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# BUDGETS 1995: FEDERAL AND PROVINCIAL EFFORTS TO CURB AND ELIMINATE DEFICITS

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# BUDGETS 1995: FEDERAL AND PROVINCIAL EFFORTS TO CURB AND ELIMINATE DEFICITS

The economy performed exceptionally well in 1994, enabling virtually all Canadian governments to improve their deficit positions and set the stage for improved fiscal performance in the future. Only the rapid rise in interest rates put a damper on even better results. The federal government is on track for meeting its short-term deficit targets and most provinces have balanced their budgets and are talking about measures to reduce the outstanding level of debt. But the largest governmental units, the governments of Canada, Ontario, and Quebec, are still those furthest away from budget balances.

A common complaint of provincial premiers has been unilateral cutbacks to federal transfer payments. These restraint measures have cost the provinces dearly and the fiscal position of the federal government means that previous funding levels are unlikely to be restored. Indeed, the 1995 federal budget promises even further cutbacks in the near future.

This paper examines eleven budgets tabled this year, the federal government's and those of the ten provinces.(1) The paper is designed to enable the reader to identify at a glance the various fiscal trends and to compare and contrast the fiscal policies being conducted in Canada by the various governments.

Material is taken from various budgets, which do not always use the same terminology or accounting conventions, especially in discussing the deficit and the debt. Where budgets are summarized, the accounting conventions used by the appropriate government are employed here as well. When these accounting conventions diverge from common usage, an attempt is made to note their impact on the published figures.

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(1) The Ontario government tabled a budget plan one day prior to calling an election. The NDP government has indicated that this plan would form the basis for a budget should the party win re-election.

All references here are to fiscal years ending 31 March. The year ending 31 March 1995, often cited as 1994-95, is here referred to as 1995.

## GOVERNMENT OF CANADA

The 1995 federal budget was tabled in the House of Commons on 27 February 1995. It came on the heels of the Finance Minister's Economic and Fiscal Update, released in October 1994. In that document the Minister announced that the fiscal track set out in the 1994 budget was in danger of becoming derailed as a consequence of rapidly rising interest rates -- each 100 basis point increase in interest rates raises the deficit by $1.8 billion in the first year and $2.6 billion in the second year. The House of Commons Standing Committee on Finance held pre-budget consultations in the fall of 1994 and the actions set out in the budget were generally in line with the recommendations of that Committee.

The measures announced in this budget will enable the government to meet its short-term budgetary goals as well as setting the stage for further deficit reductions.

### A. Revenue Trends

In 1993, federal revenues were $121,452 million, only 7% higher than in 1990. While personal income tax receipts over that three-year period were up by 12%, to $58,300 million, corporate income taxes were down by 36% and total sales and excise tax revenues were down by almost 7%. The only other area of strong revenue growth, which in this case indicated poor economic performance, was premium revenues from unemployment insurance, which grew by 63%.

In 1994, revenues dropped precipitously to $116,000 million on account of the state of the economy, some one-time events and, most importantly, the introduction of the child tax benefit, which had the effect of converting some spending programs into tax expenditures and thus lowering revenues. The transitional costs associated with the move to the child tax benefit were also high. By 1995, revenues had increased to $125,000 million and they are expected to remain in the range of 16.7% to 16.9% of GDP over the next two years. Over this period, unemployment insurance has become the second largest revenue source for the federal government, now accounting for 15% of all revenues. With continuing improvement in the economy, however, GST revenues should overtake UI premiums within two or three years. The personal income tax is continuing to grow in dominance, although part of this trend is masked by federal program and accounting changes.

This budget introduced little in the way of new tax measures. Excise taxes on gasoline and tobacco were increased, raising $500 million and $65 million respectively each year. The large corporations tax and the corporate surtax were both increased quite substantially, and a special, temporary capital tax was imposed on large deposit-taking institutions. The financial institutions tax should raise $100 million over two years while the large corporations tax and the corporate surtax will produce over $250 million in revenues each year.

At the personal level, the measures have been described as tightening up the system and making it fairer. RRSP contributions have been restricted slightly. The deferral of tax on business income has been restricted; it should generate $300 million in annual revenues by 1998. The tax treatment of family trusts has been tightened up somewhat.

