

**The Help that Hurts:
Why Equalization has Been Bad For Saskatchewan
and What to Do About It.**

**Brian Lee Crowley, President
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Thank you, ladies and gentlemen. Many thanks to Peter Holle of the Frontier Centre for Public Policy for hosting this event for me and for his very generous introduction, despite his warning you that equalization is one of the world's most boring topics.

I wanted to talk to you today about something that I am sure has been in the minds of many of you, which is something like the following. How is it that next door in Alberta where they have a pretty significant endowment of oil and gas, they've been able to turn that endowment of natural resources into an incredible economic powerhouse? And yet, right here in Saskatchewan, next door to Alberta, in spite of some significant efforts, you haven't been able to leverage that into the same kind of economic growth and dynamism that Alberta has. I hasten to add that I don't mean to downplay in any way the efforts that Saskatchewan has made to develop a very important endowment of natural resources, including oil and gas, but also uranium and other resources. Why is that? Why is it that those efforts on your part have not paid the dividends that they should have?

Well, to answer that question, I want to ask you to engage with me in a thought experiment. I want you to put yourself in the shoes of Harry Van Mulligen, your provincial finance minister, who is here with us today. When Harry has to put together a budget, he and his colleagues sit around the cabinet table — I don't mean, by the way, in any way to pick on Harry and his

colleagues; what I am about to describe is true of any finance minister and his or her colleagues around any cabinet table in Canada in an equalization-receiving province.

Now suppose that Harry and his colleagues would like to find some new money to spend on a program. It doesn't matter what it is - health care, education, roads - any of the things provinces do. And they're having a discussion about "where are we going to find that money?". There are basically four ways they can find it.

The first is they could put in place policies that actually encourage the growth of the economy in Saskatchewan or wherever. Their existing taxes would generate more revenue because there would be more economic activity, and as you know the same tax load on a larger pie generates more revenue.

The second thing they can do is they can raise the taxes on the existing economic activity. The third thing they can do is get more transfers from Ottawa. The fourth thing they can do is borrow the money. Those are basically the four choices.

Now each one of those choices comes with a certain set of incentives attached to it, and I'd like to talk about those incentives.

Just a word before I delve into this question of the incentives that provinces face. Peter Holle said I was here to talk about equalization. This is, in fact, a discussion about equalization. I never use that word if I can possibly avoid it, however, because I don't know about you, but my eyes glaze over when I hear it. So just forget about equalization. This is really a discussion about the conditions in which provincial governments make decisions. Equalization is a very important part of that calculation.

So let's come back to my four options for the finance minister and his colleagues sitting around

the cabinet table. You could take steps to grow the economy. That's often a difficult thing to do. It might involve taking on the trade unions, by liberalizing labour market rules. That's often an unpopular thing to do. You have to fight with the unions in public. You might have to cut business taxes, and that's often something that's hard to sell politically. You might have to take on the environmental movement if there are any impacts of new economic activity on the environment. Most of the measures that might be necessary in order to generate new economic growth, come with a political cost attached to them. And yet, the revenue that will be generated, if you're actually successful in growing the economy, the revenue that will be generated may be several years down the road and, in any case, is not dependable because by definition business is risky. Your efforts might co-incide with an economic downturn, or the investment that business makes might not pay off.

You might put your money on oil and gas and, by God, when you do it oil is \$53 a barrel and two years down the road it's \$20 and the revenue you were counting on may just not be there.

So there are all kinds of difficulties with getting new money into the province's hands by stimulating economic growth.

On top of those disadvantages, if you are successful in growing the economy and new money comes in the door, what does Ottawa do? Well, if you're an equalization-receiving province, Ottawa says, thank you very much, and takes about 90 cents or more on the dollar on that new revenue that comes in your door by deducting that money from your equalization payment.

Under the equalization program, that's just the average clawback. In fact right here in Saskatchewan, the clawback has been as high as \$1.20.

In other words, Harry van Mulligen and his colleagues make themselves worse off in their effort to find new money to spend on programs by developing the Saskatchewan economy, in particular the natural resource sector. How dumb is that?

