
Speaking out for the Atlantic provinces

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Diplomatic Forum
Halifax, Canada, October 19, 2002

Central theme of the presentation



Federal policies are wrongly accused of maintaining the Atlantic provinces in a culture of poverty

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It is often said that federal policies are inhibiting economic development in the Atlantic provinces.

I will show that such criticism is unfounded.

Central theme of the presentation (cont 'd)



The Atlantic provinces are dynamic and do not have a culture of dependency

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As you saw from the other presentations at the Forum, the Atlantic provinces do not have a culture of dependency. On the contrary, they are dynamic and innovative provinces, from both an economic and a social viewpoint.

Central theme of the presentation (cont 'd)



This debate is no doubt similar to the one in your countries when less prosperous regions are accused of having fallen into a “poverty trap”

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In all countries there are some less prosperous regions that are accused of being dependent on the other regions. This is true in your countries and it is true here in Canada with the Atlantic provinces.

I am going to give some examples of the main criticism made in Canada regarding federal policies in the Atlantic provinces.

Criticism of federal policies for the Atlantic provinces

“I think in Atlantic Canada, because of what happened in the decades following Confederation... there is a culture of defeat that we have to overcome.”

– Stephen Harper, Canadian Alliance leader, *The Chronicle Herald*, May 29, 2002

“Through equalization, regional development, overgenerous employment insurance, welfare and a welter of inefficient government make-work programs, we transfer billions from rich provinces to poor provinces... Albertans and Ontarians are getting awfully tired of subsidizing the buggy-whip makers of Canada’s backward regions.”

– Editorial in *The National Post*, August 3, 2002

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In Canada, some people claim that the economic difficulties in the Atlantic provinces are due to overly generous federal programs for those provinces. They believe that federal policies are inhibiting the economic development of the Atlantic provinces and maintaining the residents of those regions in poverty and dependency.

Criticism of federal policies for the Atlantic provinces

“In fact the whole equalization program is designed to punish success, by deducting from federal transfers whatever a have-not province generates in economic growth. It promotes statist economic mismanagement and a debilitating culture of dependence.”

– **John Ibbitson, *The Globe and Mail*, July 20, 2001**

“ There is strong evidence that equalization does, in fact, encourage poorer provinces to overtax their population. ”

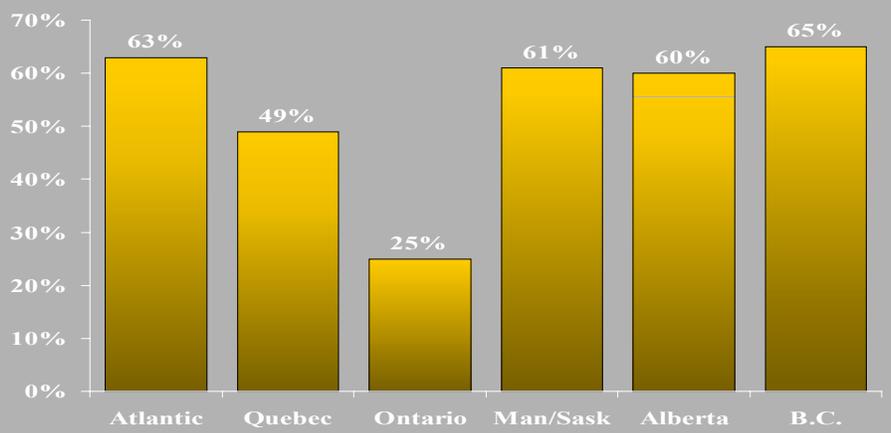
– **Ken Boessenkool, *National Post*, June 25, 2002**

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It is also claimed that federal transfers encourage the Atlantic provinces to be fiscally lax and overtax their residents.

Atlantic residents feel the Government of Canada is not supporting them enough

Percentage of people who believe their province gets less than its fair share of federal spending



Source: Ekos, *Rethinking Government 2001*

Is the Government of Canada doing too much for the Atlantic provinces? In any event, that's not what Atlantic residents think. They're inclined to think instead that, on the contrary, the Government of Canada isn't doing enough. Incidentally, Canadians tend to share that opinion, except Ontarians.