All of these revenue measures are expected to raise over $3,600 million over the next three years. In addition, the government has altered the timing of UI premium income. It has decided not to allow premiums to fall as fast as they would normally. The government intends to let the UI account amass a cumulative surplus of $5,000 million by the end of calendar year 1996 prior to letting premiums fall as UI benefits are expected to do.

### B. Expenditure Trends

Federal spending grew at a faster pace than revenues from 1990 to 1993. This is now changing. After 1995, program spending is expected to decline every year; by 1997 it will be $12,000 million less than in 1994, when it totalled $120,000 million. As a proportion of GDP, program spending including restructuring charges is to decline from 16.9% to 13.1%. But, while program spending is declining, public debt charges are slated to increase substantially. By 1997, they are expected to exceed $50,000 million (6.2% of GDP), compared to $38,000 million (5.3% of GDP) in 1994.

The government is able to control spending on account of a major review and reduction in program expenditures and government operating costs that will lead to a 45,000 person decline in federal employment. While approximately 6,000 of these positions are expected to be transferred to the private sector, the remaining positions are to disappear.

As part of these cuts, business subsidies are to be reduced by 60% over three years. Certain agricultural subsidies are to be reduced or eliminated altogether. Program review will result in spending levels in 1998 which are almost $10,000 million less than in 1995 for those departments that have been reviewed. This represents a 19% decrease.

In addition, the government is combining the Canada Assistance Plan and Established Programs Financing transfers into one block grant, starting in 1997. This Canada Health and Social Transfer (CHST) will be based on a new formula that results in a total of $4,700 million in reduced transfers for 1997 and 1998. Provinces will have more say as to how they spend these funds while federal transfers will no longer be subject to provincial spending decisions.

The government's spending projections also factor in a reform of unemployment insurance which should save at least $700 million in 1997. Some small changes have been made to the Old Age Security system with the promise of much more to come as a result of a review by the Minister of Human Resources Development.

The 1995 federal budget announces $25,300 million in cumulative expenditure cuts over a three-year period ending in 1998, $17,000 million being due to program review. Only 16% of these cuts, however, take place in the first year.

### C. Deficits, Debt and Interest Costs

The 1993 federal deficit, according to that year's budget, was expected to be $35,500 million. It turned out to be $41,000 million and grew further, to $42,000 million, the year after. In 1995 it fell to $37,900 million but could have fallen even further, to $35,300 million. The figure is inflated because of two restructuring costs charged to the 1995 year: an *ex gratia* payment of $1,600 million to western farmland owners in compensation for the elimination of the *Western Grain Transportation Act* subsidies; and a $1,000-million cost of early departure incentives for public servants. The deficit is projected to continue falling to $24,300 million in 1997, meeting the government's stated interim target of 3% of GDP.

The deficit projections for 1996 and 1997 contain contingency reserves of $2,500 million and $3,000 million respectively. These reserves are designed to provide the government with a buffer in the event that economic conditions, in particular interest rates, do not turn out to be as favourable as predicted. In other words, the government's model, given its economic assumptions, generates better deficit results than those cited in the budget. Indeed, when combined with the fact that the economic assumptions used by the government are more pessimistic than those of private sector forecasters, the underlying deficit projected for 1997 is about $19,000 million, rather than the $24,300 million figure cited in the budget.

The budget does not provide a forecast of the 1998 deficit, even though it does include estimates of the impact of budgetary measures for that year. Indeed, 46% of the deficit-cutting measures are to come into effect in 1998. Thus the deficit for that year could be under $18,000 million, amounting to as little as 2% of GDP, something that we have not seen for twenty years and which should result finally in a reduction in the debt to GDP ratio.

At 31 March 1993, the net public debt stood at $466,200 million, compared to $358,000 million in 1990 and in contrast to the $428,000 million that the 1990 budget had forecast for 1993. By 31 March 1997, it is expected to reach $603 million. Over the next two years the net debt is expected to stabilize at about 73.5% of Gross Domestic Product.

Public debt charges are expected to exceed $50,000 million by 1997, due to the continually increasing debt but also due to rising interest rates. Short-term interest rates for 1995, for example, are now projected to be 8.5%, compared to the 4.8% projected in last year's budget.