Now I recognise that the federal government has admitted that the clawback of over 100% on some revenues isn't on, and has made a special \$120-million payment to make up for past losses, but the underlying formula has not been changed, so we don't know what the future holds. But you can rest assured that nothing will change the fact that in the future the provincial finance minister of Saskatchewan can count on a clawback on the order of 100% on new revenues generated by new economic growth.

Now building the economy is just one of the options that is available to Harry and his colleagues. Let's talk about the other three options that are available. I said you could increase taxes on the existing tax base, so let's talk about that for a minute.

So if you increase taxes on the existing tax base, you just take the existing business activity, jack up the taxes — corporate income taxes, personal income taxes, sales taxes — and you get to keep all that money. In other words, you bring in an extra dollar by raising your taxes you get an entire dollar to spend. Whereas if you generate *new* economic activity you get at best 10 cents, and maybe nothing at all.

So, gee, ten cent dollars from economic growth versus whole dollars from tax increases. Okay. It's not too hard to figure out what the incentives are there for the province.

And, you know, it's just an economic fact of life that once you drive your taxes up past a certain point they begin to be counter-productive. In other words, they may generate a little extra revenue for you but they often destroy economic activity. So one of the consequences of raising your taxes will be that quite often you'll lose some economic activity. Well, Ottawa looks at that and says, oh, look, if you engage in policies that actually destroy economic activity in your province, we'll give you more equalization. We will compensate you for bad policy.

And, in fact, all you have to do is look to Queen's University Professor Tom Courchene, a son of Saskatchewan, of whom you should all be very proud, one of Canada's leading experts on public policy. Several years ago he did a very, very insightful analysis of the impact of equalization on the Province of Quebec. One of the things he pointed out was that Quebec for a number of years had pursued a number of policies that were deeply damaging to its economy. For example, it had for a number of years the highest minimum wage in North America, which caused considerable disruption in the labour market and, therefore, you would assume in the ordinary course of things a loss of revenue to the Government of Quebec. Tom pointed out that, no, on the contrary the equalization system stepped up to the plate and made up most of the lost revenue for the Province of Quebec.

So not only do you get a whole dollar from raising taxes on your existing economic activity, but if you damage the economy as a result, Ottawa will help you out.

The third thing that I said that Harry van Mulligen and his colleagues could do in order to raise money would be to get transfers from Ottawa.

Now, again, if you can go to Ottawa and get transfers — that could be equalization, it could be CHST, it doesn't really matter very much — that's a whole dollar available for spending. Every dollar that comes in the door is a whole dollar available for spending. Remember, if you're trying to grow the economy, it's only 10-cent dollars at best. So you get a whole dollar available for spending, plus there's an extra bonus with transfer money from Ottawa. Why? Because that money is raised on the national tax base. You're now getting money to spend on programs for people in Saskatchewan. But the people who are paying the taxes - some of them are in Saskatchewan, don't get me wrong - but the vast bulk of them are in other parts of the country. So the people who are paying the bills are not the people receiving the benefits from the money that's going to be spent. This is a sweet deal from the point of view of most politicians. They would love to be able to spend money on their voters and raise it on people who don't vote in

their jurisdiction.

The final possibility, of course, is borrowing. Now we pretty much maxed out the national and the provincial credit card over the late 1970's and the 1980's, so borrowing is not as attractive as it once was, but believe me it is certainly true that if you borrow a dollar at the provincial government level, it's an entire dollar to spend. Remember that and contrast it with your 10-cent dollar from economic growth. So you have a big incentive to borrow money, as opposed to promoting economic growth. Oh, and by the way, you remember what I said about transfers, that transfers allowed you, as a provincial government, to spend the money and realize the political benefit here while passing the cost on to people in other parts of the country.

Of course, borrowing is a similar sort of mechanism. Borrowing allows you to get money to spend on public services today and to push the bill off, not onto people geographically elsewhere, but people temporally elsewhere. In other words, into the future. That is deferred taxation, but it's not relevant to the people who are voting for you in the next election. It's probably only relevant maybe in 10 or 15, or 20 years down the road.

So add all those things up and if you're a rational politician, what sort of a policy package are you going to end up with? You are going to devote relatively little attention and energy to creating genuine sustainable economic development because it takes a lot of effort, and has a high political cost associated with it. The results are uncertain and, under equalization, you don't get very much money out of it anyway.

