TOWARD FISCAL BALANCE:
A WESTERN PERSPECTIVE

A Presentation to Western Premiers

by the Finance Ministers of

**British Columbia, Alberta, Saskatchewan, Manitoba,
Yukon, Northwest Territories, and Nunavut**

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WESTERN PREMIERS' CONFERENCE

BRANDON, MANITOBA

EXECUTIVE SUMMARY

This year's Western Finance Ministers' Report is about creating a new balance in intergovernmental fiscal relations in Canada. Western Finance Ministers invite the federal government to work with them in partnership to address the fiscal imbalance that exists in the federation. Only in working together can governments build a more effective fiscal partnership.

While the federal government does not acknowledge the fiscal imbalance, Western Finance Ministers are very concerned about the present system of fiscal arrangements. The problem is most significant in the case of the Canada Health and Social Transfer (CHST). The federal government's cash funding to health care and other social programs remains below its 1994/95 level. This simply does not reflect the priorities of Canadians and provinces/territories, who place health care and education as our top priority. While the federal government claims that health care and education are priority areas, it is not allocating adequate funding to back up its claim. In addition, Western Finance Ministers are concerned that new federal program proposals will not address the growing fiscal imbalance that exists in the distribution of revenue sources and spending responsibilities between Canada's two orders of government.

The first step in creating a new balance is to improve and sustain Canada's health care system. Western Finance Ministers strongly support the call by all Premiers for the immediate restoration of the CHST cash to the 1994/95 level of $18.7 billion and the introduction of an appropriate escalator so that federal cash funding for key social programs will grow more in line with spending pressures. Western Finance Ministers strongly believe that any restored or new federal funding for health care or other existing Canada-wide social programs must be made through the existing CHST block transfer mechanism.

Furthermore, the federal government must address the disparities on the ability of provinces and territories to provide reasonably comparable levels of public services at reasonably comparable levels of taxation as required under Section 36(2) of the Constitution Act, 1982. In this regard, Western Finance Ministers call on the federal government to eliminate the ceiling on the Equalization Program payments.

With respect to other priorities of Western Canadians, Western Finance Ministers agree that the federal strategy of offloading services for Aboriginal peoples on to provinces and territories is unacceptable, and call on the federal government to work with Aboriginal peoples both on and off-reserve to develop and enhance economic and social development initiatives. In addition, Western Finance Ministers support continued efforts toward the devolution of resource responsibility in the territories to Northern governments.

As the West adapts to the economic challenges of the future, our economic strengths should be encouraged. Western Finance Ministers call on the federal government to ensure that the natural resource sector is not disadvantaged by its exclusion from the corporate tax rate reductions introduced in the 2000 federal Budget. The federal government must provide adequate and assured support to our Western farmers. Western Finance Ministers are also ready to work with the federal government in developing a new infrastructure program, and ask for more fairness in the distribution of federal research and development funding.

A. INTRODUCTION

Since Confederation, fiscal arrangements have been an important part of defining the Canadian federation. However, these arrangements have also been a source of considerable contention. The most obvious problem of federal/provincial/territorial financial relations is that there has been a fundamental imbalance between jurisdictional program responsibilities and sources of revenue between the two orders of government.

Western Finance Ministers are concerned with the capacity of the present system of fiscal arrangements to address this imbalance. The problem is most significant in the case of the Canada Health and Social Transfer (CHST) and its effect on the ability of provinces and territories to fund quality health and education services. Western Finance Ministers understand that maintaining the integrity and stability of our health care system is the highest priority of Canadians. For this reason, it is critical for the federal government to acknowledge and correct the existing fiscal imbalance by working with provinces and territories to renew fiscal arrangements to reflect Canadians' priorities.

B. THE FISCAL IMBALANCE IN CANADA

Canada's intergovernmental transfer system has been an important part of our approach to governance, contributing to the development of our national health care system and the growth of our post-secondary institutions. However, a gap has always existed in the distribution of revenue sources and spending responsibilities between Canada's two orders of government. Historically and currently, this gap, called the vertical fiscal imbalance, favours the federal government as its share of revenues exceeds its share of expenditures. This imbalance is expected to widen as provincial and territorial expenditure pressures continue to rise, particularly in the area of health care.

The vertical fiscal imbalance distorts Canada's spending priorities and diverts funding away from the order of government that is responsible for programs most highly valued by Canadians, like health care and education. The federal and provincial/territorial governments need to work together to address the vertical fiscal imbalance in order to develop a sustainable intergovernmental transfer system that meets the priorities of Canadians.

The Federal Position on the Fiscal Imbalance

Late in 1999, the federal government released a document entitled "The Fiscal Balance in Canada." This document insists that there is a fiscal "balance" between the orders of government in Canada.

