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The Fiscal Background to a Fiscal Gap

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Inside...
Ottawa collects far more revenue than it spends on traditional federal program areas - and spends most of the difference on transfers that finance provincial program spending. The subsequent regional and intergovernmental fiscal flows are large, persistent, and independent sources of political strain on the federation.

The Study in Brief

In Canada, differences in provinces' abilities to deliver public services at comparable tax rates are among the reasons for the federal government's large role in financing provincial service delivery.

Yet the federal role in financing provincial responsibilities poses tensions of its own, as is evident in the past decade's wrangling over responsibility and financing for health, education, and welfare, core provincial areas. The coherence and sustainability of these major programs are threatened when the provinces commit themselves to delivering services for which they do not collect the required funding, and the federal government collects money to provide services it is not responsible for delivering and for which it cannot ensure delivery. Voters do not know which level of government is ultimately responsible when things go right or wrong.

The reason for the tension goes beyond jurisdictional overlap. Because some provinces are economically stronger than others and the federal government's revenue, spending and transfers all tend to be geared to income, federal fiscal policy creates a persistent net drain for some provinces. On a simple accounting that adjusts for federal deficits and surpluses, for example, Ontario has seen a net annual outflow in the $20 billion neighbourhood for the past decade and more.

Federal cash transfers are among the drivers of these persistent outflows, and increasing them will not reduce the tension on the federation. This points to broader measures, such as tax reforms that increase provincial revenue capacity, and changes to Employment Insurance and other programs to reduce their differential regional impacts.

The Author of This Working Paper

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Every federation eventually wrestles with how responsibility and authority are divided among member states or provinces and the federation's central government.

Responsibility and authority in the context of federalism include spending responsibilities and revenue-raising or taxing abilities, and therein lies the rub. Subnational jurisdictions inevitably find themselves with differing spending needs and wants and revenue-raising capacities that evolve in different ways. And in Canada, avoiding large differences in provinces' abilities to deliver public services is the routine justification for the central government's claiming an equalizing role for itself in ensuring reasonably comparable provincial revenues — a federalist role that many observers believe to reduce the centrifugal forces of inequality that would otherwise threaten the federation itself.

Yet the federal role in financing provincial service delivery poses tensions of its own, as is evident in the past decade's wrangling over responsibility and financing for health, education, and welfare, core provincial areas. The coherence and sustainability of these major programs are threatened when the provinces commit themselves to delivering services for which they do not collect the required funding, and the federal government collects money to provide services it is not responsible for delivering and for which it cannot ensure delivery.

The mismatch in revenue and spending responsibilities is what I refer to as an imbalance, and it is what happens when one government collects tax revenue to finance spending by another, or, more specifically, when the provinces deliver services without being politically accountable for financing them. Canada, in that sense, has always been in a state of imbalance: The federal government has made payments to other levels of government since the 19th century.

These payments' potential for creating tension between the provinces and the federal government is clear, and that tension has risen and ebbed mostly in tune with the various governments' fiscal fortunes. What has become apparent, however, is that large and persistent differences in provincial governments' fiscal wellbeing are an independent source of stress to the federation. Richer provinces that perennially contribute significantly more to the federal pot than they receive will perceive a fiscal gap, as opposed to an imbalance, and any pursuant budgetary difficulty will be a source of political stress. That stress, in turn, can be magnified or damped by federal choices, both as a matter of standing policy and as policy choices in response to regional economic shocks or spending pressures that happen to evolve quite differently in different provinces. And pressed-for-revenue state or provincial leaders in federations like Germany, Australia, and the U.S., as in Canada, routinely cite unfair tax arrangements and their fiscal disability as compared to other jurisdictions — and sometimes they are correct to do so.

The balance of this paper briefly describes some of the central characteristics of federal-provincial fiscal relations, insofar as those relations generate or meliorate fiscal gaps or imbalances across governments. In so doing, I highlight some of the policy areas where the federal and provincial governments may wish to make choices that lessen the stress to the federation caused by those imbalances. The conclusion is that the Canadian federation needs improved matching of revenue capacity and spending authority across jurisdictions in order that voters are able to make clearer — and welfare-improving — choices about the mix and quality of government services they receive (Tiebout 1956).

Current Issues in Fiscal Federalism

The obvious conflicts that have given federal-provincial fiscal relations a sense of urgency is the fiscal pressure on Ontario's government that seems to have been heightened rather than meliorated by federal policy and, more recently, the debate over the impact of extraordinarily strong revenue growth in Alberta, driven by high energy prices.

I focus primarily on Ontario's case, where, as has been much reported, federal revenue exceeds federal spending by more than $20 billion annually, that number being up from about $2 billion in 1995.[1] Repairs to federal transfer programs may be part of the solution to this apparent problem and, on this, there are three simple propositions that I wish to establish:

- The interprovincial redistribution of income implicit in federal-provincial transfer arrangements has been fairly stable over time;
- While more or less stable, it represents a significant and politically corrosive drain on those provinces that tend to be large and persistent net contributors to the fiscal pot; and
- Resisting this corrosion will not be accomplished through changes to transfers alone.
- First some history and context.