So what are you going to end up with? You're going to end up with high taxes. You're going to end up with the vast majority of your energy devoted to endless battling with Ottawa for more transfers. And you're going to end up with high levels of debt. Does that sound familiar to anyone? That is the set of circumstances in which equalization-receiving provinces operate. Saskatchewan is, I would venture to say, more penalized by this system than any other province

in the country because of what I mentioned about the impact of equalization clawback on such things as its natural resource revenues and so on.

Now we, at my Institute, have been making the case for a number of years that we need to treat natural resource revenues differently under equalization. In fact, we published a paper three or four years ago in which we made the case that we don't treat natural resource revenues properly. This is particularly relevant to Saskatchewan for the reasons I've already mentioned. We don't treat natural resource revenues very intelligently in Canada. We particularly treat them in a very unintelligent way under the equalization formula.

The principal reason is not just the clawback that I have talked about, which punishes provinces with a natural resource endowment for developing it. We treat natural resource revenues very unintelligently because we forget that they are fundamentally different from almost every other kind of government revenue. They are different from income taxes, they are different from corporate taxes, they are different from sales taxes and so on.

Why? I think it's pretty straightforward. The way to think about it is to think about the taxes on things like income and sales and so on as the ordinary income of the provincial government, just as your salary is your ordinary income. The income taxes and sales taxes and so on, in effect, represent a slice off the top of the infinitely renewable economic energy of all the people in the province. People in Saskatchewan work every year, they buy things and those activities generate taxes. The Province of Saskatchewan takes a slice off the top and that is its ordinary income.

Natural resource revenues are completely different. What happens with natural resource revenues is not a question of taking a slice off the top of new economic activity. You go out and work. When you go out and work, you generate new economic activity and Harry van Mulligen and the Province of Saskatchewan get a share.

Natural resource revenue is not like that at all. What you've got is a bunch of oil and gas in the ground. You already own it. You own that asset. All that happens with oil and gas is a company comes along, pulls a dollar's worth of natural gas out of the ground, and gives you a dollar. All that has happened is your resource asset has been transformed from a dollar's worth of natural gas into a dollar. Nothing new has occurred for the province from the point of view of its balance sheet. No new value has been created. You have taken an existing asset and turned it into another form. Taking it from natural gas or oil; it's now cash.

Now the consequence, of course, of applying the equalization formula to this asset, which has now been changed from one form to another, from a natural resource into cash, the consequence of applying equalization formula to this is that Ottawa is seizing your assets. Ottawa is seizing your assets. They are forcing you to sell the house in order to finance ordinary public services.

I think that's a lousy idea. I think that the proper way to treat natural resource revenues is to treat them as an asset and that means that they should be used for one of two purposes. They should be used to create a heritage fund, which would invest that money on behalf of the people of Saskatchewan, so that it's not just the people who happen to be alive in Saskatchewan on the day that the oil or gas comes out of the ground that benefit from it, but all future generations, because those assets belong to all people of Saskatchewan, whether they are alive today or are yet to come. Or that money should be used to pay down debt; in other words, to clean up the balance sheet of the province. Those are the two legitimate uses of natural resource revenues. But, of course, under the equalization formula, that possibility is not available to you because Ottawa seizes those assets.

Now we have been working on the east coast to try and bring some reason to bear on the question of how we deal with natural resource revenues within Canada. Obviously, this is an issue that has come to the fore for us because of the existence of offshore oil and gas. A major change has occurred as a result of the paper that we wrote at my Institute, amongst other things.

In its current form, that major change is possibly unfortunate, but out of it I am still hopeful that something extremely positive will come.

The unfortunate thing that has occurred is that the provinces of Nova Scotia and Newfoundland and Labrador have gone to Ottawa and said, well, now that we have assets like this, we really hate the clawback and you should end the clawback for us because we are really poor. That is essentially the argument brought down to its essence. We are really poor, so we should be able to keep the value of our asset.

I think that is absolutely the wrong argument. I think, intellectually, that is totally indefensible. I don't think we can run a national program on the basis of special deals, special carve outs, special arrangements for individual provinces just because one of them happens to be poor and another doesn't.