The federal government did not undertake the study on the fiscal imbalance themselves; rather the federal document relies on a Royal Bank paper entitled: "Relative Fiscal Power: Ottawa versus the Provinces." The Royal Bank paper uses a series of assumptions that have no basis in the fiscal realities of the Canadian federation.

A base year of 1998/99 is used, and it is assumed that federal and provincial revenues will grow at the same rate. Federal and provincial expenditures are also expected to grow at the same rate. Thus a fiscal balance is an assumption in the Royal Bank projections, not a predicted result.

In reality, federal program expenditures are in most instances stable and in some cases actually falling, whereas, in the case of provincial program expenditures, cost pressures continue to outpace inflation and population growth.

As federal revenues continue to grow, provinces are forced to find alternative revenue sources. For example, gaming revenues are a developing revenue source. However, the rate of growth of these revenues will decline as the revenue source matures. In addition, liquor and gaming profits account for only 4 percent of provincial own-source revenue.

The federal government is in a position where some sources of revenue are in decline, but it is still able to maintain a structural surplus. Even with the development of new revenue sources such as gaming, provincial governments are under increased pressure to balance their books.

1. Measuring the Vertical Fiscal Imbalance

The concept of the fiscal imbalance can be demonstrated and quantified by looking at revenues and expenditures.

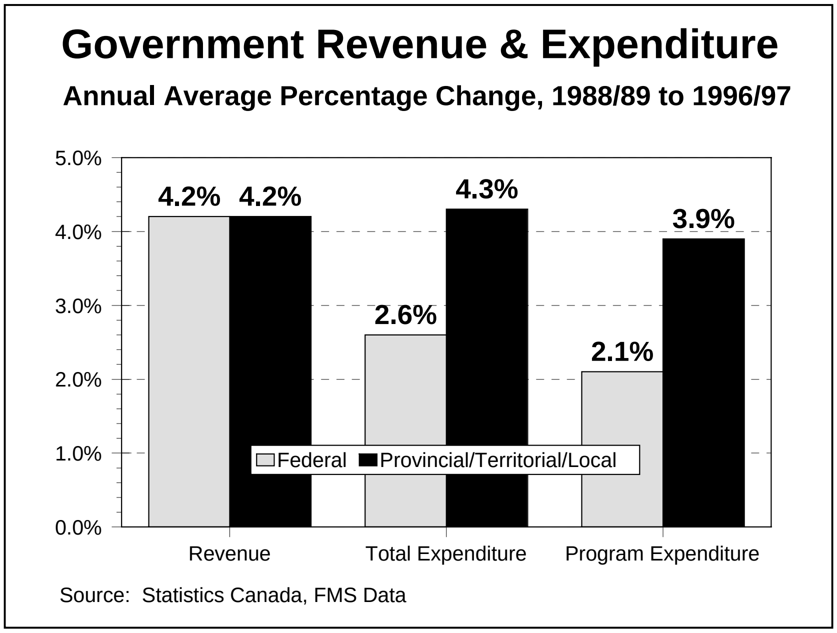


Figure 1

Figure 1 demonstrates this dynamic over the past nine years. It clearly shows that:

- Federal revenues have grown at the same rate as provincial/territorial/local revenues over the past nine years.

- Provincial/territorial/local program expenditures have grown almost twice as fast as federal expenditures, even though both orders of government were implementing fiscal restraint during much of this period.

- Federal revenues have grown much faster than their expenditures, creating a structural surplus. The low rate of increase in the program expenditure side is attributable to the fact that expenditure growth in the majority of federal program areas is capped and in some cases falling. Reductions to federal transfer payments to provinces and territories have played a major role in reducing the federal expenditure growth rate. [1]

[1] The federal government faces expenditure pressures on Old Age Security (OAS) due to the aging of the Canadian population, but these benefits are income related and tend to fall as seniors' incomes increase.

- On an aggregate basis, provincial/territorial/local government revenues grew faster than program expenditures. This largely reflects provincial and territorial efforts to eliminate deficits and reduce debt. However, when total debt servicing costs are included, growth in provincial/territorial/local expenditures has exceeded revenue growth.

- Recent tax rate reductions and indexation of the personal tax system will significantly slow government revenue growth in the future.

Table 1 in Appendix A shows the five fastest growing revenue sources. The federal government takes up over 60 percent of the tax room. These revenues comprise 78 percent of federal revenue compared to 67 percent of provincial revenue.

Table 2 in Appendix A ranks expenditure categories and shows that provinces/territories and local governments are responsible for four of the five fastest growing expenditure categories. Those categories account for 79 percent of provincial spending. Old Age Security is the only federal expenditure category in the top five and it accounts for only 15 percent of total federal spending. The average rate of growth of the top five expenditure categories is 4 percent. In comparison, the average rate of growth of the five slowest categories is 0.9 percent. The federal government is responsible for four of the five slowest growing categories. These five expenditure categories comprise 59 percent of total federal spending.