In Ontario, as in other provinces, cash transfers from the federal government are a significant source of income: major federal transfers equal about an eighth of current total provincial revenue, yet this contribution is small

[1] A current $23-billion gap is the figure routinely cited in Ontario media.

in comparison with that of most other provinces. These major transfers, now accounting for about 3 percent of national gross domestic product (GDP), are provincial fiscal equalization, which is a formula-driven grant intended to standardize provinces' revenue-raising capacities, and the Canadian health and social transfers, block grants intended to finance health, postsecondary education, and social welfare services.

Federal transfers to the provinces had their origins in Canada's founding agreements, when provinces had few revenue sources to meet their extensive responsibilities to residents. Further, some provinces entered Confederation with unmanageable debt; the federal government agreed to standing payments to assist provinces financially, and at other times payments have been to structured to explicitly recognize taxing power being taken up by one level of government and abandoned by the other. Finally, at different times the federal government has ceded specific taxes or percentages of tax collected from individuals and corporations, on the understanding that the provinces would use that share to fund spending programs for which they had taken responsibility.

While the various grants' designs have changed over time, the longest-serving model has been a per capita federal payment to the provincial governments. Now, however, health and social transfers are a blend of payments designed to match historical federal contributions under cost-sharing agreements in existence from the 1960s through the early 1990s, and payments distributed on a current per capita basis. Numerous changes to the health and social programs in the past several years, as illustrated in Smart (2005), have weighted the calculation more heavily toward per capita payments. But owing to temporary limits on predecessor programs — which influenced the initial allocations of earlier versions of these transfers — the aggregate payments for health and social services today relatively disfavour Alberta, Ontario, and British Columbia.

Since 1957, the Equalization program, now accounting for about $11 billion per year in federal spending, has followed one or another formula designed to bring each province's revenues up to an evolving national standard. A province's equalization entitlement depends on provincial revenue-raising capacity calculated on a per capita basis. For each of three dozen possible revenue streams, a representative tax base is estimated as the average of five provinces' per capita bases — for example, gasoline consumption assessed in dollars. The national average tax rate is provincial revenue divided by the appropriate base. The equalization entitlement is the difference between a province's base and the five-province standard base, times the national tax rate, times the province's population. If the sum across a province's bases is negative, that province receives no payment. Ontario has never received equalization payments, although it was briefly eligible during the second oil price shock of the 1970s.[2]

Equalization payments, as with health and social transfers, are funded by federal general revenue: Canadians pay for these programs in their capacities as federal taxpayers. We benefit to the extent that we are consumers of the provincially provided goods and services implicitly funded by the transfers and, given the Equalization program's intent of financing comparable public services at reasonable comparable levels of taxation, we also benefit in our capacities as provincial taxpayers.[3]

It is easy enough to calculate the theoretical net cost to provincial residents of financing a federal program: it is the province's total contribution to federal revenue, expressed as a share, times the cost of the program. Thus, for example, Ontarians through their personal income taxes, sales and excise taxes and through their businesses have tended in recent years to contribute about 43 percent of federal revenue, roughly matching the province's share of national GDP. And on a per capita basis, Ontarians' GDP and contribution to federal revenue is considerably above the national average.

But Ontario's provincial government receives less than the national per capita average under the health and social transfers and no equalization funding, so, from the provincial taxpayer's perspective, the net impact of receiving federal cash transfers is a large negative number (Appendix Table 1).Ontario's annual net outflow associated with major federal transfers averages about $6.5 billion per year expressed in constant 2004 dollars, or, over the last 25 years, about $650 per head annually. On this basis, Quebec is the largest beneficiary, receiving more than $3.8 billion per year (although declining in recent years), but per head the Atlantic province residents receive most, owing to relatively low per capita market incomes.

To put these figures in a federalist context, Ontario's residents are net payors on balance because their income tends to be higher than that of people in net recipient provinces. Hence, from a federal point of view, the transfers are not among provinces, they are from high-income taxpayers to low-income taxpayers, irrespective of their province of residence. From a province's perspective, things

[2] Since the controversy over Ontario's potentially positive entitlement caused by its slow economic growth and Alberta's burgeoning oil revenue in the 1978-to-1982 period, Alberta and the four less-wealthy Atlantic provinces have been excluded from the base calculation.

[3] According to Section 36(2) of the *Constitution Act, 1982*, "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."

look quite different, as, for a richer province, the federal government's social transfer programs sum to a net drain on the economy.

To a certain extent, the provincial viewpoint is tenable only because it is possible to assess the data along provincial borders. And yet there are observable differences in how federal programs affect provincial finances; some of these are byproducts of economics and geography and others are generated by policy choices. The following section moves beyond the major transfers to discuss the broader fiscal relationship and some of the policy drivers of interprovincial divergences from the national norm.