The Prime Minister of Canada, the Right Honourable Jean Chrétien, often says that Canadians have two beliefs:

- First, they believe that Canada is the most beautiful country in the world (and that's because Canadians haven't visited your countries!).
- And second, they are convinced that their province does not get its fair share from the federal government.

The Atlantic provinces in the Canadian federation

1 The Atlantic provinces benefit from federal policies

2 The federal effort for the Atlantic provinces is justified

3 Federal policies are not inhibiting economic development

4 The Atlantic provinces are dynamic and have lots of success stories

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Let's look at the facts.

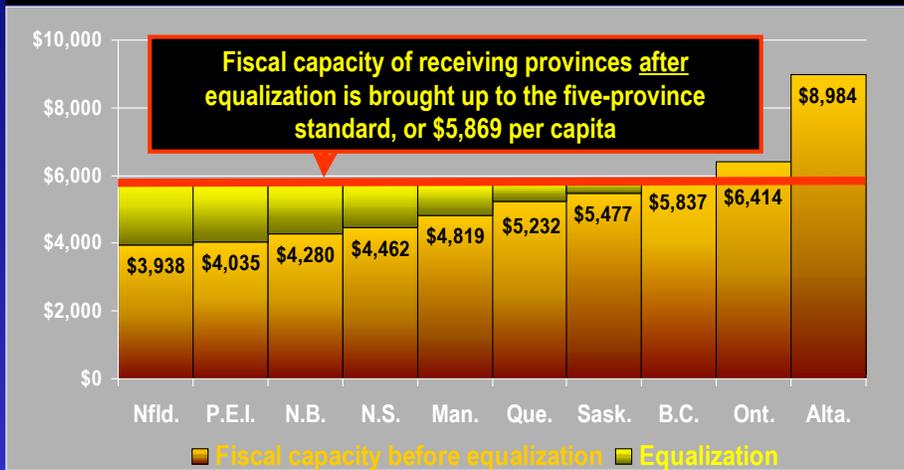
- I will first argue that the Atlantic provinces benefit from Canadian solidarity.
- Second, I will show that this assistance is justified.
- Third, I will show that federal policies are not inhibiting economic development.
- Finally, I will talk about the dynamism and the success stories of the Atlantic provinces.

1

The Atlantic provinces benefit from federal policies

1.1 *Equalization brings the fiscal capacity of the less wealthy provinces closer to the average*

Fiscal capacity before and after equalization, per capita (2001-2002)



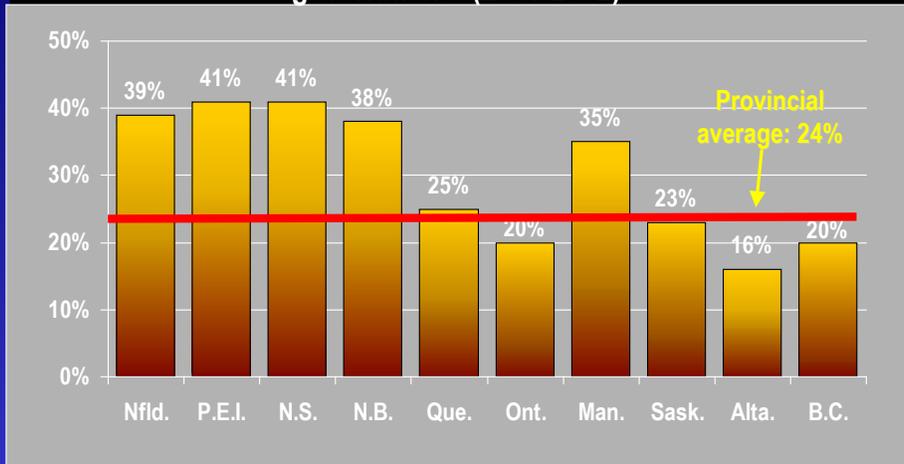
Source: Finance Canada

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The objective of the equalization program is to help the provincial governments provide public services to their respective populations at reasonably comparable levels of quality and taxation.

To do so, the Government of Canada, not the wealthier provinces as is sometimes suggested, makes equalization payments to provinces whose ability to generate tax revenues is lower than a set standard, so as to raise their per-capita fiscal capacity up to that standard (which corresponds to almost 97% of the national average).

