Weissert, and the three reviewers for their suggestions. The authors also acknowledge support from the Social Science and Humanities Research Council of Canada. In the case of Daniel Béland, this research was undertaken, in part, thanks to funding from the Canada Research Chairs Program.

References

Artuso, Antonella. 2008. We're in line for handout. *Toronto Sun*. November 4.

Banting, Keith. 2005. Canada: National-building in a federal welfare state. In *Federalism and the welfare state: New world and European experiences*, ed. Herbert Obinger et al., 89–137. Cambridge: Cambridge University Press.

Bashevkin, Sylvia. 2000. Rethinking retrenchment: North American social policy during the early Clinton and Chrétien years. *Canadian Journal of Political Science* 33: 7–36.

Benzie, Robert, and Rob Ferguson. 2008. Ontario demands new Deal. *The Toronto Star*, May 1.

Bird, Richard M., and Enid Slack. 1990. Equalization: The representative tax system revisited. *Canadian Tax Journal* 38 (4): 913–27.

Bird, Richard M., and Andrey Tarasov. 2004. Closing the gap: Fiscal imbalances and intergovernmental transfers in developed federations. *Environment and Planning C* 22 (1): 77–102.

Boadway, Robin W., and Frank Flatters. 1982. Efficiency and equalization payments in a federal system of government: A synthesis and extension of recent results. *The Canadian Journal of Economics* 15 (4): 613–33.

Bryden, Joan. 2007. Provinces slam Tories' fiscal gap cure. *The Toronto Star*, March 20.

Callan, Eoin. 2008. Ontario to be a 'Have-Not' province. *The National Post*, November 4.

Campbell, Murray. 2006. Flaherty slams Martin government's equalization deals. *Globe & Mail*, March 11.

———. 2008. Ontario becomes Pauper in a broken system. *Globe & Mail*, November 4 A1.

Canadian Press. 2007. *Equalization bickering continues after budget*, March 20.

CBC News. 2004. *Provinces, Ottawa Feud over equalization payments*, February 20.

———. 2005. *Fiscal federalism doesn't work and isn't fair, Ontario Institute Says*, October 17.

———. 2007a. *N.L. shafted in federal budget: Williams*, March 20.

———. 2007b. *Sask. Will sue over equalization: Calvert*, June 13.

———. 2007c. Sask. *Will sue over equalization: Calvert*, June 13.

———. 2008. *Sask. Drops legal challenge of equalization*, July 10.

Clark, Douglas H. 1969. *Fiscal need and revenue equalization grants*. Toronto: Canada Tax Foundation.

Commission sur le déséquilibre fiscal, *Pour un nouveau partage des moyens financiers au Canada*, 2002.

Courchene, Thomas J. 1984. *Equalization Payments: Past, Present and Future*. Toronto: Ontario Economic Council.

———. 2004. Confiscatory equalization: The intriguing case of Saskatchewan's vanishing energy revenues. *Choices* 10 (2): Montreal: Institute for Research on Public Policy.

———. 2008. Fiscalamity! Ontario: From Heartland to have-not. *Policy Options*, June: 46–54.

CTV News. 2007a. *Equalization bickering continues after budget*. March 20.

———. 2007b. *Accord dispute creates dissent in Harper Cabinet*. June 11.

Dawson, Anne. 2004. Martin visits every region on the campaign's last day. *CanWest News*, June 27.

Expert Panel on Equalization and Territorial Formula Financing. 2006. *Achieving a national purpose: Putting equalization back on track*, Ottawa.

Gagné, Robert, and Janice Gross Stein. 2006. *Reconciling the irreconcilable: Addressing Canada's fiscal imbalance*. Ottawa: Council of the Federation Secretariat.

Galligan, Brian. 1995. *A Federal Republic: Australia's constitutional system of government*. Melbourne: Cambridge University Press.

Grossman, Philip J. 1994. A political theory of intergovernmental grants. *Public Choice* 78: 295–303.

Howlett, Karen, and Kevin Carmichael. 2008. Struggling Ontario joins have-not ranks. *Globe and Mail*, November 4, A4.

Ivison, John. 2008. Ontario got here all by itself. *National Post*, November 4 A1.

Khemani, Stuti. 2007. The political economy of equalization transfers. In *Fiscal Equalization: Challenges in the Design of Intergovernmental Transfers*, ed. Jorge Martinez-Vazquez, and Bob Searle, 463–84. New York: Springer.

———. 2003. *Partisan politics and intergovernmental transfers in India*. Working Paper No. 3016. Washington, DC: World Bank.

Laghi, Brian. 2006. Ottawa's Blue-ribbon panel backs enriched equalization. *Globe & Mail*, June 6.

Lawson, Robert J. 2005. Understanding alienation in Western Canada: Is 'western alienation' the problem? Is Senate reform the cure? *Journal of Canadian Studies* 39 (2): 127–55.

Lecours, André. ed. 2005. *New institutionalism: Theory and analysis*. Toronto: University of Toronto Press.

Lynn, James H. 1968. *Comparing provincial revenue yields*. Toronto: Canada Tax Foundation.

Macgregor, Roy. 2009. Danny's dukes are up-who's with him? *The Globe & Mail*, February 7: A6.