Fiscal Relations in a Broader Context

As I mentioned above, there is a fairly consistent interprovincial redistributional pattern to federal revenues and expenditures, and this pattern pertains whether we speak of transfers themselves or the full set of federal spending programs. How can we reconcile this comment with the literally accurate observation that the federal balance with respect to Ontario has shifted from minus $2 billion in 1995 to over $20 billion today?

The answer is in the federal government's own changing deficit/surplus position: by 1995, it had reported spending exceeding revenue by about $30 billion per year for 14 consecutive years, in nominal terms (Canada 2005a). In other words, Canadians were accruing public debt at a pace of well over $1,000 per head per year, a pace irreconcilable with real growth in domestic income. Although those deficits did come to a swift end — in the process putting sharp financial pressure on the provinces — there remains the difficulty of how to account for them in federal-provincial arithmetic.

The reason is that federal deficit spending generated goods and services and financial benefits for Canadians, benefits for which they did not pay current taxes. The costs of those benefits, by way of deficits and debts, were deferred to future years, meaning the present, and Canadians, by way of the current federal surplus, are now paying for benefits enjoyed in the past, and not necessarily by themselves. This too is a source of tension.

In any case, it makes no sense to look at net federal revenues by province in 1995 without allowing for the fact that the government of the day was spent far more than it received — for doing so would lead to the conclusion that every province was a net beneficiary of federal spending and transfers, which is not a reasonable representation of the federal-provincial relationship. Nor would it make sense to look at today's federal balance with respect to the provinces without making allowance for the fact that the government collects more in total revenue than it spends on goods, services, and transfers in all provinces and abroad.

The single most important adjustment to make, therefore, when looking at the relationship over time, is to correct federal net lending vis-à-vis the provinces to reflect Ottawa's deficit/surplus position.[4] (Net lending, which is a fairly inclusive definition of government revenue less expenditure, is one of the common measures of the fiscal balance between governments.) The most straightforward way to do so is to allocate deficits on a pro-rated basis to the provinces according to the annual revenue distribution across provinces, on the basis that the deficit represents the present value of taxes to be collected in future, and because they represent current benefits enjoyed by provincial recipients. Surpluses are presumptively counted as prepaid taxes. No doubt the past distribution of revenue and spending will be different from the future distribution, and that means that high-growth provinces will end up paying for more than their share of past borrowing, but doing the calculation on an annual, rolling basis keeps down the impact of such changes in growth patterns.

The results of this sort of calculation show that, for example, Ontario's net position with respect to the federal government has changed little over the past decade and more (Figure 1). Ontario's annual net outflow through the federal conduit has hovered in the $15-to-20-billion range in constant (2004) dollars, or around $2,000 per person annually. And, on a per capita basis, Alberta's annual net contribution is generally larger (Figure 2 and Appendix Table 2).

What this implies is that the fiscal gap is not small, not new, and not a product of recent federal policy. However, the gap that Ontario and Alberta perceive and the imbalances that all provinces experience are products of a broad web of policy choices layered on top of economic and demographic differences. The sections that follow highlight some of the small and large sources of provincially divergent fiscal patterns.

Personal Income Tax

The federal revenue pattern across provinces of course tracks provincial fortunes. And it is a commonplace to note that, given a progressive personal income tax rate schedule, provinces where incomes tend to be higher will pay personal income taxes above the national average evaluated on per capita basis.

It is intriguing, therefore, to see that federal income tax rate progressivity is a small contributor to provincial variation in federal personal tax revenue – see

[4] There are many other possible and useful modifications to the revenue and spending figures, as in Vaillancourt and Bird (2005); such arithmetic was a popular exercise during the debates over the state of the Confederation at several times in the past few decades. I avoid these adjustments for the sake of keeping the water unmuddied, and use only the most important one (the federal deficit/surplus); moreover, the various possible adjustments do not much change the overall pattern of spending as viewed across provinces and over time.

Figure 3, where I illustrate the impact of replacing the graduated federal income tax with a revenue-neutral flat-rate personal tax.[5] Residents of New Brunswick, for instance, pay about $150 less than they would under a flat federal tax at 19.8 percent, all other tax parameters being left unchanged, and residents of Alberta, who do pay provincial tax at a flat rate, pay about $150 more than they would if the federal personal schedule was also flat.

Given that federal revenue per capita does closely track average incomes per capita on provincial basis, the small size of these differences might be more or less surprising. The reason for the small size is that personal income taxes are only one component of federal revenue and, considering the full mix of taxes, federal revenue is nearer to linearly proportional to income than many of us might assume.

Hence tax rate progressivity does not go very far in explaining the gap shown in Figure 2, and we must look elsewhere.

Employment Insurance

For more than thirty years and for good or ill, the federal Employment Insurance program has treated Canadians differently depending on where they lived.

The program has become complex and multifaceted, yet the most powerful influence on an unemployed claimant's entitlement is the unemployment rate in the region the worker lives, with the region being defined in the geographic sense by federal regulation — which changes from time to time. In any event, the local unemployment rate, in concert with the number of hours recently worked by the claimant, determines how many weeks of benefits the claimant is entitled to. The higher the regional unemployment rate, the smaller is the number of prior hours worked needed to establish an initial entitlement. What is more, the higher the regional unemployment rate, the longer the entitlement period available to claimants.