I think the only possible solution to this problem is a principled approach to the value of natural resource revenues in which we remove them altogether from the equalization formula. That would mean that Saskatchewan (and Nova Scotia and Newfoundland and all the other equalization-receiving provinces) would keep 100 percent of the royalty revenues generated by its oil-and-gas and other natural resource industries. I think that would change fundamentally the incentives that I have talked about when Harry and his colleagues sit around the cabinet table making that decision about, okay, if we want to find some new money to spend on programs, where are we going to put our energy to find that new money?

I think not only is there an argument in principle for this kind of equalization reform, but I must tell you that it is my view, for what it is worth, that the new agreement on offshore revenues on the east coast has actually fundamentally destabilized the transfer system in Canada. It has destabilized it because people in Saskatchewan can look at that and say, "What is this? We've got natural resource revenue. We are an equalization-receiving province. We are not as rich as

Alberta and Ontario. Why are Nova Scotia and Newfoundland being singled out?"

And, of course, you've got the people of Ontario — they're hopping mad. They are hopping mad because the Premier of Ontario looks at the tax burden that is put on his province by Ottawa. Ottawa takes a lot more money out of Ontario than they put back, in terms of public services. That money goes, amongst other things, to finance the equalization transfers that go to other provinces.

Now with all the drawbacks of the equalization formula, it is certainly I think fair to say that there was a reasonable consensus around the equalization formula under the old dispensation, which all provinces were treated more or less equally. They were treated equally badly, in my view, and equally stupidly, but at least it was equal. I suppose there is some virtue in egalitarianism. Now you have a program that treats them stupidly, badly and unequally, that probably is unsustainable.

In addition to the fact that the system has now become stupid and inequitable, there's something else I'd like you to think about with respect to the future of transfer payments. I actually think what is destabilizing the equalization system is not just Ontario's anger at what we've done as a sort of typical Canadian half measure to deal with natural resource revenues on the east coast and not wanting to sort of pick apart the sweater of equalization, lest the whole thing unravel. It's much more than that.

I think what's happening is that we are seeing the beginning of a fundamental challenge to the equalization and other transfer systems that we have known in Canada basically pretty much since the 50s. The reason that I think this is contained in a little story I'm going to tell you. I was quite good friends with the late Eric Kierans, who was a minister, of course, in Ottawa in the first Trudeau government, but in the 1960s was a minister in the Lesage Government in Quebec, the Quiet Revolution government. And, Eric, in that role as a minister in the Quebec

government, went to a Federal-Provincial meeting in Toronto one day. They were seated around the table talking about the creation of a new Federal transfer program. These were the days of Lester Pearson and really the fully-developed transfer system that we have known really emerged in those years. Eric said that the premiers from all the provinces were seated around the table, and they were talking about the creation of a brand new transfer program. It was going to take millions of dollars out of the Ontario economy and send it off to other provinces in the country. Yet, John Robarts, the Premier of Ontario, just sat there looking very avuncular and sucking on his pipe and was very benevolent.

Eric cornered him at the elevator outside in the lobby of the hotel where they were meeting. He said, "Look, you know, this is not a question from the Government of Quebec, this is just me, Eric Kierans, personally, saying to you I don't understand, why is it that you sit there in these meetings, while we talk about using the Federal Government as a mechanism to suck millions of dollars out of your economy and send it elsewhere in the country, and you just look like you never heard such good news in your life. Why is that?" And Robarts said something very interesting. He said you have to understand (I'm paraphrasing slightly) the political economy in Confederation. He said, "We are the industrial heartland of Canada. Every one of those dollars that's sent out into the hinterland comes straight back in the form of the purchase of goods and services. We have got the tariff wall at the border. We have got these branch plants here that are the foundation stone of the Canadian economy. Every one of those dollars comes straight back here. This is just a scheme to maintain purchasing power in less-well-off parts of the country, so they can buy things from us."

Now whether you agree with the economics that underlie that view is actually irrelevant, because the point is that the Premier of Ontario believed it to be true, and that's all that matters.

Now we no longer inhabit that world. We now inhabit a world of continental integration, of free trade between Canada, the United States and Mexico, of market opening through the World

Trade Organization and so on. The tariff barrier at the border is gone. The branch-plant economy is gone.