MacNevin, Alex S. 2004. *Canadian federal-provincial equalization regime: An assessment*. Toronto: Canada Tax Foundation.

Maher, Stephen, and David Jackson. 2008. Millions coming our way; reports on offshore windfalls say N.S. could get up to $850 million. *The Chronicle–Herald*, July 9: A1.

Marchildon, Gregory P. 2005. Understanding equalization: Is it possible? *Canadian Public Administration* 48 (3): 420–8.

Morton, Ted. 2005. *Equality or asymmetry? Alberta at the crossroads*. Queen's University: School of Policy Studies (Asymmetry Series).

Musgrave, R. 1965. *Essays in fiscal federalism*. Washington, DC: The Brookings Institute.

Milne, David. 1998. Equalization and the politics of restraint. In *Equalization: Its contribution to Canada's fiscal and economic progress*, ed. Robin W. Boadway, and Paul A. R. Hobson, 175–203. Kingston: John Deutsch Institute for the Study of Economic Policy.

National Post. 2008. Equalization is past its due date. *National Post*, May 12: A14.

Oates, Wallace E. 1999. An essay on fiscal federalism. *Journal of Economic Literature* 37 (3): 1120–49.

Parsons, Craig. 2007. *How to Map Arguments in Political Science*. Oxford, UK: Oxford University Press.

Perry, David B. 1997. *Financing the Canadian Federation, 1867–1995: Setting the stage for change*. Toronto: Canadian Tax Foundation.

Pierson, Paul. 1994. *Dismantling the welfare state? Reagan, Thatcher, and the politics of retrenchment*. New York: Cambridge University Press.

———. 2004. *Politics in time: History, institutions, and social analysis*. Princeton: Princeton University Press.

Porto, Alberto, and Pablo Sanguinetti. 2001. Political determinants of intergovernmental grants: Evidence from Argentina. *Economics and Politics* 13 (3): 237–56.

Resnick, Philip. 2000. *The politics of resentment: British Columbia regionalism and Canadian unity*. Vancouver: UBC Press.

Richards, John. 2008. Cracks in the country's foundation: The importance of repairing equalization. *Canadian Political Science Review* 2 (3): 68–83.

———. 2007. A fine Canadian compromise. In *A Fine Canadian Compromise: Perspectives on the Report of the Expert Panel on Equalization and Territorial Funding Financing*, ed. Paul Boothe, and François Vaillancourt, 81–99. Edmonton: IPE and CIRANO.

Royal Commission on Dominion-Provincial Relations. 1939. *Report of the Royal Commission on Dominion-Provincial Relations. Book II: Recommendations*. Ottawa: King's Printer.

Russell, Frances. 2008. Until now, equalization has worked amazingly well. Winnipeg Free Press, May 7: A11.

Scoffield, Heather. 2007. Fiscal imbalance: 'C'est fini,' Flaherty Says. *Globe & Mail*, March 19.

———. 2008. Williams rushes to ailing Ontario's bedside. *Globe & Mail*, May 5, A1.

Shah, Anwar. 2007. Institutional arrangements for intergovernmental fiscal transfers and a framework for evaluation. In *Intergovernmental Fiscal Transfers: Principles and Practices*, ed. Robin Boadway, and Anwar Shah, 293–318. Washington, DC: World Bank.

Shuffelt, Tim. 2008. Time to end outdated federal equalization program: McGuinty. *Ottawa Citizen*, May 9.

Simeon, Richard. 1972. *Federal-provincial diplomacy: The making of recent policy in Canada*. Toronto: University of Toronto Press.

Smiley, Donald V. 1987. *The federal condition in Canada*. Toronto: McGraw-Hill.

Stevenson, Garth. 2007. Fiscal federalism and the burden of history. In *Fiscal Federalism and the Future of Canada*. Kinston: Institute of Intergovernmental Relations. <www.queensu.ca/iigr/working/fiscalImb/Stevenson.pdf> [accessed on June 16, 2008].

TD Bank Financial Group. 2008. *Ontario Poised to Collect Equalization in 2010–2011*. April 29.

Telford, Hamish. 2003. The federal spending power in Canada: nation-building or nation-destroying. *Publius* 33 (1): 23–44.

Théret, Bruno. 2002. *Protection sociale et fédéralisme: l'Europe dans le miroir de l'Amérique du Nord*. Montréal: Presses de l'Université de Montréal.

Tupper, Allan et al. 1992. The role of government. In *Government and politics in Alberta*, ed. Allan Tupper, and Roger Gibbins, 31–66. Edmonton: University of Alberta Press.

Usher, Dan. 1995. *The uneasy case for equalization payments*. Vancouver: The Fraser Institute.

Watts, Ronald. 1999. Equalization in commonwealth federations. *Regional and Federal Studies* 13: 111–29.

Weaver, R. Kent. 1986. The politics of blame avoidance. *Journal of Public Policy* 6 (3): 371–98.

Whyte, John D. 2008. Province has good reason to go to court. *The Leader-Post*, April 10.

Worthington, Andrew C., and Brian E. Dollery. 1998. The political determination of intergovernmental grants in Australia. *Public Choice* 94: 299–315.

Yakabuski, Konrad. 2008. Have-not status is all about gaming the rules. *The Globe and Mail*, November 6: B2.