In practice, the differences are quite striking when viewed across provinces, notwithstanding that employment regions are indeed set on a regional rather than provincial basis. In most of Newfoundland and Labrador, for example, 420 hours of work during the prescribed qualifying period creates 25 weeks of benefit entitlement. In Alberta, by contrast, there is currently no region where 420 hours of work in the past year would generate any benefit entitlement at all for a new claimant; in most of the province 700 hours of work are required to provide 14 weeks of entitlement.

[5] Simulations prepared using Statistics Canada's Social Policy Simulation Database and Model, Release 10.1. Responsibility for the results and their interpretation lies with the author.

Meanwhile, employers and employees in all Canada's regions pay EI premiums applied to their annual payroll (more specifically, the first $39,000 of wages per employee) at a single rate irrespective of the local unemployment rate or the firm's risk experience with generating claims. The result is dramatically different per capita figures across provinces for net EI benefits (i.e., less premiums), as in Figure 4. Residents of Newfoundland and P.E.I. receive net EI benefits that are about $1,000 per year above the national average.

How much of this differential is caused by the program parameters that depend on the regional unemployment rate, as opposed to the differential created by there being more EI claims in a region with high unemployment? To answer that question I estimated the impact of making a revenue-neutral EI program change: replacing the current variable entry requirements with a simple rule that 490 hours of work would be required during the qualifying window to permit 23 weeks of benefit entitlement, irrespective of the regional unemployment rate, and every region would have the same minimum and maximum benefit entitlements (Figure 5).

The answer is: Not very much in most provinces, because their regional unemployment rates are almost uniformly low enough that the increased initial entitlement would generate very few weeks of additional benefits. On the other hand, in Newfoundland, this hypothetical rule would constitute program tightening, and reduce benefits by about $200 per person — not per unemployed beneficiary.

The prospect of program changes that imposed noticeable costs only in Newfoundland is certainly not a politically attractive option for federal policymakers. All the same, Canadian contributors to the unemployment program should probably know that small differences in program parameters can have profoundly different regional impacts. In particular, a low threshold for entrance has a big impact on total benefit entitlements, as compared with the impact of extending the number of weeks of benefit for people in low-unemployment areas.

There are alternatives, most obviously experience-rating that would reduce premiums for employers with good layoff records. The effects would not be strongly regional — layoff experience is closely associated with individual employers, rather than industries or regions (Corak and Chen 2003). In any case, sensible choices about such policy parameters such as qualifying hours or the desired extent of experience rating for premiums can be made only when policymakers quantify and contemplate their impacts and their costs and benefits.

Where the Old People Are

Some provinces' populations are noticeably younger than others, Alberta's in particular, and others are older, such as Saskatchewan's and Newfoundland's. This has an influence on work, income, and tax patterns, and it also affects the provincial distribution of benefit program payouts, such as the Guaranteed Income Supplement for low-income seniors and Old Age Security benefits paid uniformly (in principle) to eligible Canadian residents.[6] In provinces where residents are younger on average and seniors have relatively high incomes, net OAS receipts will be lower than elsewhere, both on a per capita and per senior basis.

The result (Figure 6) is lower per capita benefits in Ontario and Alberta relative to other provinces, and the net difference is substantial. The important observation is that income and demographics have an unavoidable impact on benefit patterns but, moreover, policy design choices that include income-testing aspects, as with the OAS, magnify the interprovincially redistributive characteristics of a benefit program. Again, these features may or may not be desirable, but it is difficult for policymakers to make suitable decisions about them if they are not poignantly aware of their impacts.

Highlighting Problem Areas, Hinting at Solutions

Having illustrated some of the small and large sources of gaps between federal revenues and spending in the provinces, I return to the questions of imbalance and seek to tie gaps and imbalances loosely together.

To recap, I regard a fiscal imbalance to be the result of whatever political process leads to one level of government delivering funding to another in support of the latter's program responsibilities. The recipient government spends money that it is not responsible for appropriating, and the funding government implicitly takes responsibility for delivering services that it cannot credibly promise to deliver — an imbalance of revenue and spending responsibilities. That is corrosive to political accountability for program funding and delivery. In the presence of a significant imbalance, citizens have a difficult time matching their payments to governments with the benefits and services they wish to see delivered to themselves or others; an imperative to keep governments stuck to their knitting militates for keeping down the size of any emergent imbalances.

Persistent differences in regional patterns of federal spending will tend also to be politically corrosive to a federation. Voter discomfort with what they see as unfair transfers of their income to residents in other provinces leads to

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[6] For the past 15 years OAS benefits have been clawed back from individuals with net incomes above a certain threshold, which is now about $60,000 annually.

campaigns against the centre. Even if Canadian voters are generally comfortable with the idea of transfers to assist the less well off, and polls say they are, unbalanced fiscal arrangements become a flashpoint when local economic shocks arise.