Overall, annual provincial/territorial/local expenditures from 1988/89 to 1996/97 grew by 4.3 percent per year, while federal spending grew by 2.6 percent per year. Over the same period, federal and provincial/territorial/local revenues grew by at the same rate of 4.2 pecent. This is the disparity that aggravates the fiscal imbalance in the federation. It is also at the root of much dissatisfaction for provincial/territorial governments.

Most observers agree that future cost pressures (a combination of demographic and economic factors) will fall disproportionately on provincial/territorial areas of responsibility. On the other hand, federal expenditure is largely discretionary. The pattern of the fiscal imbalance in Canada is expected not only to continue into the future, but is likely to widen considerably. Health care is by far the largest contributor to the growing fiscal imbalance.

To the extent that Canadians want their federal government to spend, they want it spent on a cash-strapped public health care system. But Ottawa has no direct delivery mechanism for providing health care to Canadians. Instead nearly 90% of what the federal government spends on health is through transfer payments to the provinces. Hence despite underlying surpluses that will exceed $13 billion in the coming year, federal funding for health and education is still $3 billion lower than it was five years ago.

Jeff Rubin, CIBC World Markets

2. *Why The Fiscal Imbalance Matters: The Health Care Example*

Canadians have strongly and consistently identified health care as their top priority. Western Finance Ministers recognize that the integrity and stability of our public health care system in Canada can be assured only with the strong commitment by governments to adequate and sustainable funding.

Provinces and territories face increasing pressures on health costs, such as new technologies, increasing drug prices, increasing public demand for the latest technologies, aging populations, etc. Stagnant federal cash transfers are particularly inadequate in the face of these growing pressures.

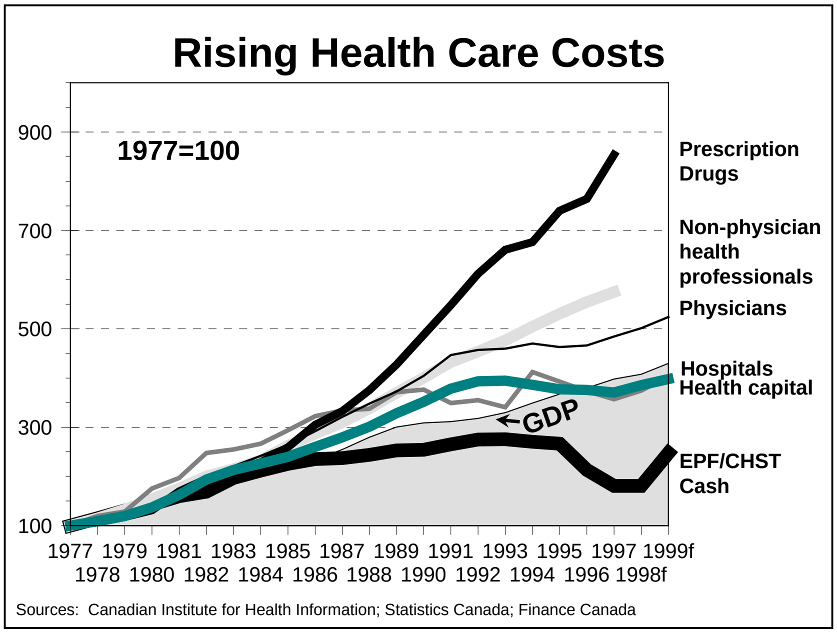


Figure 2

Even with the modest "one-time" increases made over the past two years, the federal share of provincial and territorial health care costs is far too low to reflect a real partnership with provinces and territories in this vitally important social program.

The cuts to transfer payments by the federal government in the mid-1990s are the most dramatic, but certainly not the only transfer restraint measures that have been moving the federal government away from its social program funding partnership with provinces and territories. As shown in Figure 3, the federal share of provincial and territorial health care programming costs has been falling almost since the inception of the Established Programs