## D. Deficit Control Measures

The 1995 budget focused on deficit cutting. Over a three-year period, the budgetary measures discussed above are to keep the cumulative deficit $29,000 million lower than would otherwise have been the case. Over that same period, expenditure cuts are about seven times as great as revenue increases while the ratio is closer to 4:1 in 1996.

This short-term deficit decline is enhanced by the government's decision to have the UI Account generate more than a $5,000 million surplus prior to allowing UI premiums to decline after 1996. The purpose of this is to avoid increasing premiums during an economic downturn, when the account normally goes into deficit. While there may be sound policy reasons for this change, it has the effect of temporarily using UI premiums over the next two years to reduce the deficit, and should lead to more rapid declines in UI premiums after 1996, than would otherwise have been the case.

## E. Economic Forecasts

The government's approach to economic forecasting has been described facetiously as a liberal dose of conservative assumptions. It is assuming that the calendar years 1995 and 1996 are characterized by declining real GDP growth. From a 4.3% growth rate in 1994, the economy is predicted to slow to 3.8% in 1995 and 2.5% in 1996. Modestly higher inflation is expected and the unemployment rate should stay at about 9.5%. Interest rates in 1996 are expected to be only slightly below the peak in 1995 and still be well above the 1993 and 1994 rates. These projections are more cautious than the average projections of 18 forecasters who were surveyed in early February of 1995.

## F. Transfers to the Provinces

For several years now, all the provincial governments have been lamenting the fact that the federal government has curtailed its transfers to them. This budget proposes to continue that trend. The federal government has not lifted the cap on CAP nor has it reversed the limits on transfers put in place by previous budgets. Indeed, this budget proposes even further cuts.

For the time being, the equalization program is to be untouched as it was renewed by Parliament for a five-year period, starting in 1995. The Established Programs Financing transfers for post-secondary education and health care and the Canada Assistance Program are to be combined as of 1997 into one block grant, called the Canada Health and Social Transfer (CHST). Total transfers under the CHST, both cash and tax points, are projected to be $26,900 million in 1997 and $25,100 million in 1998. This compares with EPF and CAP transfers totalling $29,686 in 1996. The 1996 cash transfer for EPF and CAP is expected to be about $16,300 million while the cash transfer associated with the CHST in 1997 will decline to about $12,800 million.

In 1997, the CHST transfers will be divided amongst the provinces in the same proportion as the combined CAP and EPF are apportioned in 1996. After that, a new formula will be determined by federal-provincial negotiation.

The budget also proposes to restrict transfers under the Fiscal Stabilization Program, so that provinces become eligible for a transfer payment only if their revenues decline by 5% on a year-over-year basis. The funding formula for transfers to territorial governments is also reduced.

## G. The 1995 vs 1994 Budget

In the 1994 budget, the Minister of Finance claimed that the federal government would meet its 1996-97 target for the deficit, about $25,000 million (3% of GDP). While the budget made some moves to restrain spending and promised, for example, an examination and eventual restructuring of the social safety net to make the system more effective and efficient as well as saving some money, the budget gave no indication that a very major restructuring of government would be needed to meet its deficit targets.

But interest rates rose substantially through 1994 as the value of the Canadian dollar fell. By the autumn of that year it was apparent that the government's targets could be met only with substantially enhanced deficit-cutting measures. The route chosen by this government concentrates on spending cuts; these cuts appear to represent a profound and long-lasting change in the nature of government.

## CENTRAL CANADA

Ontario and Quebec constitute the economic heartland of Canada. These are the two largest economies in Canada and it is here that Canadian manufacturing activity is concentrated. It is also here that the recent recession has been felt the hardest.

Ontario is the more prosperous of the two provinces and its financial position prior to the onset of the recession was better than that of Quebec. Ontario ran a budgetary surplus in 1990 amounting to $9 per capita, while Quebec ran a deficit equal to $241 per capita.

This relative position has now changed. In 1993, the Quebec deficit reached $690 per capita while the Ontario deficit exceeded $1,170 per capita. Since then, however, the Ontario deficit per capita has fallen while its Quebec counterpart has grown substantially.

### A. Ontario

The Ontario budget plan was released on 27 April 1995. The next day, an election was called for 8 June 1995.

#### 1. Revenue Trends

In 1989 the province of Ontario collected total revenues of $36,991 million, which grew to $41,799 million by 1993, and $45,600 million in 1995. This amounts to an average annual growth of 3.6%.