The federal funding contribution to provincial social program delivery is indeed profoundly different across provinces. In the East, federal funding is large enough to cover most of the cost of provincial spending on health, postsecondary education, and social assistance (Figure 7). That means that provincial control over the scope and quality of the programs is limited, precisely because the provinces do not collect sufficient independent revenue to fund the programs for which they are nominally accountable.

In Ontario, Alberta, and B.C., and Quebec for that matter, the federal contribution is far smaller. No surprise then that these provinces expect more control over the shape of the social programs they are responsible for delivering, and no surprise that there should be tension over federal attempts to control the manner in which provinces deliver those programs.

This does not suggest that there is some ideal level of overlap that provides needed social program funding while minimizing the degree of political tension associated with overlapping responsibilities. It does imply that shrewd federal program design should minimize the degree of regional differentiation in how citizens and governments are treated. This may suggest a minimalist approach to program design.

Concluding Notes

My look at government revenue and spending data shows that a range of federal policies contribute to large and persistent fiscal outflows from some provinces toward others. A look backward in time shows that there does not seem to have been a sudden shift in the distributional pattern. Many federal programs contribute to the overall pattern, which is in turn influenced by regional economics and demography, and federal transfer programs are a particularly significant contributor.

Two facets of these flows are sources of concern. The first is the obvious regional tensions created by the persistence of the flows. Voters are fully supportive of temporary support for people who need it. They are less tolerant of standing programs that seem to produce inequity, and this can lead to unhealthy provincial and federal politics. The second facet is the problems for accountability when governments spend money they are not responsible for collecting, and when governments claim authority for delivering programs they do not have the capacity to deliver.

Each of these problems — gaps and imbalances — may be meliorated to some degree by provinces' enhancing their own sources of revenue so they may exert better control over the funding and scope of the programs they are responsible for delivering. A tight link between revenue and spending responsibility cannot be established solely through design choices or scale choices about federal transfers. Inescapably, that means the set of solutions includes tax reform at the federal and provincial levels, the subject of current and future work at the C.D. Howe Institute and elsewhere.