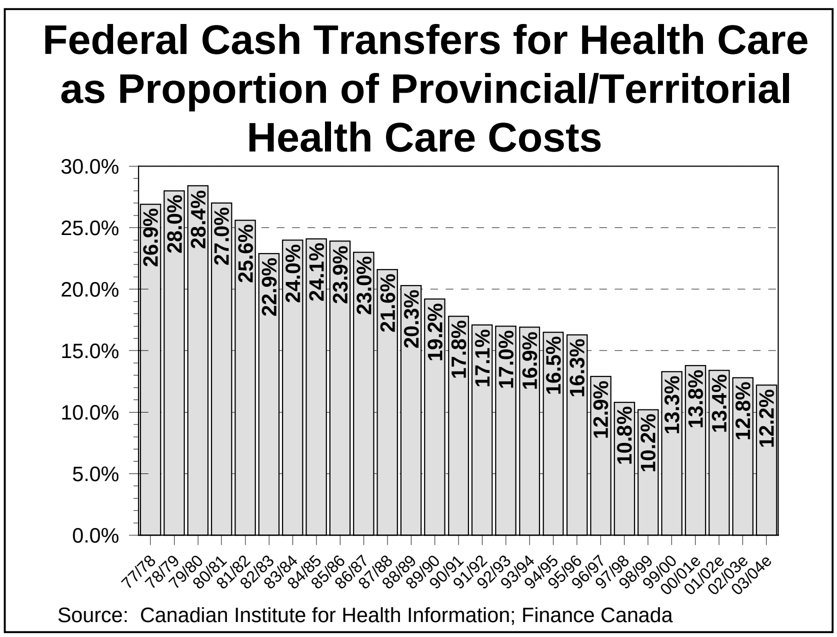
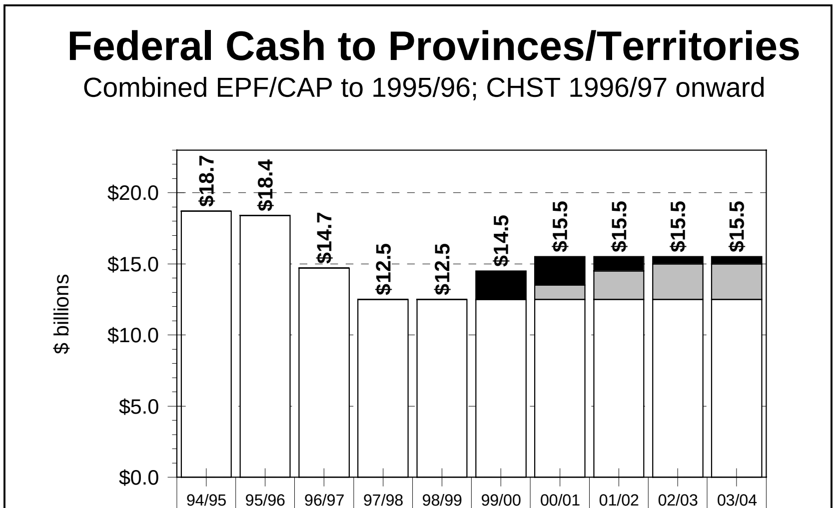


Figure 3

Financing (EPF) arrangements. It is interesting to note that the federal government now spends less on its health care transfers to all provinces and territories than a medium-sized province like British Columbia spends on its own core health care programs.

The principle reason for this falling federal share is that the main federal transfer has been subjected to a progressive series of restraints which have held its annual growth to rates well below that of the economy as a whole. In contrast, the costs of health care services which provinces and territories are required to fund have generally increased at rates above nominal GDP growth.

While both the 1999 and 2000 federal Budgets included increased funding for health care, the fact that a good share of that increase is in the form of “one-time” cash infusions (the CHST Supplements) runs counter to the need for sustainable funding for the system over the longer term. The federal government treats health care as an afterthought, increasing funding only when it has extra cash.



	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04
One-time Funds	$0.0	$0.0	$0.0	$0.0	$0.0	$2.0	$2.0	$1.0	$0.5	$0.5
Increase to base	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.0	$2.0	$2.5	$2.5
Base CHST	$18.7	$18.4	$14.7	$12.5	$12.5	$12.5	$12.5	$12.5	$12.5	$12.5

Source: Finance Canada Official Estimates

Figure 4

Western Finance Ministers believe that the federal funding commitment to health care over the next four years does not adequately reflect the high priority placed by Canadians on protecting and preserving the health care system. In the federal government’s own post-budget poll, 69 percent of respondents felt that Ottawa was spending “ far too little” or “too little” on health care.[2]

At times, the federal government appears to acknowledge the extent of the health care funding problem faced by provinces and territories. More often, however, it appears that a higher federal priority is to discuss various ideas on revamping the health care system. The federal government appears to be withholding funding as a lever to encourage provinces/territories to discuss a federal plan for reforming health care.

Western Finance Ministers acknowledge the need for provinces, territories and the federal government to work co-operatively to renew and sustain Canada’s health care system so that it can both regain the high public confidence which existed until recently, and be put back on a financially viable track. However, to make the renewal process effective, the system must be stabilized through full restoration of CHST cash and the

[2] A post-budget reaction survey was conducted by Earnscliffe Research and Communications between February 29 to March 6, 2000 for federal Finance. 2000 Canadians were surveyed.

institution of an appropriate escalator. This proposal is reasonable, modest, and well within the federal government's means.