For example, in 2001-2002, the fiscal capacity of the Atlantic provinces was estimated at \$4,261 per capita on average. This entitles them to an average of \$1,603 per capita in equalization (\$5,869 - \$4,261), which involves payments of over \$3.8 billion for all the Atlantic provinces.

1.2**Federal transfers are important to the Atlantic provinces' revenues****Share of federal revenues in budgetary revenues of provincial governments (2001-2002)**

Source: Finance Canada

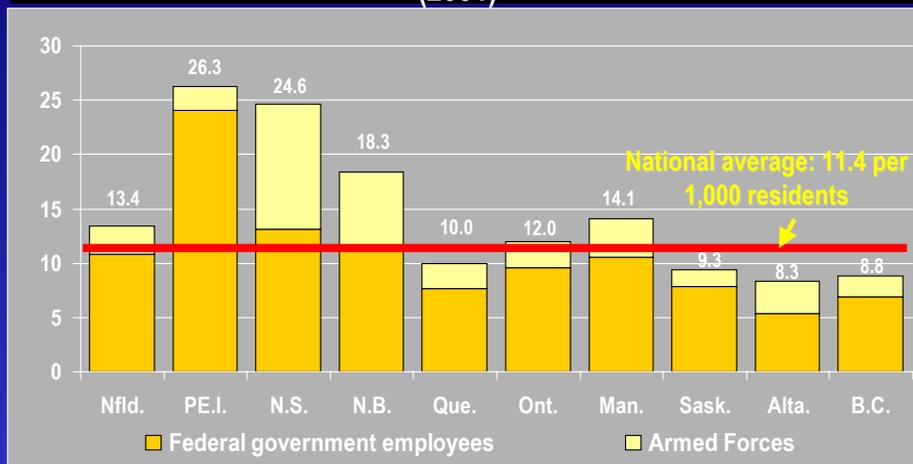
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In addition to equalization program transfers, which are allocated to the provinces on the basis of their fiscal capacity, the federal government provides the provinces with financial assistance through the Canada Health and Social Transfer (CHST). CHST transfers are allocated equally to the provinces per capita.

In all, the main transfers to the provinces, equalization and CHST, make up around 40% (including tax points) of provincial government revenues in the Atlantic provinces.

1.3 *There are more Government of Canada employees in the Atlantic provinces*

Government of Canada employees per 1,000 residents, by province (2001)



Source: Statistics Canada

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The proportion of Government of Canada employees is also quite high in the Atlantic provinces. In fact, in the Atlantic provinces, there are an average of 20.2 federal employees per 1000 residents, whereas nationally there are only 11.4 per 1000 residents.

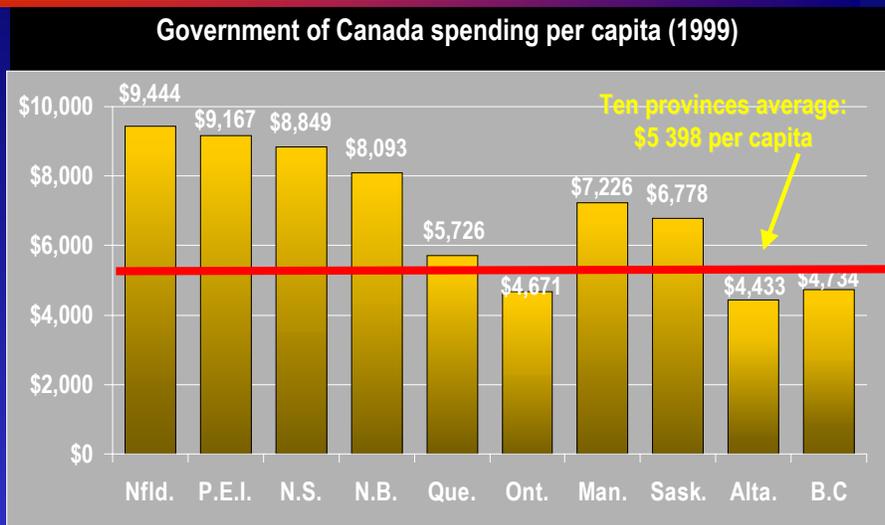
In large part, this is because these provinces have small populations and the Government of Canada has to provide a certain number of services on-site, but also because of the large number of Armed Forces personnel based in these provinces.