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Figures

Figure 1: Federal (balanced-budget) net lending in Ontario

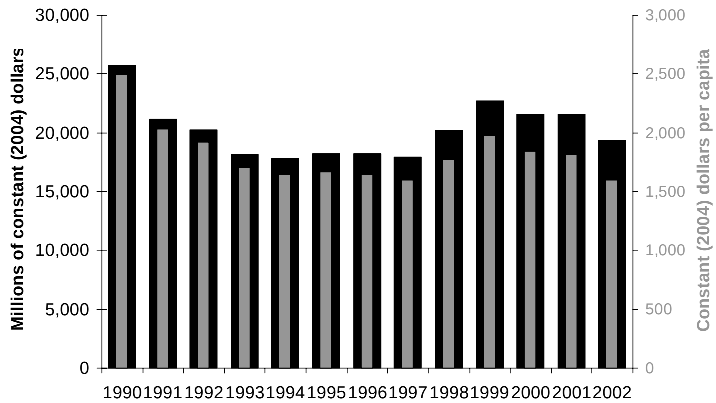


Figure 2: Per capita federal net lending -- 2002

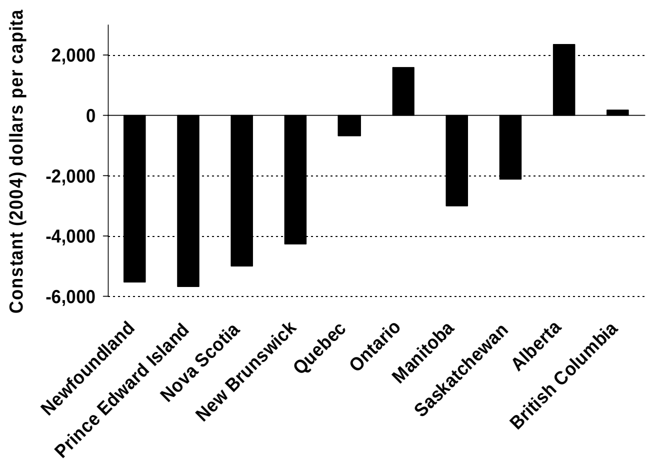


Figure 3: Per capita impact of the progressive PIT schedule

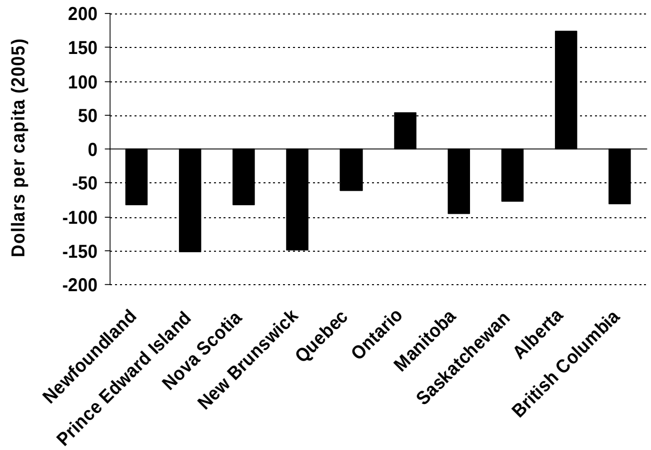


Figure 4: Per capita differential in net EI benefits

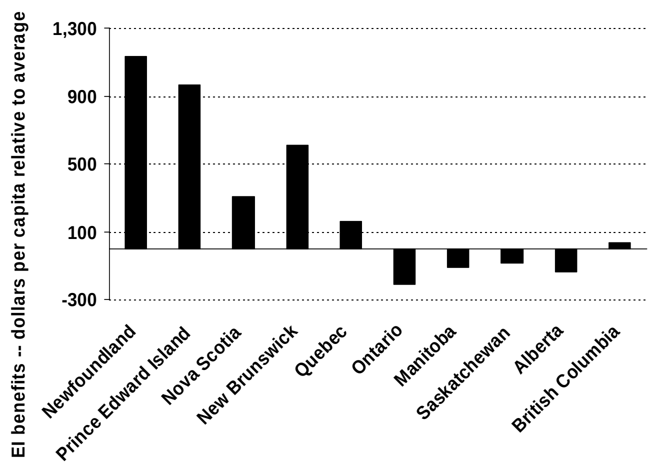


Figure 5: Per capita impact of “flat” EI weeks 490 hours / 23 weeks

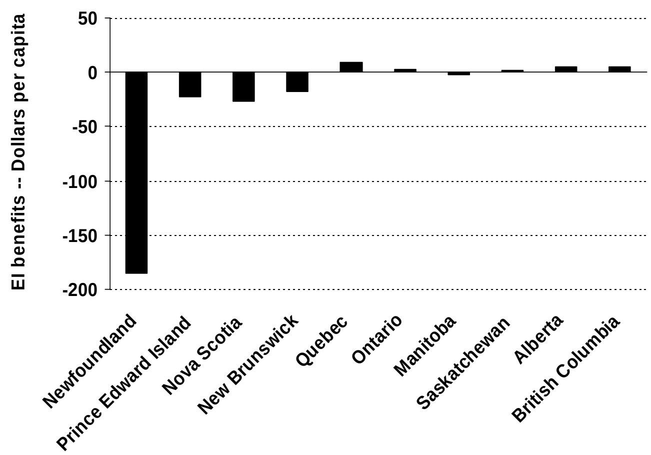


Figure 6: Per capita differential in OAS receipts

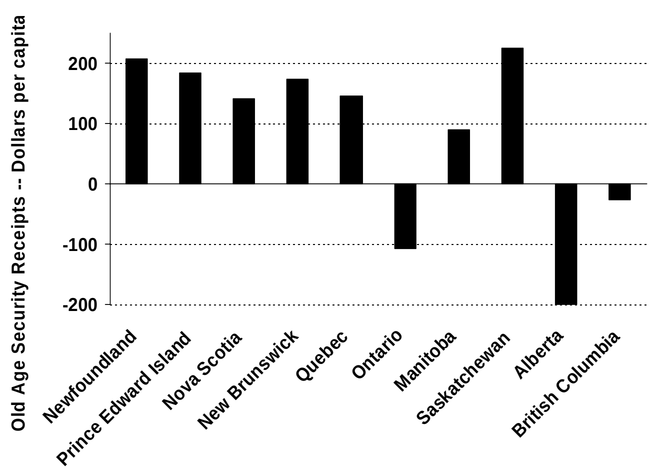
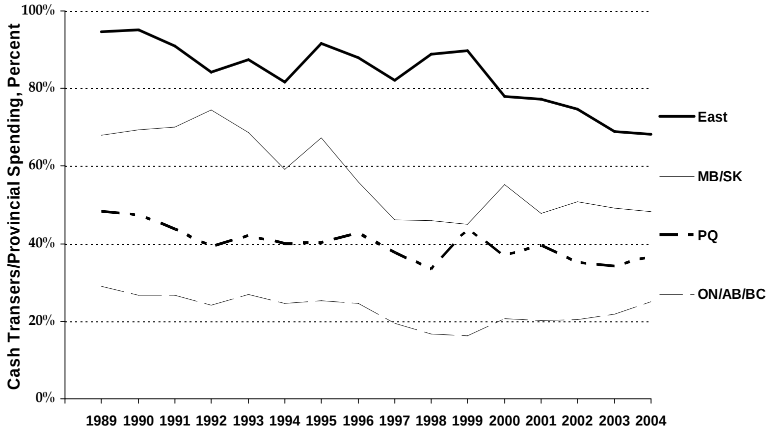


Figure 7: Federal contributions to provincial health / PSE / SA



Sources for figures: Statistics Canada's Financial Management System (Figure 7), Canada 2005b (Figures 1, 2 and 6), Finn Poschmann via SPSD/M Release 10.1 (Figures 3, 4 and 5).