The federal government must not further delay making a significant and positive response to secure Canada's health care system.

3. Protecting Canadians' Social Programs

Canada's current fiscal arrangements must reflect the growing recognition that programs like health care and education need new approaches. Global competition limits the ability of governments to raise taxes, and Canadians expect more accountability and sound management from their governments. We cannot expect to manage these programs well without co-operation and without each government providing its fair share of resources.

These realities require governments to work toward correcting the vertical fiscal imbalance. While the CHST is an important mechanism used by the federal government for partially bridging the gap between revenues and responsibilities and for helping provinces and territories to finance health care, post-secondary education and social services, it does not resolve the vertical fiscal imbalance.

Western Finance Ministers call on the federal government and other provinces and territories to work together to re-examine the roles and responsibilities of governments, and to reduce overlap and duplication wherever possible. This examination should ensure that revenue sources are re-aligned to match spending responsibilities and expenditure pressures.

Ideally, governments should deal with this re-examination before changing funding arrangements. However, pressures on Canada's social programs call for immediate action. Accordingly, to address current and future needs and to reduce the vertical fiscal imbalance, Western Finance Ministers reiterate the call by all Premiers for:

- the immediate restoration of CHST cash to the 1994/95 level of $18.7 billion;

- the introduction of an appropriate escalator so that CHST cash will grow more in line with provincial/territorial spending pressures.

Cost Pressures Facing Education

Demographics

Following a rapid rise in the 5-19 year-old age cohort in the late 1990's growth, in the Kindergarten to Grade 12 population is expected to slow over the next decade. The main demographic pressure for basic education will continue to be immigration (interprovincial and international).

However, the "echo" boomers (the children of the baby boomers) are expected to pass through the post-secondary education system within the next five years. The effect of the "echo" boom on enrolment in post-secondary education depends upon the demand for post-secondary education. In the last two decades there has been a continuous increase in the demand for post-secondary education. It is expected that this trend will continue.

Infrastructure

According to the Association of Universities and Colleges of Canada, universities and colleges in Canada face at least $3.6 billion in accumulated deferred maintenance. With respect to basic education, there is also a substantial backlog of deferred maintenance and upgrading of existing facilities.

Wages and Salaries

There are significant cost pressures for wages and salaries for educators in basic as well as post-secondary education.

Effect of Declining Federal Transfers on Post-Secondary Enrolment

The decline in federal support for post-secondary institutions has affected Canada's competitiveness with the United States. Over the past 20 years in Canadian colleges and universities, the level of support per student has declined by 30 percent. In contrast, U.S colleges and universities receive almost 20 percent more government support per student than they did 20 years ago.

C. OTHER PRIORITIES OF WESTERN CANADIANS

1. Addressing the Horizontal Imbalance

The objective of the Equalization Program as set out in Section 36(2) of the *Constitution Act*, *1982* is to ensure that every Canadian has access to reasonably comparable levels of public services at reasonably comparable levels of taxation. Currently, there is an imbalance in fiscal capacity between recipient and non-recipient provinces. Territorial transfer arrangements must take into account the same considerations.

Western Finance Ministers call on the federal government to eliminate the ceiling on the Equalization Program payouts.

2. Federal Funding for Aboriginal Peoples

Western Finance Ministers once again note the lack of progress by the federal government in accepting its fiscal, historical, fiduciary, and constitutional responsibilities for Aboriginal peoples both on and off-reserve.

The reluctance of the federal government to undertake meaningful reform or support for Aboriginal peoples has significant implications for provincial and territorial governments and their citizens.

- In off-loading the costs of services and programs for Aboriginal peoples on and off-reserve to provincial and territorial governments, the federal government increases the pressures on provincial and territorial expenditures.

- Canada's abrogation of its fiduciary responsibilities for Aboriginal programs and initiatives also presents a growing financial liability for provinces and territories. Self-government and land claims agreements generate new and expanding expectations for services, programs, and resources. In the absence of adequate federal funding, provinces and territories are left with the costs and the implications.

- Inadequate co-ordination between orders of government of federal initiatives and commitments with Aboriginal peoples has serious long-term consequences for provincial and territorial governments. The lack of co-ordination and clarity is especially problematic in fiscal and financial arrangements. The federal government must clarify and manage clearly its relationships with Aboriginal peoples. In addition, federal/provincial/territorial consultation is necessary to overcome and plan for the implications of emerging self-government issues, jurisdictional overlap, and fiscal relations. Western Finance Ministers note the outstanding call by Premiers and national Aboriginal leaders for a First Ministers' meeting, with national Aboriginal leaders, to follow up in the report of the Royal Commission on Aboriginal Peoples.

