

**Recent Issues in Equalization Payments
as They Pertain to Atlantic Canada**

by

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Abstract

Over the past three years a number of issues have cropped up, concerning equalization payments as they pertain to Atlantic Canada. This paper discusses the policy issues using confidential documents from the Department of Finance Canada under the federal Access-to-Information Act. These issues include: Premier John Hamm's Campaign for Fairness and the treatment of off-shore royalties, the imposition of the equalization ceiling in 2000-01, sources of revisions to equalization payments, forecasts of equalization transfers to 2005-06, and the implications of the recent downward revisions in population, in the 2001 Census, on future payments.

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I. Introduction

The federal equalization program plays a major role in supporting provincial government spending programs in Atlantic Canada. The percentage share of equalization support, as a percentage to provincial government spending, has trended downwards over the decades. But as late as 1999, transfers from this program represented 24 1/2 % of total provincial expenditures in the region. This paper describes recent issues in equalization, as they apply to Atlantic Canada. To do this, I rely almost exclusively on confidential documents as obtained through the Access-to-Information Act¹. I made two separate requests, in September 2001 and February 2002. I asked for all hard-copy documents pertaining to equalization payments: estimates, revisions to estimates, speaking points, policy statements, and the like. The requested time interval for the information is from February 2000 to February 2002.

The issues to be discussed, and the organization of this paper, are as follows.

Section II examines federal considerations of the Canada/Newfoundland Offshore Agreement and Nova Scotia Premier John Hamm's Campaign for Fairness, and reform proposals by Roland Martin and Ken Boessenkool. Section III deals with discussions as to the temporary removal and re-imposition of the equalization ceiling in 1999-00 and 2000-01. Section III describes the sources for recent revisions to equalization payments. Section IV analyses recent transfer payment forecasts for the provinces. Section V deviates from the other sections of the paper. In this section I discuss recent population revisions, as uncovered in the Census, and their implications for future equalization payments. The last section concludes.

II. The Canada/Newfoundland Offshore Agreement and the Nova Scotia Campaign for Fairness

Both Newfoundland and Nova Scotia have offshore energy projects which will increase natural resource royalties to the province, and which will ostensibly decrease future equalization flows. We discuss each province, and proposals from Roland Martin and Ken Boessenkool, in turn.

A. The Canada/Newfoundland Offshore Agreement

During the Brian Tobin premiership in Newfoundland, there was little friction between his government and Ottawa, given that he was a former cabinet minister in Chretien's administration. Generally Tobin was satisfied with the Canada-Newfoundland Offshore Agreement, and limited his complaining to declining CHST cash revenues [Department of Finance (2000e)]. But Premier Roger Grimes, after taking over, endorsed Premier John Hamm's Campaign for Fairness (see below).

The Canada-Newfoundland Offshore Agreement works as follows. In each fiscal year the Newfoundland government has the choice of invoking one of the following options, in deciding the calculation of equalization for that year:

- an "offset arrangement" arrangement, which protects the province against year-to-year declines in equalization payments, given any provincial tax base growth from energy-related development, or from unexpected increases from any other tax base;
- a "generic solution". This reduces the federal take-back from increased provincial revenues from Hibernia to 30 percent.

A related issue is speculation as to when Newfoundland will “get off” equalization². The federal government, in various memoranda suggests that, given the difficulties in forecasting future provincial disparities, no one can predict when and if the province can “get off” of equalization. In Section IV below, forecasts for Newfoundland show significant equalization flows to 2005/6.

B. Nova Scotia’s “Campaign for Fairness”

Whereas Newfoundland’s government is Liberal, the federal government must face three Progressive Conservative governments in the Maritimes. The Government of Prince Edward Island devoted a considerable portion of one budget speech to complain about insufficient federal transfers³; the Bernard Lord government in New Brunswick has been noticeably supportive in its relations with Ottawa. So the bulk of policy discussions within the federal finance department centres on rebutting Nova Scotia Premier John Hamm’s Campaign for Fairness.

Premier Hamm’s campaign focusses on what it perceives as a mal-distribution of offshore energy royalties in Newfoundland and Nova Scotia. From Premier Hamm’s perspective, the original accords – the Atlantic Accord for Newfoundland and Labrador (1985) and the Offshore Accord between the Government of Canada and the Province of Nova Scotia (1986) – recognized that the two energy producing provinces would be the “principal beneficiary” of energy related royalties. Both tiers of government agreed to a “temporary equalization offset mechanism” to limit equalization take-backs to the federal government. But according to John Crosbie⁴, a supporter of the Campaign for Fairness, this mechanism has come and gone. And especially for Nova Scotia (whose natural gas production has come on stream much later than the

oil production in Newfoundland), the original offset mechanism mean very little in additional revenue.