During this period the personal income tax share of total revenues has remained fairly constant at just under one-third of total revenues. The retail sales tax share has dropped from 20.7% in 1990 to 17.5% in 1993, but grew again to 21% in 1995. The corporate income tax raises

9% of revenues, with the employment health tax contributing another 5.8%. Despite federal restraint in transfers, cash transfers in 1995 equalled 16.5% of total revenues, up from 13% in 1989.

This budget plan forecasts revenues to grow by 6.2% in 1996 to $48,400 million, despite declining federal transfers. Income tax revenues are predicted to climb 11.6% and corporate income tax revenues are predicted to be 23% higher. Revenues after 1996 are predicted to grow by over 3% per year.

### 2. Expenditure Trends

Expenditure growth by the provincial government has been quite rapid. From 1989 to 1993, total spending grew by 8.7% per annum to reach $53,789 million, while operating expenditures grew by 9.3% per year. Total spending in 1995 equalled $55,522 million and is predicted to grow to $56,676 million in 1996. By 1998, total spending should fall to $55,100 million.

The biggest increase has been spending in the area of community and social services, which increased from $4,955 million in 1990 to $8,566 in 1993, a 20% annual growth rate. By 1995 it had grown further to $9,271 million. This component accounted for 13% of operating expenses in 1990 but now accounts for 17.9%. At $17,700 million, health care spending accounts for one-third of total operating expenditures.

The budget plan lists three types of capital spending; budgetary, non-budgetary and project specific. In 1995 total capital spending grew by 12% to $3,857 million; in 1996 it is predicted to grow by another 13%. Budgetary spending, the number used to calculate the deficit, is declining, however.

### 3. Debt, Deficits and Interest Costs

In 1990, the Ontario government enjoyed a $90 million surplus. This became, two years later, a $10,930 million deficit. In 1993 it grew by about $1,500 million but fell to $9,278 million in 1994 and $8,096 million in 1995. It is predicted to fall further to $5,826 million in 1996 and the budget plan sees it as low as $1,400 million by 1998.

These deficit projections include only budgetary capital spending. Thus the calculation excludes $1,600 million in non-budgetary capital spending for 1995 ($2,000 million for 1996) which the budget plan describes as using "alternative" capital financing. This calculation also excludes project specific investments on which the province will spend $250 million to $450 million per year in the future.

On account of these developments, the 1994 debt, at $80,184 million, was twice as high as the 1990 debt. By 1996 it is predicted to be $97,458 million.

Public debt interest cost the government $5,350 million in 1993, up from $3,817 million in 1990. For 1995 it grew to $7,986 million and consumed 16.5 cents of every revenue dollar, up from 9.3 cents in 1990. By 1998, debt charges are expected to reach about $9,700 million and account for 18.8 cents of every revenue dollar.

## 4. Federal Measures to Limit Transfers

In 1993, the Ontario government received over $7,500 million in cash transfers from the federal government. This fell to $7,126 million in 1994 but grew again in 1995 to $7,537 million. Ontario is one of the three provinces that do not receive equalization payments and whose Canada Assistance Plan transfers have been limited to a 5% annual growth rate. Social assistance spending in the province has been growing at a much faster rate.

The budget plan complains of the unfair treatment that Ontario has in the past received from the federal government and argues that the federal budgets of Mr. Martin continue this trend. Such treatment is costing the government about $2,500 million per year while the new cuts are projected to cost an additional $1,400 million in 1997 and $2,200 million in 1998. It is claimed that Ontario will bear 54% of the cuts under the new Canada Health and Social Transfer, even though it comprises only 38% of the population.

According to the federal government, annual entitlements for major transfers should fall by $877 million from 1995 to 1997.[(2)]

## 5. Deficit Control Measures

The budget plan announces no new initiatives to curb the deficit. That task is left to economic growth. The social contract, designed to reduce the $43,000 million public sector

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(2) Total entitlements for major transfers represent the amount which the federal government calculates is owing to a province for CAP/EPF and equalization until the year 1996, and CHST and equalization as of 1997. These entitlements are made up of tax points as well as cash, producing different results from the provincial analyses of federal transfers which generally consider only cash transfers. Ontario, Alberta and British Columbia do not receive equalization payments.

compensation package by $2,000 million, will expire next year, but the $2,000 million in savings will not be put back into the system. How this will be accomplished is not specified.