Note: The following table indicates the number of federal employees by province. It is noteworthy that, while as a proportion of the population the number of employees seems high in the Atlantic provinces, the number in absolute terms is not as high as that. In fact, there are 47,800 federal employees in the Atlantic provinces (which corresponds to 13.4% of federal employees). In Prince Edward Island, there are 3,600 federal employees, which gives that province the largest proportion in relation to its population.

	Nfld.	PE.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Empl.	5,768	3,333	12,318	8,604	57,019	114,087	12,077	7,991	16,694	28,216
Mil.	1,386	307	10,856	5,268	17,148	28,710	4,112	1,505	8,862	7,731
Total	7,154	3,639	23,174	13,872	74,168	142,798	16,189	9,496	25,556	35,947

1.4

The Atlantic provinces receive more money from the federal government per capita



Source: Provincial Economic Accounts (Québec data corrected to take into account Québec's special abatement)

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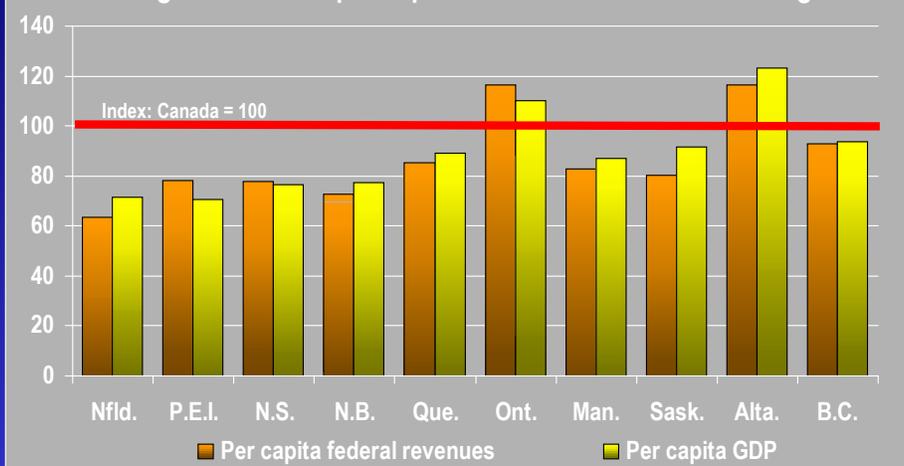
The provinces receive, however, according to the needs of their population. Average per-capita federal spending in the Atlantic provinces was \$8,762, compared with \$5,398 in the ten provinces.

2

The federal effort for the Atlantic provinces is justified

2.1 Federal revenues from the Atlantic provinces reflect their wealth

Ratio of Government of Canada revenues per capita over the national average and ratio of per-capita GDP over the national average



Source: Provincial Economic Accounts

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The Atlantic provinces contribute to federal funding in accordance with the size of their economy. Average GDP in the Atlantic provinces corresponds to 75.3% of average GDP per province. Accordingly, federal revenues collected from these provinces represent 73% of average revenues collected per province. The Atlantic provinces contributed 5.6% of total federal revenues, similar to the Atlantic provinces' contribution to Canada's GDP, or 5.9%.

Federal tax rates are the same for all Canadians regardless of their province of residence. It is perfectly normal that residents of the more prosperous provinces, which have a higher proportion of high-income earners, make a greater contribution to federal revenues, given the progressive nature of federal taxes.

2.2 The governments of the Atlantic provinces have lower-than-average fiscal capacities

Per-capita fiscal capacity before equalization (2001-2002)