- Self-government could potentially set up many duplicate programs for delivering services to Aboriginal peoples with no guarantee that the additional costs will be adequately funded. Such agreements should ensure that there is an integrated system for delivery of government services. This will reduce potential cost pressures due to duplication, will ensure that all Canadians are covered by the same standards, and mobility rights are protected.

Looking to the future, the demands for adequate funding and the consequences of federal off-loading of aboriginal financial responsibilities will escalate and put greater financial pressures on provinces/territories, and on Aboriginal peoples themselves. This is because:

- Aboriginal population growth rates are significantly higher than the overall Canadian population;

- the Aboriginal population currently has demonstrably greater need for, and consequently greater consumption of, government programs such as health care, post-secondary education and social services; and

- the record of educational achievement and access to education for the growing Aboriginal population will need to be improved if Aboriginal peoples are to take advantage of the increasing prosperity of the West.

In summary, the federal government's reluctance to work in a comprehensive manner with Aboriginal peoples, or to consult with provinces and territories to address the growing needs of Aboriginal peoples is inappropriate. Western Finance Ministers note that the 2000 federal Budget did little to mitigate the present situation in any significant way. Moreover, they emphasize that the consequence of federal inaction is borne by provincial and territorial governments.

3. Reform of Fiscal Arrangements in the North

Although the territories have been given province-like status in many areas, the federal government still retains authority for the development of non-renewable resources. While there has been some progress on devolution of resource responsibility to the Yukon for oil and gas, the Northwest Territories and Nunavut have yet to conclude an acceptable arrangement with the federal government.

Without the responsibility for non-renewable resource development, and the revenue that goes along with that responsibility, the territories will have difficulty providing programs in health care, education and infrastructure development. In addition, ownership, control and management of territorial resources by Northerners will improve the climate for resource development and increase the benefits for territorial residents and all Canadians.

The responsibility for resource development should lie with the jurisdiction where the resources exist. Western Finance Ministers support the conclusion of agreements for the transfer of responsibility for resource development in the territories to Northern governments.

4. Tax Reductions

The 2000 federal Budget began the process of Personal Income Tax reductions. Western Finance Ministers generally regard these reductions as a positive first step by the federal government.

Western Finance Ministers also support the general thrust of the budgetary measures to lower corporate taxes. However, one aspect of the tax plan which is of concern to Western Canadian governments is the exclusion of the non-renewable resource sector from the announced reduction in the general Corporation Income Tax (CIT) rate.

Western Canada has made significant progress toward diversifying its economic base. The West has an abundance of natural resources, and the oil and gas and mining industries make a valuable contribution to the strength of the Western provinces and territories. The economies of many smaller and remote communities are heavily reliant on natural resources, and their future viability and prosperity depends on ongoing activity and investment in this sector. Western Finance Ministers are concerned that the announced changes in the federal CIT rate may affect the ability of this sector to compete for much needed capital investment.

5. Agriculture

Agriculture in the Western provinces is in a historic period of challenge. Depressed grain prices, high levels of subsidies in the United States and the European Union, and the reduction in federal government support have hurt our farmers. Returns to producers in Manitoba and Saskatchewan have been further reduced due to unprecedented excess rainfall not covered by crop insurance. Adequate and assured support to Western producers must be forthcoming during this period of challenge.

6. National Infrastructure Program

While the 2000 federal Budget announced a new national infrastructure program, it failed to address the significant transportation deficit in western Canada. The Prime Minister's own *Caucus Task Force Report on the Four Western Provinces* acknowledged that Western Canada requires "increased funding for the National Highways System" and that funding for highways [must] "reflect the geographical realities of British Columbia and the Prairie Provinces." The 2000 federal Budget announced only $600 million over five years for all provinces and territories – which most provinces/territories have dismissed as completely inadequate for addressing their transportation needs. Western Finance Ministers are concerned that the neglect of safe, well-developed transportation corridors impedes competitiveness and the flow of goods across the country and between Canada and the United States.

Any new infrastructure program arising from ongoing discussions should be flexible, allowing the provinces/territories to invest in priority areas such as highways and municipal infrastructure. As well, the program should allow the provinces/territories to explore innovative funding initiatives, such as public/private partnerships.

7. Fair Distribution of Federal Research and Development Funding

The last decade witnessed fundamental changes to economies around the world. Increased globalization and adoption of new technologies have led governments, businesses and individuals to focus on acquiring the knowledge needed to participate in these emerging activities.

The West has started its transition to the new economy, but there are still challenges to be addressed. The knowledge-based economy requires improved technical infrastructure and an educated and skilled labour force. Enhancement of education and training, establishment of centres of innovation and the promotion of our competitive advantages can help attract activity in the new economy.