Premier Hamm's major complaint has been the imposition of the "70/30 tax back" provisions in 1994. Meant to improve equalization treatment for Quebec asbestos and Saskatchewan potash (from a dollar-for-dollar tax back to the 70/30 tax back in the provisions), this provision was also imposed on the Atlantic offshore, and diluted the generous provisions in the original accords. The remaining features of Hamm's campaign demand the removal of the equalization ceiling and more generous CHST funding – common complaints aired by other Atlantic premiers.

The federal government's rebuttal, as seen in various talking points memoranda⁵, falls back on standard horizontal equity arguments. First, they argue that natural resource revenues should be included (as it is), and not excluded, from the equalization formula. They argue that as a province becomes better off – through resource development or through non-resource development – its per-capita equalization payments should decline, as this is the intended purpose of the program. Second, the federal government states that the original accords explicitly agreed to a transition period, and that the transition period is still in place. The government says that the 1994 "generic solution" provision in fact is more generous to Newfoundland and Nova Scotia than the provisions in the original accords. Beyond these basic arguments, the federal government falls back on claiming that it has been generous with other transfers to Nova Scotia (increased CHST provisions, the Atlantic Investment Partnership program, etc.).

C. Federal Comments on Research by Roland Martin and Ken Boessenkool

The federal finance department prepared short (heavily censored) memos on two recent reports by the Atlantic Institute for Market Studies (AIMS), studies written respectively by Roland Martin (2001) and Ken Boessenkool (2001). The Martin paper suggests that equalization can strip away as much as 90 percent of new provincial government revenues from natural resources, thus reducing incentives for provinces to develop resources. The Martin study recommends the removal of oil and gas revenues from the equalization formula, and a return to the ten-province standard for the remaining tax revenues. The Boessenkool study reviews technical literature on equalization which suggests that – given interregional mobility of labour and capital and given moral hazard problems⁶ – equalization-receiving provinces will tend to raise tax rates. This latter study provides evidence that in fact the equalization-receiving provinces do in fact levy higher rates.

The uncensored parts of the Finance documents do not, except in one case, rebut the two papers. They simply describe the papers' contents. But in other memoranda, the federal government rebuts similar arguments from Hamm's Farness campaign. In one memo [Department of Finance Canada (2001c)], they counter that equalization is not a disincentive to development, given that citizens of the provinces in question benefit through increased-high paying jobs and private sector profits. Although the first part of the counter-argument does not address the tax-back feature of equalization payments on resource development, Finance does argue that all sources of provincial government revenue ought to be in the formula for horizontal equity purposes.

The federal finance department also states that the Nova Scotia claim that the

federal government gets 81 percent of royalties is wrong. The finance department says that for every government revenue dollar raised from the offshore, 35 cents goes to the federal government through corporate and personal income taxes, and 65 percent goes to the provincial governments. The federal government treats the 65 percent figure as the province's actual revenue gain. Nova Scotia, in contrast, states that the returns to the federal government include another 46 cents (65 cents of provincial revenue times the 70 percent tax back applied to provincial revenues, that's taken back through decreased equalization payments). So 35 cents plus 46 cents equals the 81 cents, as Newfoundland claims is the total federal share of the offshore. But the federal government goes on to say that the reduced equalization payments are not offshore revenues to the federal government, so in fact only the 35 percent should be seen as the federal share.

Finally, the federal finance department counters the Boessenkool argument by calculating new equalization payment numbers, simulating the removal of all non-renewable resource revenues from the formula. (Note that doing this also removes royalties from metal and non-metal mining resources). I replicate the Finance results in the left-hand column in Table 1 in this paper. As can be seen, each Atlantic province, plus Quebec and Manitoba, lose out, and Saskatchewan and British Columbia gain. British Columbia, which is currently very close to becoming an equalization-receiving province, would start receiving equalization benefits. For 2001-02, Atlantic Canada could lose \$153.7 million a year, or about 3.9 percent of its equalization revenue.