Source: Finance Canada

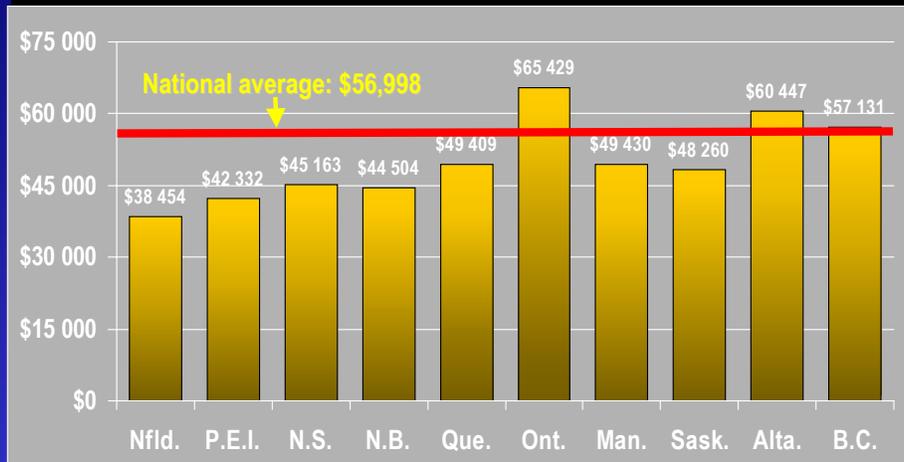
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Regarding gaps in fiscal capacity among the provinces, federal intervention is not only justified, but mandatory under the Constitution.

The equalization program has in fact existed since 1957, but in 1982, the principle of equalization was deemed important enough to be entrenched in section 36 of the *Constitution Act, 1982*, so as “to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.” In fact, the equalization program reflects Canadians’ values of caring and solidarity.

2.3 Families in the Atlantic provinces have less market earnings

Average market earnings by economic family (1999)



Source: Statistics Canada

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It is also justified for the federal government to intervene to help families with less market earnings.

In effect, in 1999, the average market earnings per household (defined as an economic family comprising two or more individuals) was \$43,259 in the Atlantic provinces, compared with \$57,000 for the country as a whole.

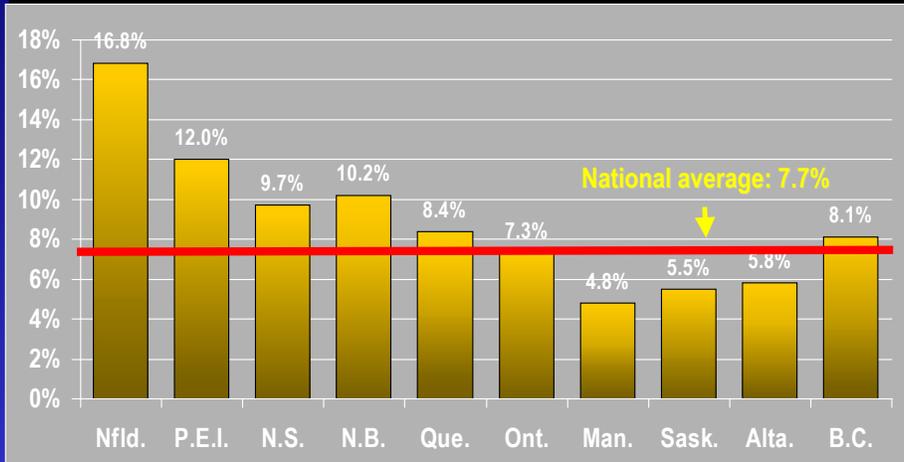
For example, a Newfoundland and Labrador family's market earnings are less than 60% of an Ontario family's.

Note: Market earnings include income from labour force participation, investment income and income from private pension plans. So it does not include income from government transfers such as employment insurance, social assistance benefits and old-age security. The portion of market earnings from labour market participation is 87.2%.

2.4

The Atlantic provinces are also harder hit by unemployment

Unemployment rate (September 2002)



Source: Statistics Canada, Labour Force Survey

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The Atlantic provinces are also harder hit by unemployment, a problem that has greatly diminished in recent years but still remains. In effect, the region's unemployment rate was 11.5% in September, compared with 7.7% nationally.

In light of these findings, it is understandable that federal spending is higher in the Atlantic provinces. Canadians essentially benefit from the same federal services regardless of their province of residence (e.g., employment insurance, old-age security). It is normal for the less wealthy regions to receive a greater share of federal spending, because it reflects the needs of populations. For example, it is normal that the provinces with a higher unemployment rate receive a larger share of federal unemployment insurance spending.

Now let us see whether federal policies are inhibiting economic development in the Atlantic provinces.