We now inhabit a world in which those transfers which are siphoned out of the Ontario economy and sent hither and yon to many other parts of the country can no longer be relied on to go straight back to Ontario in the form of the purchase of goods and services. They may end up in Minneapolis, they may end up in Seattle, they may end up in Boston, New York, Chicago, Shanghai, Tokyo, or many other places, because that is where we now have the freedom to send that money. In the 1960s, transfers were a way to prop up purchasing power to the benefit of Ontario industries. In the 21st Century, transfers are a burden on the Ontario economy, which must bear the cost of that transfer system, a cost which many of its competitors do not bear in Michigan, and Ohio, and Pennsylvania, and places like that, because America has no equalization system. That's kind of an interesting thing. If we have a chance — maybe in the question period — we could talk about the fact that equalization is not a necessary feature of a federation, because there are federations around the world that don't have it, including our neighbour next door.

But the important thing I think to bear in mind is that Ontario is increasingly restive because the political economy of this country no longer supports the transfer system that grew up 30 and 40 and 50 years ago. They are going to increasingly resistant to that transfer system and I think we need to start thinking today about what is going to take the place of a transfer system that we had become very comfortable with on which Harry and many of his colleagues rely, but which I do not think has much of a future.

Those are the things that I wanted to say to you today. There are many more things I could say, but why don't I stop there and open the floor for questions that we could perhaps delve into some issues that you may be more interested in.

Question and Answer Session

QUESTION Brian, you suggested that only two things one should be able to do with resource revenues are: (1) create a heritage fund, (2) pay down a debt. What about using the revenues to encourage the establishment of a more dynamic and innovative economy that is sustainable and vibrant?

BRIAN LEE CROWLEY Well, I think that paying down debt or creating a heritage fund — and by the way, Harry van Mulligen, the provincial finance minister, is leaving the room because he told me in advance he had to go in order to be back at the legislature for the afternoon sitting. It's not that he's disagreeing with what I've said about equalization, are you, Harry? [laughter]

I think creating a heritage fund and/or paying down debt *is* creating a more dynamic economy. I must tell you that the experience around the world has been that natural resource revenues are far more often a curse than they are a benefit. Think about Nigeria. Think about Mexico. Think about Venezuela. I could go on and on. There are many places in which a large natural resource endowment in which politicians control the money and can spend it as if it were ordinary revenue, that what has happened is that politics has become fighting over the booty. Alberta is one of the few jurisdictions in the world, I would suggest that Norway would be another one, that has completely short-circuited that political problem by using the money in the ways that I've described because you can put barriers around it. You know, by the time you put your natural resource money against your debt, the money is gone. There is nothing to fight over anymore. By the time you've got your debt cleaned up and you start creating a heritage fund, you know, you could put rules around it, you could say we will never spend the principal, we are only going to spend the income. We can use that as a stabilization fund for provincial revenues against future ups and downs in the prices of those revenues. I think that using the money for those things is creating a dynamic economy because it is isolating the revenues from politics.

And if you let politics get a hold of those things, the politicians will never let it go and, in fact, I would suggest the money will not be used to create a vibrant-and-dynamic economy. It will be used to prop up public services and spend more money on consumption, not genuine investment. It is just like the money Roy Romanow recommended be put into the health care system, it is just going to disappear down a black hole and you will have nothing to show for it.

QUESTION Please explain how a province, such as Alberta, gets out of the current system, or can get out of it.

BRIAN LEE CROWLEY Well, of course, the way for anybody to get out of the current system is not to be a recipient. Alberta is not a recipient. Let's be clear about this. It's not that Alberta is not in the equalization formula in the sense that Albertans pay the same Federal income taxes and the same Federal sales taxes, and the same Federal corporate income taxes, and all the things that go into Ottawa's coffers, out of which Ottawa pays equalization. Alberta is in the equalization system. People get confused because the idea behind equalization is we're trying to bring less-developed provinces economically up to a kind of a standard of income that's available to spend on their public services. And because Alberta and the four Atlantic provinces are not included in figuring out what that standard is that we're equalizing to, people somehow think Alberta is not in equalization. Nonsense. Alberta helps to pay the bill.