The Finance department did not undertake any calculations as to returning to a ten-province standard. Courchene (1984) in his classic study calculated that having a ten-province

standard instead of the five-province standard would add about 1.4 percent to Atlantic Canada equalization payments in 1982-83. It is difficult to speculate how this percentage would change in the present. Alberta's nominal GDP has moved further above the national average, but one has to incorporate Alberta's and Atlantic Canada's tax revenue in, to compute new "national" tax rates. Note that in all likelihood removing natural resources from the formula and returning to the 10-province formula would increase the total equalization payout by the federal government. Finally, the Finance department has not undertaken any simulation of equalization payouts, modelling exactly what Newfoundland and Nova Scotia would receive under the Campaign for fairness proposals. As a result, a lack of hard data describing each side's position hinders the policy debate.

III. The Removal and Re-Imposition of the Equalization Ceiling in 1999-00 and 2000-01

Governments from equalization receiving provinces have constantly complained about intermittent ceilings imposed on such payments, when the ceilings were in force. One such complaint formed part of Premier Hamm's Campaign of Fairness. Other Atlantic premiers have joined in, and a call to remove the ceiling was agreed to in previous Atlantic and Western Canada ministers' meetings. In Finance memoranda, justification for the ceiling is included into briefing notes for past visits to Atlantic Canada.

The equalization ceiling was first incorporated into the program as part of the then Liberal government's "6 and 5" program back in 1982, as a key part of that government's expenditure control program. Although the ceiling has been around now for about 20 years, it has been binding, up to 2000-01, for only four years. The years are as follows (with the total

reduction in payments in parentheses): 1988-89 (\$472 m), 1989-90 (\$1.417 m), 1990-91 (\$1,060), 1993-94 (\$53 m)⁷. The government justifies the ceiling in order for the program to be “affordable”, i.e., as a cost-control mechanism to the program.

In 1999, the federal government set the equalization ceiling at an even \$10 in total expenditures (see Table 2). The ceiling has been established to grow at the rate of growth in current-dollar GDP. When calculated payouts hit the ceiling, the amount of equalization reductions – to go from the unrestricted calculated benefits to the amount established by the ceiling – is equal per-capita across all receiving provinces. So in a sense the richer receiving provinces (such as Quebec and Manitoba) are hurt disproportionately more than the poorer receiving provinces (such as Newfoundland and Prince Edward Island).

But in 1999-00, the federal government then decided to suspend the ceiling for that fiscal year only. However the Prime Minister stated that the ceiling would be reimposed for 2000-01, whereby the ceiling would be set at the growth rate in nominal GDP from the \$10-billion 1999-00 benchmark. That is, the 2000-01 ceiling applies as if the 1999-00 ceiling had not been lifted. Some provinces, e.g. Prince Edward Island, had wanted the benchmark to be set at 1999-00 without the ceiling.

Table 2 shows the impact of removing the ceiling in 1999-00 and Table 3 shows the impact of re-imposing the ceiling in 2000-01. All data (except the percentage change data) were drawn from Finance estimates. As can be seen in Table 2, when the ceiling was lifted in 1999-00, the richer provinces benefited proportionately more, since they receive an equal per-capita increase, as do the poorer provinces. The total equalization payout increased by 7.9 percent. But for Atlantic Canada taken as a whole, the increase was about 4.1 percent. As Table 3

indicates, in 2000-01, when the ceiling was re-imposed, the total payout declined by 2 percent from what it would have been had the ceiling remained off. For Atlantic Canada as a whole, benefits declined by about 1.1 percent. Given that the other three provinces outside of the Atlantic region had payments declining proportionately more than that of Atlantic Canada, it is understandable that the other three provinces gave our region political support to remove the cap.

Finally, note that after 2000-01, Finance projections suggest that the equalization ceiling will not be binding (see Section V below). This was certainly true for 2001-02, since the equalization ceiling reached \$11,277-million, and the actual payout is estimated to be \$10,448-million [Department of Finance (2001d)]. Remarkably, no internal Finance memo or comment explicitly mentions this fact. Indeed, the federal finance department made no explicit announcement of the fact that the ceiling is no longer binding. And comments by Atlantic premiers, concerning the ceiling, have stopped.

IV. Sources of Recent Revisions to Equalization Payments

The Department of Finance Canada updates its estimates of the current year (and of previous years) twice a year, in February and October. As such I received many memoranda discussing the updates and changes to payments – memoranda too numerous and too detailed to document in any comprehensive way. I simply state that, since the current equalization formula is rather complex, revisions to any of the base data feeding into the formula changes current and past estimates to equalization payments. Increases in entitlements to a qualifying province mean, for past years, that the federal government pays extra equalization to that province (and for decreases, the reverse happens).