Appendix Table 1

TOTAL MAJOR FEDERAL CASH TRANSFERS - NET BENEFIT

Year ending 31 March	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Total Canada
					MILLIONS OF CONSTANT 2004 DOLLARS						
1995	1,270	242	1,207	1,076	4,075	-6,868	1,118	276	-2,348	-1,388	0
1996	1,209	238	1,264	992	4,348	-6,866	1,053	99	-2,322	-1,356	0
1997	1,268	245	1,261	1,111	3,875	-6,675	1,091	16	-2,219	-1,300	0
1998	1,277	270	1,340	1,166	4,150	-6,953	945	-51	-2,267	-1,229	0
1999	1,220	265	1,228	1,148	3,671	-6,861	978	275	-2,194	-1,075	0
2000	1,270	277	1,243	1,181	3,882	-7,261	1,060	142	-2,130	-1,047	0
2001	1,175	287	1,336	1,239	3,889	-7,050	1,144	-55	-2,185	-986	0
2002	1,090	272	1,228	1,176	3,082	-6,530	1,206	-22	-2,257	-743	0
2003	890	247	1,031	1,101	2,520	-5,745	1,143	-107	-2,043	-613	0
2004	779	243	1,037	1,094	2,336	-5,641	1,172	-174	-2,005	-477	0
2005	754	282	1,158	1,228	2,279	-6,604	1,366	394	-2,303	-322	0
2006	844	281	1,170	1,233	2,867	-6,712	1,343	-106	-2,362	-382	0

TOTAL MAJOR FEDERAL CASH TRANSFERS - NET BENEFIT

Year ending 31 March	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Total Canada
					CONSTANT 2004 DOLLARS PER CAPITA						
1995	2,186	1,793	1,292	1,420	559	-628	990	272	-865	-379	0
1996	2,099	1,766	1,350	1,309	592	-618	931	98	-847	-362	0
1997	2,259	1,800	1,356	1,475	533	-602	962	15	-799	-336	0
1998	2,305	1,971	1,434	1,547	568	-619	832	-50	-801	-311	0
1999	2,235	1,932	1,312	1,524	501	-603	859	269	-757	-269	0
2000	2,348	2,008	1,324	1,567	528	-631	929	138	-721	-260	0
2001	2,225	2,108	1,431	1,651	529	-604	998	-55	-728	-244	0
2002	2,088	1,987	1,317	1,568	417	-550	1,048	-22	-739	-182	0
2003	1,712	1,803	1,103	1,467	339	-476	989	-108	-656	-149	0
2004	1,504	1,774	1,108	1,457	312	-461	1,010	-175	-636	-115	0
2005	1,459	2,047	1,235	1,635	302	-533	1,168	396	-720	-77	0
2006	1,636	2,021	1,247	1,639	378	-536	1,140	-107	-728	-90	0

Source: C.D. Howe Institute, Department of Finance.

Appendix Table 2

Federal Balanced Budget-Adjusted Net Lending	1990	1994	1998	1999	2000	2001	2002	Average 1981-2002
Millions of constant (2004) dollars								
Newfoundland and Labrador	-3,980	-3,885	-3,711	-3,606	-3,086	-3,073	-2,866	-3,612
Prince Edward Island	-907	-705	-777	-836	-798	-864	-778	-778
Nova Scotia	-5,069	-5,037	-4,510	-4,514	-4,612	-4,788	-4,670	-4,873
New Brunswick	-3,513	-3,017	-3,343	-3,393	-3,165	-3,357	-3,194	-3,249
Quebec	-5,090	-6,352	-6,748	-6,317	-5,794	-6,061	-4,953	-6,304
Ontario	25,690	17,820	20,175	22,717	21,561	21,611	19,317	20,403
Manitoba	-2,798	-2,912	-2,879	-3,336	-3,522	-3,460	-3,481	-2,686
Saskatchewan	-3,067	-2,158	-1,957	-2,557	-2,595	-2,613	-2,123	-2,245
Alberta	3,358	5,888	6,502	6,102	6,306	7,005	7,351	6,508
British Columbia	2,547	5,805	2,370	1,460	1,046	1,386	753	2,443

Appendix Table 2 continued

Federal Balanced Budget-Adjusted Net Lending	1990	1994	1998	1999	2000	2001	2002	Average 1981-2002
Constant (2004) dollars per capita								
Newfoundland and Labrador	-6,887	-6,769	-6,872	-6,766	-5,844	-5,887	-5,523	-6,399
Prince Edward Island	-6,925	-5,297	-5,710	-6,147	-5,865	-6,309	-5,682	-5,935
Nova Scotia	-5,571	-5,434	-4,839	-4,833	-4,937	-5,137	-4,994	-5,376
New Brunswick	-4,747	-4,023	-4,451	-4,518	-4,214	-4,476	-4,259	-4,408
Quebec	-727	-883	-925	-863	-788	-819	-665	-904
Ontario	2,495	1,647	1,775	1,974	1,845	1,816	1,596	1,972
Manitoba	-2,530	-2,593	-2,530	-2,921	-3,071	-3,006	-3,011	-2,409
Saskatchewan	-3,045	-2,137	-1,923	-2,519	-2,575	-2,613	-2,131	-2,211
Alberta	1,318	2,180	2,243	2,066	2,099	2,292	2,359	2,512
British Columbia	774	1,579	595	364	259	340	183	690