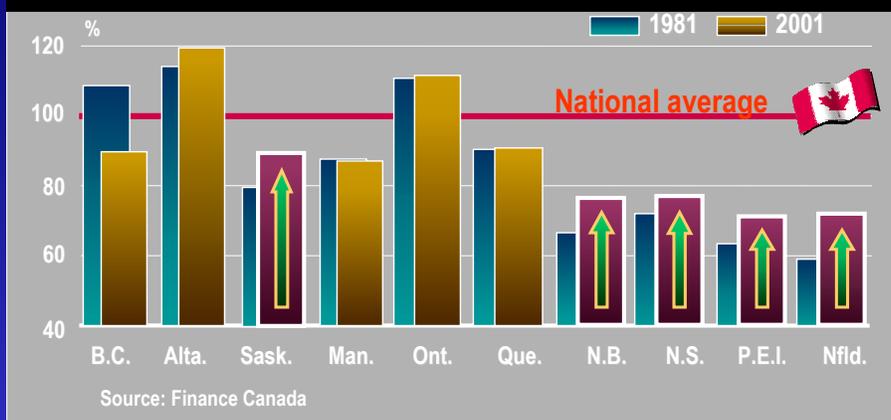
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Federal policies are not inhibiting economic development

3.1

The evolution of real GDP shows the Atlantic provinces are making up lost ground

Ratio of per-capita real GDP over the national average, 1981 and 2001



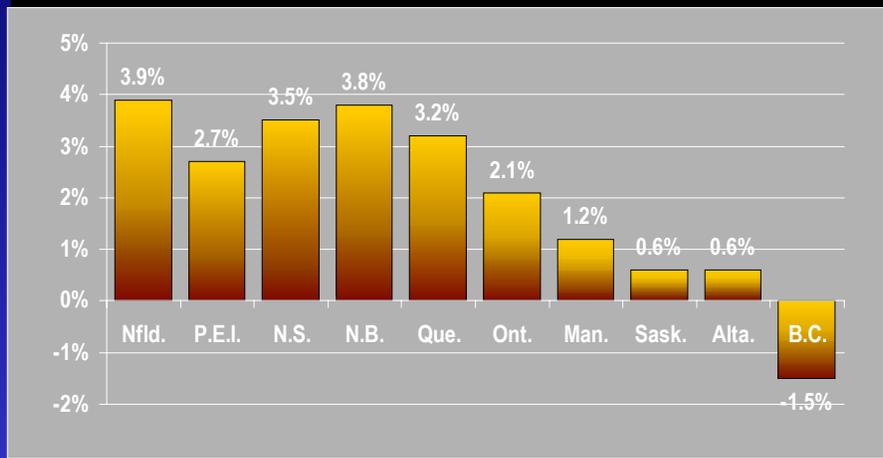
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Some people claim that federal policies are inhibiting economic development in the Atlantic provinces. They feel that individuals, businesses and governments in those provinces are living off federal largesse and have no interest in getting out of that dependency, which nips any change for development in the bud and discourages success.

There is no empirical proof that federal policies inhibit economic development. In point of fact, the evolution of per-capita real GDP shows that the less wealthy provinces are actually regaining lost economic ground in comparison to the wealthier provinces, notably the Atlantic provinces and Saskatchewan, even though their per-capita GDP is still well below the average in absolute terms. Because these gaps have narrowed in Canada, it is plausible that federal policies have not had the negative economic effects some observers attribute to them.

3.2 Federal transfers to Atlantic provincial governments do not encourage fiscal laxity

Provincial operating surpluses as percentage of GDP (2001-2002)