Table 4 shows a simplified description of how data revisions affect equalization payments, for 2001-02. Note that since the data were drawn from an October, 2001 document, the data essentially represent revisions to a previous forecast, using partial data for 2001-02. Recall that a per-capita equalization entitlement, for any province i and for tax base j is

$$ET_{ij} = t_{cj} \cdot \left(\frac{TB_{cj}}{H_c} - \frac{TB_{ij}}{H_i} \right)$$

where t_{cj} is the tax rate applied (based on the five-province standard), TB_{cj} and TB_{ij} are the tax bases for Canada and province i respectively, and H_c and H_i are the population estimates for Canada and province i respectively. Note that the above equation shows *per capita* equalization. To depict total equalization entitlement for province i and tax base j , one must multiply both sides of the equation by H_i . Consequently a data revision in a province's population affects total entitlements through two channels, through $H_i * ET_{ij}$ and through the denominators in the expression in parenthesis.

The results in Table 4 consequently show the revisions, for 2001-02, from three data sources: changes in population, changes in revenue, and changes in the tax base (fiscal disparities). The absolute-number estimates are from Finance; the percent changes are those of the author. The change in post-census population estimates reduced equalization payments to Atlantic Canada by about 1.4 percent, not an insignificant amount. The change in the total revenue column comes about through revisions in the data feeding into the five-province national tax rate. The change in fiscal disparities, the changes in the TB_{ij} (provincial tax bases) shows data

revisions in the estimates of the (...) expression in the equation. For Atlantic Canada this component increased slightly by .4 for the revision exercise. The total change for Atlantic Canada was .7 percent. The reason why I show these changes is to emphasize the role in changing population, and how it influences equalization payouts. This is important for section V below.

V. Equalization Forecasts by the Department of Finance Canada

Given the discussion about the treatment of the equalization of off-shore revenue in Section II above, it is worthwhile to examine Finance forecasts for Newfoundland and Nova Scotia, and other equalization-receiving provinces. If offshore activity becomes a large contributor to the two provinces' overall fiscal revenues, even with the 70-30 take-back system one would expect equalization to fall noticeably for those two provinces, in contrast to future equalization flows to New Brunswick, Prince Edward Island, and the other three recipient provinces.

The Department of Finance Canada prepares additional forecasts of all other major transfer payments to the provinces and territories, as part of the federal budget preparation, and as information for the transfer-receiving jurisdictions. Access-to-information documents that I received included forecasts made for the February 2000 and December 2001 federal budgets⁸. Note that for the earlier budget, projections were made for 2005-6, and for the latter budget forecasts were only undertaken to 20003-4 [see Department of Finance Canada (2000d) and Department of Finance Canada (2001d)]. Note that CHST payments are made on a strict per-capita basis, with poorer provinces receiving additional "equalized tax point" revenue to bring their tax-revenue portion of the CHST up to the national average. Consequently, to account for the vagaries of population forecasts made by Finance (and these are based on Statistics Canada

forecasts), it is easier to simply divide equalization payments by CHST transfers, and to report “equalization/CHST ratios” (EP/CHST), instead of attempting to replicate Finance’s population forecasts (to report per-capita equalization projections). An EP/CHST number declining more quickly than the average means that an equalization-receiving province is growing rapidly, in relation to other provinces with a stable or a rising EP/CHST.

Table 5 reports projected EP/CHST ratios for all seven equalization provinces, Atlantic Canada, and for all provinces. Note that for the “total provinces” row, I include CHST estimates for all ten provinces and the territories. So the sharp negative declines partly reflect increased per-capita CHST finding, and partly reflect population movements into the non-equalization provinces. Having said this, comparing differences in the percent change data (in parentheses) across provinces gives us some hints as to what Finance believes the provincial economies are going to do in the medium-term future.

