

DOCUMENTATIEBLAD

**THREE EQUALIZATION ALTERNATIVES:
EVIDENCE FOR CANADA**

by

Iryna Kryvoruchko*

Abstract

The Federal Expert Panel will examine the allocation of Equalization payments under the Representative Tax System and alternative approaches to measuring fiscal capacity based on macroeconomic indicators and provincial fiscal needs. This paper analyzes the redistributive properties of the current and alternative systems of fiscal Equalization in Canada. How effective are these programs in providing systematic redistribution of tax revenues from the federal government to the provinces? Empirically, the effectiveness of redistribution is tested using the German model developed by Von Hagen and Hepp. Equalization payments under a macroeconomic approach are calculated using the variation of Courchene's macro formula. Equalization payments under the fiscal need approach are calculated using the variation of the formula introduced by Commonwealth Grants Commission in Australia.

Key words: Fiscal federalism, Fiscal policy, Equalization payments.

JEL Classification: C23, E62, H77

* The views of this paper are those of the author and should not be attributed to the Alberta Ministry of Finance. The paper was presented at the Canadian Economics Association Meetings (2005) in Hamilton, Ontario. Also, a presentation was given to the Panel Secretariat and Federal-Provincial Relations Division of Finance Canada.