Source: Provincial budget documents

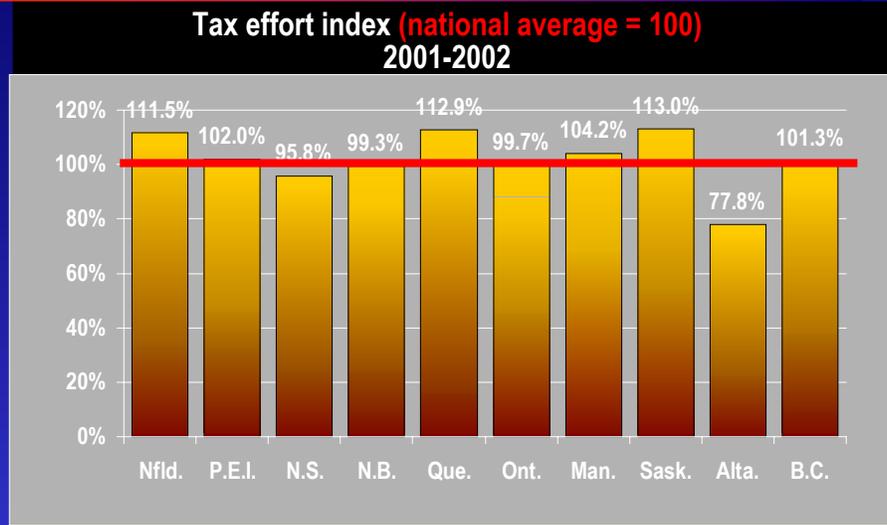
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Finally, there are those who feel that federal transfers encourage fiscal laxity in the Atlantic provinces. They say that because the Atlantic provinces do not have to make any effort to collect revenues from federal transfers, this leads them to spend them heedlessly.

Here again, there is no empirical proof. If we look at provincial operating surpluses as a percentage of GDP (i.e., their surpluses before debt servicing), we see that the Atlantic provinces are doing better than the wealthier provinces.

3.3

The Atlantic provinces are not imposing a heavier tax burden than others



Source: Finance Canada

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And then there are those who feel the equalization program encourages the provinces to overtax their residents.

Yet again, there is no empirical proof to support that argument. In fact, the Atlantic provinces do not impose a heavier tax burden than the other provinces. If we look at the tax effort of the Atlantic provinces, meaning their general tax level (over all revenue sources), we see that in three of the four Atlantic provinces, the burden is similar to or lower than the average (the average = 100). In fact, apart from Alberta, the provinces impose a relatively similar burden on resident individuals and companies and on their natural resources. In fact, if this is the case, it is at least partly due to the equalization program, which enables the provinces to provide appreciably comparable services at appreciably comparable tax levels.

Note: Those who claim equalization encourages receiving provinces to overtax their residents always point to only a few revenue sources that tend to support their claim (such as individual income tax, which is a less mobile source and thus easier to tax more). However, the big picture contradicts their claim.

4

**The Atlantic provinces are dynamic
and have lots of success stories**

4.1***The Atlantic provinces are dynamic and have lots of success stories***

- **Newfoundland and Labrador**
 - Highest growth in the country on average over the past four years
- **Prince Edward Island**
 - Aerospace industry
- **Nova Scotia**
 - Call centres and offshore exploration
- **New Brunswick**
 - Highest employment growth in the country in the past twelve months

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Did you know that on average over the past four years, Newfoundland and Labrador has had the highest economic growth in the country? According to all private-sector forecasters, Newfoundland and Labrador will continue to lead the country in economic growth in coming years. [This strong growth in Newfoundland is mainly due to offshore oil production (Hibernia, Terra-Nova and soon White-Rose).

Did you know that Prince Edward Island's aerospace industry exports account for 20% of the province's exports, and that this is a high-growth sector?

Did you know that Nova Scotia is home to an increasing number of call centres, which create jobs, and that there are currently 59 active licences for offshore oil exploration in the province?

Did you know that New Brunswick had the strongest economic growth in the country in the past 12 months? During that period, employment grew by 4.2% in New Brunswick, compared with 2.9% nationally. Indeed, cost competitiveness and a bilingual and highly skilled workforce are generating strong growth in the commercial services sector in New Brunswick.

How do you think that jibes with the idea that federal transfers inhibit economic development and create a culture of dependency?

Conclusions

- **The Atlantic provinces are not spoiled children and they do not have a culture of dependency.**
- **The Government of Canada supports and will continue to support the Atlantic provinces as it does all the other provinces, according to the needs of their population.**

Conclusions

- **The facts show that federal policies are not inhibiting the economic development of the Atlantic provinces.**
- **Economic development in the Atlantic provinces is promising, because these are dynamic provinces with a lot of assets.**

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Economic development in the Atlantic provinces is promising because these are dynamic provinces with a lot of assets, as ministers from the Atlantic provinces have shown during the Forum.