What stands out is that the EP/CHST ratio for Atlantic Canada declines less rapidly than that for Canada as a whole, and for the other three equalization-receiving provinces, in both forecasts. This is saying that Finance is pessimistic as to our region’s growth prospects, relative to the other equalization receiving provinces and for Canada taken as a whole. For Quebec, Finance was fairly optimistic with their 2005-06 projection, but then later brought it into line with Atlantic Canada for their 2003-04 forecast. The agency is optimistic for Manitoba. And for Saskatchewan they were very optimistic for their 2005-6 forecast (probably because of a cheerful outlook for oil prices), then a year later they became decidedly pessimistic (as oil prices fell). For some strange reason unknown to the author, Finance is pessimistic for Newfoundland and optimistic for New Brunswick – this despite the large ongoing natural resource projects

underway in the former province. For Nova Scotia the agency went from being pessimistic to relatively optimistic.

How do these forecasts relate to the debate as to the fiscal treatment of offshore resources? Generally speaking, since Finance Canada predicts that EP/CHST falls less quickly in the Atlantic region, it is saying at the very minimum that royalties from the off-shore are not sufficient for equalization payments to decline appreciably for the region as a whole, and for Newfoundland in particular. It could be that there are other lagging sectors in Newfoundland that keep equalization benefits high for the province. For Nova Scotia, Finance Canada at first predicted slower-than-average growth, but in their more recent forecast predicts better-than-average growth. But what we see in these projections is that the agency foresees no dramatic divergence between Newfoundland and Nova Scotia on one hand, and New Brunswick and Prince Edward Island on the other.

It is difficult to use these projections to declare which side, Premier John Hamm or the federal government, is “right” as to the offshore issue. The federal government is “right” in the sense that no dramatic fall in equalization is taking place, relative to the two non-energy Atlantic provinces. (This is assuming that Finance is undertaking unbiased forecasts with regard to this issue). But Premier Hamm is “right” in the sense that, if these forecasts are accurate, there are lagging sectors in the economy which counter-balance any expected gains from natural gas development. (And this statement is also true for Newfoundland and Labrador). As such, Premier Hamm could argue that given lagging sectors, his government could use the increased equalization money that would come from his Campaign for Fairness proposals.

VI. The Impact of the Downward Population Revisions, in the 2001 Census, on Equalization Payments

This section uses unpublished information from Finance documents to consider the effect of the downward revisions in population, from the 2001 Census, on equalization payments. When the population estimates were released in March, 2002, they created quite a media stir Atlantic Canada, since three of the provinces showed absolute population declines from 1996 to 2001. Note that the census data released are “population counts” and are not official population estimates, since adjustments for undercounting and other factors are not incorporated into the raw data. Statistics Canada will not complete this exercise until March 2003.

In this section I simply use the percentage change of “population counts” from the 2001 Census and the 1996 Census, and apply that change to the official 1996 population estimates currently in place. This assumes, first, that the “undercounting” did not change from the 1996 Census to the 2001 Census, and that undercounting did not vary across provinces. These are strong assumptions and one has to wait until 2003 to see how the undercounting varies. The results are shown in column (2) of Table 6. Column (1) is the official population count before the census, reported by Statistics Canada as a post-census (post 1996 census) estimate. Column (3) reports the difference. For Atlantic Canada, this difference is nearly 40 thousand persons, a rather large share of the total 211.4 difference for the nation as a whole. Consequently, since downward revisions in population create declines in equalization payments, Atlantic Canada as a heavy recipient of equalization could lose disproportionately more in benefits.

This is seen in the three right-hand-side columns in the table. Column (4) shows the per-capita equalization payments in 2001-02. Assuming that the change in equalization payments

as a result of population revisions can be reported as column (4) times column (3) – i.e.. by multiplying per capita payments by the change in population⁹ – the expected change in equalization, ΔEP_i and the percentage change in equalization $\% \Delta EP_i$ can be shown as columns (5) and (6) respectively. As can be seen in this table, Newfoundland and New Brunswick show proportionately larger percentage declines. For Atlantic Canada taken as a whole, the negative downwards revision is a 1.7 percent, a rather large drop. Given our discussion above, this drop is considerably higher than the impact of the ceiling in 2000-01 and is about 40 percent of the hypothetical fall in equalization arising from removing non-renewable resources from the formula. Since the former, as we have seen, is now passed, and the latter is only hypothetical, Atlantic Canadians ought to begin to worry about declines in population. Finally, this simple exercise only measures *revisions* in population data, not changes in future demographic trends. Continued drops imply proportionately larger declines in equalization than what is suggested here.