Appendix Table 2 continued

OAS Differential Relative to Other Provinces	1990	1994	1998	1999	2000	2001	2002	Average 1981-2002
Constant (2004) dollars per capita								
Newfoundland and Labrador	72	87	150	165	171	193	207	90
Prince Edward Island	268	242	187	189	181	178	184	250
Nova Scotia	178	159	144	141	138	142	142	167
New Brunswick	161	161	164	163	157	166	174	157
Quebec	46	78	116	127	133	140	146	63
Ontario	-88	-89	-88	-96	-99	-105	-107	-78
Manitoba	157	158	124	117	106	99	89	144
Saskatchewan	243	270	236	234	228	231	225	228
Alberta	-198	-194	-196	-195	-193	-196	-200	-200
British Columbia	37	-12	-42	-37	-34	-31	-27	7

Appendix Table 2 continued

EI Differential Relative to Other Provinces	1990	1994	1998	1999	2000	2001	2002	Average 1981-2002
Constant (2004) dollars per capita								
Newfoundland and Labrador	1,159	1,004	915	996	991	1,083	1,147	994
Prince Edward Island	773	1,059	925	867	863	906	936	838
Nova Scotia	238	377	247	233	272	261	251	240
New Brunswick	556	679	529	491	484	559	519	533
Quebec	236	210	151	133	130	141	117	178
Ontario	-285	-239	-204	-215	-190	-184	-173	-243
Manitoba	-165	-208	-133	-98	-70	-102	-103	-159
Saskatchewan	-210	-244	-139	-89	-81	-113	-115	-194
Alberta	-172	-160	-143	-77	-118	-160	-126	-130
British Columbia	8	-61	8	-6	-35	-35	-34	27

Appendix Table 2 continued

Federal Direct Taxes (Persons) Differential Relative to Other Provinces	1990	1994	1998	1999	2000	2001	2002	Average 1981-2002
Constant (2004) dollars per capita								
Newfoundland and Labrador	-1,105	-885	-1,231	-1,178	-1,284	-1,264	-1,115	-1,019
Prince Edward Island	-965	-742	-1,030	-1,091	-1,092	-1,148	-981	-909
Nova Scotia	-556	-509	-690	-645	-752	-748	-654	-557
New Brunswick	-794	-609	-942	-900	-931	-954	-852	-753
Quebec	-953	-780	-1,049	-1,107	-1,028	-1,034	-925	-860
Ontario	975	710	1,024	1,161	1,131	1,075	940	835
Manitoba	-545	-404	-524	-629	-677	-689	-613	-463
Saskatchewan	-652	-525	-651	-721	-795	-814	-717	-508
Alberta	253	322	777	572	667	872	782	473
British Columbia	345	306	-65	-123	-171	-233	-204	172

Appendix Table 2
continued

Federal Direct Taxes (Business) Differential Relative to Other Provinces	1990	1994	1998	1999	2000	2001	2002	Average 1981-2002
Constant (2004) dollars per capita								
Newfoundland and Labrador	-306	-321	-419	-572	-586	-436	-266	-387
Prince Edward Island	-212	-218	-405	-480	-633	-423	-397	-340
Nova Scotia	-281	-277	-387	-415	-483	-314	-319	-352
New Brunswick	-212	-181	-380	-509	-596	-409	-379	-334
Quebec	-36	3	-10	0	-76	-92	-50	-116
Ontario	118	7	233	341	359	241	175	78
Manitoba	-222	-197	-330	-365	-462	-382	-354	-292
Saskatchewan	-226	-137	-228	-327	-398	-268	-234	-205
Alberta	251	335	349	302	557	438	459	831
British Columbia	-44	11	-287	-414	-438	-280	-271	-186

Appendix Table 2 continued

Federal Indirect Taxes – Differential Relative to Other Provinces	1990	1994	1998	1999	2000	2001	2002	Average 1981-2002
Constant (2004) dollars per capita								
Newfoundland and Labrador	-671	-312	-274	-213	-201	-214	-227	-496
Prince Edward Island	-837	-169	-178	-135	-120	-177	-179	-485
Nova Scotia	-353	-189	-148	-103	-132	-150	-149	-206
New Brunswick	-310	-215	-216	-163	-176	-203	-221	-222
Quebec	-30	-237	-180	-168	-165	-166	-162	-185
Ontario	519	138	99	109	119	112	96	275
Manitoba	-248	-62	-173	-181	-206	-207	-224	-170
Saskatchewan	-457	-105	-60	-56	-74	-75	-83	-113
Alberta	-214	137	242	210	226	273	300	161
British Columbia	-309	221	115	64	41	29	42	-65

Sources: Statistics Canada (2005), C.D. Howe Institute.

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