What you want to do is you want to be in the same position as Alberta. You want to be off equalization because, if there's no equalization system there is no clawback. Every dollar you generate by sensible economic policies, stays in your province and is available for you to decide how to spend. That's what you want to do.

QUESTION What can we do in Saskatchewan to make a stronger case for the Saskatchewan position on the national stage?

BRIAN LEE CROWLEY: What an interesting question. I will tell you the answer that I have come up with, as I think about these issues for Atlantic Canada, because this is a question I ask myself all the time; how can we get the attention of people in Ottawa in Nova Scotia, or New Brunswick or Newfoundland and Labrador for the things that we think are important.

It is the same question you asked on behalf of Saskatchewan. I'll tell you what I think the answer is or at least part of the answer, it's not the whole answer. I will tell you that people who pay the bills matter and people who receive the payments don't. If you want to matter in Ottawa, I would suggest that the very first thing you want to do is become a powerful economy in which you develop every economic opportunity you have available, you get off equalization and become a net payer and then people will pay attention. Because when people are in a dependent position, frankly, you know, everything they say is seen as a ploy to get more. When you are a net payer into the system, you are in a whole different moral position. And that matters.

QUESTION You mentioned the negative impact of equalization on the incentive to developing the economy because of clawbacks. Does equalization not also allow provinces that maintain policy that discourage economic growth, i.e. capital taxes, rigid labour laws, stable enterprises, to cling to such destructive policies, regardless of the clawbacks?

BRIAN LEE CROWLEY Oh, absolutely. In fact, if I go back to my comments at the beginning of my talk about the choices that finance ministers face, I think I made the point that equalization will often compensate provinces for destructive economic policies. So you get penalized for doing things that grow the economy and you get rewarded for doing things that harm it. I think it's quite easy to demonstrate that. I've used the example of the unbelievable clawback on some of Saskatchewan's natural resources. I mean, if that isn't a classic welfare trap in which the rational person would just sit happily in receipt of benefits rather than getting out and working because actually getting out and working doesn't make them any better off, and often the welfare trap involves making people worse off. We've seen that in Nova Scotia. If you

want to change that you definitely have to get off receipt of equalization.

QUESTION Saskatchewan is now going to be undergoing a corporate tax regime review. To the extent that tax cuts are introduced, how would equalization transfers be affected and in brackets, I understand that the formula may impede the cuts by reducing transfer payments.

BRIAN LEE CROWLEY Well, you know, equalization certainly doesn't make it any easier for corporate tax cuts to take place. In fact, I will tell you that one of the things that concerns me a little bit about the kind of changes I've suggested to equalization with respect to natural resources, actually relates to this. You know, in the offshore in Nova Scotia and Newfoundland, as you know, we've now got a system where we're excluding the offshore revenues from the equalization formula but not, of course, the corporate income taxes and the sales taxes and the individual income taxes that are really what you want the industry to generate for you. The royalties are actually not all that important in the larger scheme of things. It's far more valuable to have a vibrant industry that's investing hundreds of millions and possibly billions of dollars in the economy than to get the royalties.

Anyway the point is that the Atlantic Provinces have actually driven away a lot of investment in the offshore by creating a regulatory regime which is just incredibly difficult. It takes about twice as long to get approval of a project on the offshore in Atlantic Canada than it does in, say, a place like Gulf of Mexico and it's very expensive to develop the oil or the gas if you do find it.

The thing that's concerning me is if we have a system in which you get to keep all the royalties that you generate but you don't get to keep the corporate income tax or the personal income taxes, the sales tax and everything that are generated by that economic activity, we may end up creating some incentives where people see an opportunity to extract maximum royalties out of existing deposits rather than encouraging the companies to come in and invest and generate those other kinds of tax revenues.

So while I think it's important that we deal with the natural resource problem, that by no means fixes all the disincentives that are implicit in equalization.

QUESTION Three more to go. What's the incentive for the Federal Government to exclude non renewable natural resources? If there is one, why haven't they acted on it yet?