VII. Summary and Conclusions

This paper discusses recent issues in equalization payments, as they apply to Atlantic Canada. The issues are widely disparate. To do this I have relied on Department of Finance Canada documents obtained through the federal Access-to-Information Act. The main finding of this paper is that (1) the disagreements between Ottawa and the two Atlantic energy producing provinces are very real, but that the policy issue of removing non-renewable natural resources from the formula are more hypothetical than real, given that implementation of such a move is highly unlikely. Likewise, given continued income convergence of Atlantic Canada to the national average – from neoclassical income convergence or from natural resource development –

it is unlikely that this region will face any binding equalization ceiling in the future. Finally, future population declines imply significantly reduced equalization transfers. It is this latter phenomenon which poses a serious issue for policy makers in this region.

One could argue that population declines for Atlantic Canada offer no real difficulties for provincial governments in the region, given that governments could simply reduce expenditures in step with the fall in population. But this argument ignores two points. First, it ignores economies-of-scale in public goods provision. If anything the four Atlantic provinces are smaller than optimal size, such that population decreases raise per-person costs in public good delivery. Rising unit costs imply lower constant-dollar per-person spending. Second, this argument ignores the fact that provinces with declining populations age more quickly. Older residents demand higher provincial services, especially health care, and supply declining amounts of tax revenue. This is over and above declining federal transfers. As such, governments in the Atlantic Provinces ought to address the issue of declining population in a systematic way.

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Table 1: Impact of Removing Non-Renewable Resources from Equalization: 2001-02.		
province	change (\$millions)	percentage change
Newfoundland	-10.4	-0.9
Prince Edward Island	-13.0	-5.2
Nova Scotia	-76.3	-5.9
New Brunswick	-52.0	-4.2
Quebec	- 645.7	-12.5
Manitoba	- 80.0	-6.8
Saskatchewan	+ 781.4	+ 225.6
British Columbia	+ 367.6	n/a
Atlantic Canada	- 151.7	-3.9
Canada	+ 271.6	+ 2.6
<u>Source:</u> Department of Finance Canada estimates; calculations by the author.		

Table 2: Impact of Removing the Ceiling in 1999-00 (\$ millions)				
province	\$EP with ceiling	\$EP without ceiling	difference	% difference
Newfoundland	1090	1126	36	3.3
P.E.I.	240	250	9	3.8
Nova Scotia	1214	1276	63	5.2
New Brunswick	1107	1157	50	4.5
Quebec	4886	5375	490	10.0
Manitoba	1129	1205	76	6.7
Saskatchewan	334	403	69	20.7
Atlantic Canada	3657	3809	158	4.1
total	10000	10792	792	7.9
<p><u>Source:</u> Department of Finance calculations. The percentage change data are by the author. The 1999-00 calculations were done in February, 2001.</p>				

Table 3: Impact of Reimposing the Ceiling in 2000-01 (\$ millions)

province	\$EP with ceiling	\$EP without ceiling	difference	% difference
Newfoundland	1115	1125	-10	-0.9
P.E.I.	256	259	-3	-1.2
Nova Scotia	1347	1365	-18	-1.3
New Brunswick	1241	1255	-14	-1.1
Quebec	5385	5524	-139	-2.5
Manitoba	1233	1254	-22	-1.8
Saskatchewan	251	270	-19	-7.0
Atlantic Canada	3959	4004	-45	-1.1
total	10828	11052	-224	-2.0

Source: Department of Finance calculations. The percentage change data are by the author. The 2000-01 estimates were done in October 2001.

Table 4: Sources of Changes in 2001-02 Equalization Entitlements, from March 2001 to October 2001 Estimates, by Component.

province	changes in population	changes in revenue	changes in tax base	technical impr'vm'nt	total
Newfoundland	- 23.8 (-2.2)	8.8 (.6)	21.3 (1.9)	-1.8 (-.2)	2.5 (.2)
P.E.I.	- 6.5 (-2.6)	4.2 (1.7)	- 2.5 (-1.0)	1.4 (.6)	- 3.5 (-1.9)
N. S.	- 12.8 (-1.0)	20.3 (1.6)	- 4.2 (-.3)	-12.7 (-1.0)	- 9.5 (-.7)
N. B.	- 9.9 (-.8)	28.6 (2.3)	19.9 (1.6)	- .9 (-.1)	38.4 (3.1)
Quebec	22.3 (.4)	- 11.3 (-.2)	6.0 (.1)	-50.8 (1.0)	-33.8 (-.6)
Manitoba	- 8.9 (-.8)	15.6 (1.3)	-30.1 (-1.8)	6.5 (.5)	-17.0 (-1.4)
Saskatchewan	-66.1 (-2.5)	-34.0 (-14.2)	- 6.3 (-2.6)	-8.2 (-3.4)	-114.6 (-48.)
Atl. Canada	-53.0 (-1.4)	59.9 (1.5)	34.5 (.9)	-14.0 (-.7)	27.9 (.7)
total	- 105 (-1.0)	30.1 (.3)	4.0 (0)	- 66.5 (-.6)	-137.5 (-1.3)