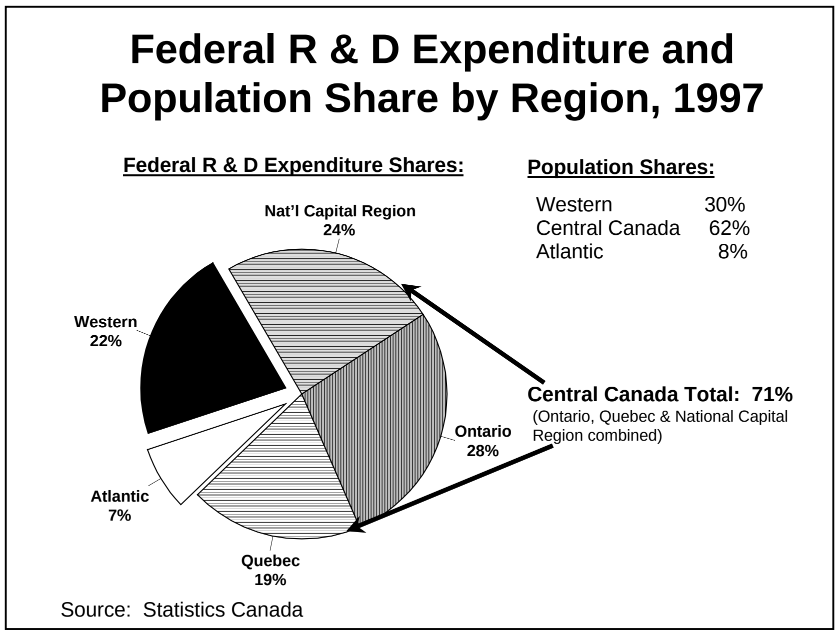


Figure 5

Research and development (R&D) is the foundation upon which future successful innovation is built. However, Western provinces and territories do not receive the same level of federal support for their academic, institutional infrastructure and economic development programs as central Canada. In 1997, the federal government spent 71 percent of its R&D expenditures in Central Canada, compared to only 22 percent in western provinces, even though the West makes up 30 percent of the population.

Western Finance Ministers call on the federal government to redress the imbalance that exists in federal R&D investment.

D. CONCLUSION

Federal/provincial/territorial financial arrangements are critically important to a number of social programs that Western Canadians care deeply about, including health care and post-secondary education. When the federal government placed the main burden of its deficit-elimination efforts on transfer payments for these programs, it widened the fiscal imbalance and left provinces/territories in the difficult position of having to backfill these cuts.

Now that the federal government is in a strong fiscal position, the time has come to deal with the fiscal imbalance. We invite the federal government to work with us in partnership to ensure adequate and sustainable funding for our important social programs, such as health care.

Accordingly, to address current and future needs and to reduce the vertical fiscal imbalance, Western Finance Ministers reiterate the call for:

- the immediate restoration of CHST cash to the 1994/95 level of $18.7 billion; and
- the introduction of an appropriate escalator so that CHST cash will grow more in line with provincial/territorial spending pressures.

Western Finance Ministers also call on the federal government to:

- ensure adequacy of the Equalization Program by removing the ceiling;
- accept responsibility for Aboriginal peoples both on and off-reserve;
- conclude agreements toward the devolution of resource responsibility in the territories to Northern governments;
- ensure that the natural resource sector is not disadvantaged by its exclusion from corporate tax rate reductions;
- provide adequate and assured support to our Western farmers;
- work with provinces and territories in developing a new infrastructure program; and
- inject fairness into the distribution of federal research and development funding.

APPENDIX A

Table 1

Federal and Provincial Revenues Growth Rates

	10-Year Average Annual Growth Rate	Federal Share	Contribution to Total Government Revenues (1998-99) Federal	Provincial
Direct Taxes, Non-Residents	5.9	100.0	1.5	0
Taxes on Persons	5.4	60.5	43.8	25.6
Sales of Goods and Services	5.2	25.2	2.5	7.4
Indirect Taxes	4.8	41.3	19.5	31.8
Taxes on Businesses	4.6	68.4	10.8	5.5
Investment Income	4.2	39.9	9.5	10.5
Contributions to Social Insurance	4.0	67.5	12.0	3.9
Transfers from Governments	0.6	1.5	0.3	13.2
Transfers from Persons	0.2	0.9	0	2.1

Source: Finance Canada, Fiscal Reference Tables.