BRIAN LEE CROWLEY I'm so glad that somebody has asked this question. My view, for what it's worth, is that Ottawa has absolutely no interest in changing the status quo. And the reason is that Ottawa actually benefits from having a number of people around the federal-provincial table. Because remember Ottawa, there are many areas where Ottawa can act alone - National Defence and the Post Office, perhaps, are a couple of places where they can. But otherwise, almost everything happens by federal-provincial negotiation.

I can tell you that Ottawa benefits enormously from having a number of provinces around the table who are essentially not independent actors. They are hugely dependent on the Federal Government and if they start getting uppity around that table, the Federal Government hauls them out to a back room and beats them with a rubber hose, threatens to twist the dials on the equalization formula. And, you know, Ottawa can very subtly do a lot of damage.

Take the case of Nova Scotia. Nova Scotia gets 37 percent of its provincial budget from transfers from Ottawa. That's a powerful position for Ottawa to be in. Ottawa likes that just fine. And, in fact, we have had senior officials from Ottawa come to Nova Scotia, to talk about how we might improve the regulatory regime, and so on, because in the offshore it's a joint federal-provincial regime. They have said to us, in no uncertain terms, last thing we want down here is another Alberta. What do they mean by that?

They don't want somebody else at the federal-provincial negotiating table to say to Ottawa, you

know, we don't like what you're doing and we don't need you. If we don't like what you want to do we're going to do it on our own because we've got the means to do so.

So I actually think the things that Ottawa says about its intentions behind these programs is actually irrelevant. The intentions do not matter. They're not worth a damn. What matters is the real effect of these programs. The real effect of these programs is to discourage equalization-receiving provinces from developing their own economy and to remain dependent on federal funding and that suits Ottawa down to the ground.

QUESTION Some would argue that natural resources do affect net fiscal benefit and, therefore, should be equalized to prevent inefficient immigration. Do you agree?

BRIAN LEE CROWLEY Well, I know that there's an argument to be made for this. Remember, though, that the argument I'm making is that there have to be changes in behaviour by both Ottawa and the provinces if we're going to change the way that natural resources are used.

I am making the case that Ottawa shouldn't claw back natural resource revenues under equalization. In other words, I'm saying that Ottawa shouldn't treat it as ordinary revenue under equalization. But I'm also saying the provinces shouldn't treat it as ordinary revenue either. These things go together.

If the provinces are going to spend that money as if it were ordinary revenue, then I think that's a whole different ball of wax. But if they're going to use that money for debt reduction and to create a heritage fund, so that money is not being spent on public services, that gets right to the heart of your question, then the premise of the question fails. And what should be equalized, if you're going to keep the equalization formula, if people are going to have heritage funds, what should happen is the money should be invested and the income that that fund generates, yes, that

should be equalized, because that's the money that's available to the province to spend on ordinary programs. That's the point. You're going to generate a stream of benefits off into the future through responsible management of your capital assets. But I don't think if you take the whole picture that I've painted here, which is changing both federal and provincial treatment of those resources, I don't think the premise of the question is correct.

QUESTION The last one, a federal election may be imminent, if equalization were an election issue will it divide and further regionalize Canada or is there a unified opposition in most or all of the Canadian provinces to an outdated system?

BRIAN LEE CROWLEY There is no unified position. There are very differing interests across the country. Ottawa is, in my view, totally committed to the status quo. In fact, Ottawa has just recently put considerable new money in equalization. It used to cost about 12 billion. I think we're up to about 14 now. Ottawa is completely committed, in my view, to the status quo. You've got provinces like Saskatchewan who are unhappy with the formula, for the reasons I mentioned. Alberta and, particularly, Ontario, again, for the reasons I mentioned as the payers into the system, I think, are unhappy with it. British Columbia is unhappy with it because British Columbia is now hovering on the edge of being a net contributor again. They are either going to be penalized under the clawback if they're on equalization or they're going to be penalized as payers into a system that is manifestly unfair.

So there is, I think, a coalition to be built, but it will not be a national coalition. It will be a sectional coalition. But, so what? You know, it's a bad system. And it's got to be fixed. And the people who have an interest in fixing it include everybody in this room. So don't be put off by the fact that not everybody will agree. That's just tough. We've got some work to do and I think the benefits of getting it right far outweigh the nasty political battles that are going to be fought between here and there.