Source: Department of Finance calculations, and are the first number in each cell. The percentage data are by the author, and are shown in parentheses, in each cell.

Table 5: Department of Finance Canada Forecasts of Equalization/CHST Ratios*			
province	2000-01	2003-04	2005-06
Newfoundland	1.963	1.849 (- 5.8)	1.868 (- 4.8)
P.E.I.	1.777	1.622 (-8.7)	1.687 (-5.1)
N. S.	1.399	1.229 (-12.2)	1.313 (-6.1)
N. B.	1.579	1.430 (-9.4)	1.423 (-9.9)
Quebec	0.686	.617 (-10.1)	.591 (-13.8)
Manitoba	1.035	.886 (-14.4)	.891 (-13.9)
Saskatchewan	0.237	.243 (+ 2.5)	.062 (-73.8)
A.C.	1.609	1.455 (-9.6)	1.493 (-7.2)
total	0.339	.295 (-13.0)	.284 (-16.1)
* The base EP and CHST forecast data are from the Department of Finance Canada.. The EP/CHST ratios and the corresponding percentage changes are calculations by the author.			
<u>Source:</u> The 2000-01 and 2003-04 data are from Department of Finance (20001b); the 2005-06 forecasts are from the Department of Finance Canada (2000b)..			

Table 6: Sources of Changes in 2001-02 Equalization Entitlements, from March 2001 to October 2001 Estimates, by Component.

province	2001 population (000s)			2001-02 equalization (\$millions)		
	before census	after census	change	p-c EP	change EP	%ch EP
Newfoundland	533.8	521.1	-12.7	2057	-26	-2.4
P.E.I.	138.5	136.9	-1.6	1810	-2.9	-1.2
N. S.	942.7	929.9	-12.8	1377	-17.6	-1.4
N. B.	751.1	744.2	-12.9	1617	-20.9	-1.7
Quebec	7410.5	7374.6	-35.9	701	-25.2	-0.5
Manitoba	1150.0	1140.1	-9.9	1301	-10.2	-0.9
Saskatchewan	1015.8	1007.8	-8.0	236	-1.9	-0.8
Atl. Canada	2372.0	2332.2	-39.9	1632	-67.4	-1.74
Canada	31081.9	30870.5	-211.4	336	-104.7	-1.0
	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(4)x(3)	(6)=(5)/(4)

Source: Equalization data are from Department of Finance Canada. The population data are from Statistics Canada (2001a), 20001b).

End Notes

1. For a short discussion of the Act, see www.infocom.gc.
2. See Department of Finance Canada (undated).
3. See Department of Finance Canada (2000b) and (2001c). In these internal Finance department memos, there is little discussion of statements of complaint emanating from the New Brunswick government.
4. See Crosbie (2001a) and (2001b). Crosbie states that by December 31, 2000, when the temporary offset mechanism is nearly completed, Nova Scotia has received net royalty benefits of only \$16.7 million. Note that in the text we stress that the federal government's version differs. The federal government maintains that the 70-30 tack-back provision is still part of the temporary offset arrangements made in the mid-1980s.
5. See Department of Finance Canada (2000b). Note that the debate as to whether or not to include natural resource revenues is rather old, dating back to the early 1980s. See Boadway et. al. (1983), and Powrie (1981) for a discussion of horizontal and vertical equity aspects of this issue.
6. See Courchene (1984 Chapter 12). He (and Boessenkool) say that Quebec, given its large size and its status as an equalization-receiving province, has an incentive to raise its tax rates, this raising the five-province "national" tax rate, thus raising total equalization payouts to all provinces (including itself).
7. The data are drawn from Department of Finance Canada (2000c). As well the description in the text draws heavily from this source.
8. See Department of Finance (2000a), (2001a).
9. This assumes that $EP_i/H_i = \Delta EP_i/\Delta H_i$.