Table 2

Federal and Provincial Expenditure Growth Rates

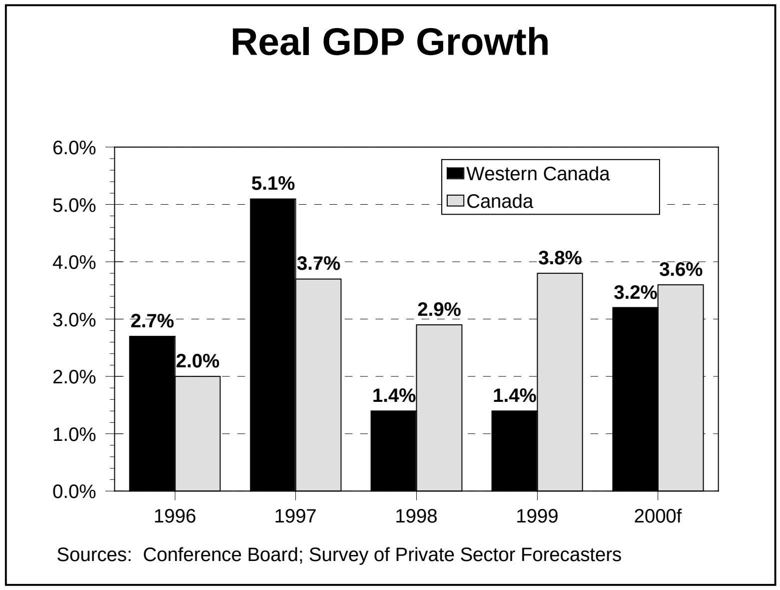
	10-Year Average Annual Growth Rate	Contribution to Total Government Expenditures (1998-99 Federal 1999-2000 Provincial) Federal	Provincial
Provincial Debt Servicing Costs	6.8		13
Social Services	4.1		11
OAS	4.1	15	
Health	4.0		33
Education	3.0		22
Federal Debt Servicing Costs	2.6	27	
Federal Transfers to governments	1.9	17	
EI Benefits	1.6	8	
Other Fed Expenditure	1.3	28	
Other Prov Expenditure	1.2		21
Defense	-1.8	6	

Source: Finance Canada, Fiscal Reference Tables.

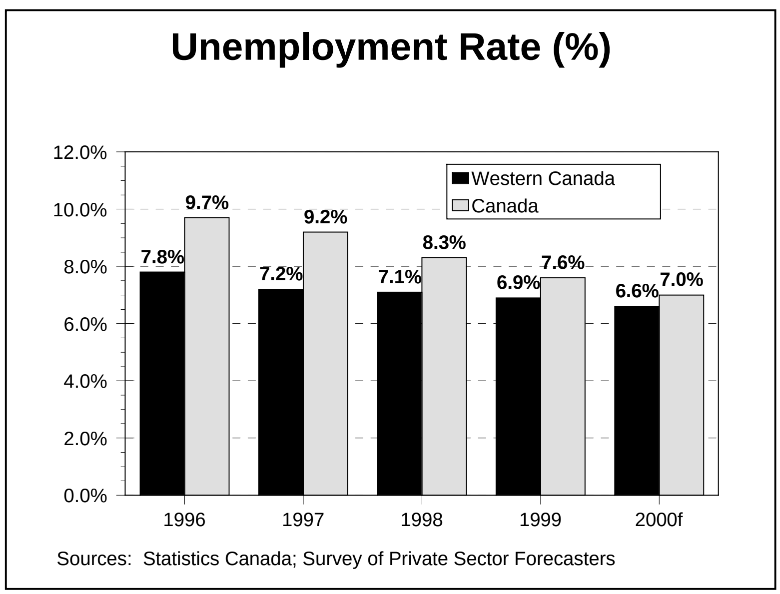
APPENDIX B

WESTERN ECONOMIC OVERVIEW AND OUTLOOK

Following several years of real GDP growth above the national average, Western provinces and territories experienced below national average growth in both 1998 and 1999. This slower growth reflects the severe impact of the downturn in most East Asian economies, and the consequent weakness in primary commodity prices.



Private sector forecasters expect the economies of the Western provinces and territories to strengthen and narrow the real GDP growth gap with Canada as a whole. In 2000, real GDP is forecast to increase by about 3.2 percent in the West, compared to 3.6 percent for Canada as a whole. The key factors in this improved outlook for 2000 are stronger Asian export markets, and the rise in key primary commodity prices (excluding crops), and stronger exports to the United States.



Employment growth in Canada and the West has mirrored the relative performance of the growth in real output. In 2000, private sector forecasters expect job creation to increase by approximately 2.2 percent in the West and 2.3 percent in Canada. As a result, the unemployment rate is projected to fall further in 2000 to about 6.6 percent in the West and 7.0 percent in Canada as a whole.

The West in 2000

2000 is expected to mark a revitalization following two difficult years of low commodity prices in the wake of the Asian financial crisis which began in mid-1997. Sustained economic growth is forecast to result in higher employment and declining unemployment rates. While there are still significant differences among the Western Canadian economies, forecasts still project growth for all provinces/territories in 2000.