### 6. Economic Forecasts

Ontario was hit particularly hard by the last recession, but 1994, with 5.3% growth, was a very good year for the Ontario economy and 1995 is expected to be very strong as well with growth at 4.5%. From 1996 to 1998, growth is predicted to average more than 3.5% per year. By 1998 the unemployment rate should fall to 7.8% from the 1995 figure of 8.6%.

The Ontario government's projections to 1998 are essentially equal to the consensus forecasts of private sector forecasting firms, as of April 1995.

## B. Quebec

The Quebec budget was tabled in the National Assembly on 9 May 1995.

### 1. Revenue Trends

Total revenues in 1993 were 14% higher than in 1990. In 1993, the government of Quebec received revenues of $35,415 million, of which $27,620 million came from its own sources and of which $7,795 million came from the federal government in the form of cash transfers. While 1992 and 1993 were both years of modest revenue growth, it was only in 1993 that own-source revenues fell very slightly; this was offset by the unusually large increase in federal cash transfers, which grew by more than 15%.

By 1995 total revenues reached $36,416 million, about $900 million less than predicted in last year's budget. They are predicted to grow by over $2,000 million in 1996, to $38,440 million. Federal cash transfers in 1995 were $7,527 million, representing about 20% of total revenues. The budget contains a suggestion that in 1996 revenues from the Quebec goods and services tax will have to be increased by over $500 million per year in order to accommodate the decline in federal transfers resulting from the introduction of the CHST.

The budget implements a variety of new tax measures, the most significant of which is the enhanced capital and payroll tax imposed on larger corporations, expected to generate about $455 million per year. (The budget notes that the federal government intends to limit the extent to which corporations may deduct such taxes from their income, and cites this as another grievance the provincial government has with the Government of Canada.) Other tax measures include the simplification of the provincial sales tax and the provision of full input tax credits to corporations.

**2. Expenditure Trends**

Government expenditures grew by a total of 24% between 1990 and 1993. Health and social services spending has grown by a similar amount while training and income maintenance spending has been growing at twice the rate.

At $42,131 million, budgetary expenditures in 1995 equalled 25% of provincial GDP, slightly lower than the 1984 peak due to the previous recession. Total spending is expected to grow by less than 1% in 1996, after which the budget indicates that it will fall.

**3. Debt, Deficits and Interest Costs**

In 1993 the deficit of the government of Quebec reached $4,978 million, three times the 1990 amount. It fell slightly in 1994 but grew to $5,715 million in 1995, about $1,300 million higher than was predicted in the 1994 budget. The deficit still exceeds 3% of provincial GDP. It is predicted to fall to $3,975 million in 1996 and $1,825 million in 1998.

Debt servicing costs in 1995 were $5,862 million, up more than 10% from the previous year. These charges are consuming about 16 cents of every revenue dollar.

Total debt of the provincial government stood at $74,471 million in 1995, equalling 44% of provincial GDP.

**4. Federal Measures to Limit Transfers**

In 1993 the government of Quebec received a 15% increase in federal cash transfers. As a result, such transfers accounted for 22% of provincial government revenues. This was a temporary reversal of a longer term trend in which the federal cash share has declined from 28.9% in 1984 to a forecast level of 13% in 1998, declining significantly as a result of the 1995 federal budget.

The Quebec budget contains an extensive discussion of the federal withdrawal of financing for social programs. From 1993 to 1995, federal measures to limit transfers are claimed to have cost the Quebec government a total of $14,100 million. From 1995 to 1998, these measures, together with those contained in the 1995 federal budget, will cost the provincial government another $9,900 million.

According to the federal government, the annual entitlement for major transfers to Quebec will decline by only $350 million from 1995 to 1997, as the $722 million reduction due to the introduction of the CHST will be moderated by higher equalization payments.

### 5. Deficit Control Measures

The budget contains a number of measures to cause program spending to decline after 1995 and to raise revenues, primarily from the corporate sector.

### 6. Economic Forecasts

The budget projects economic growth at 3.3% for 1995 and 2.2% per year from 1996 to 1998. These rates of growth are below the corresponding Canadian averages. The unemployment rate is expected to stay high, at about 11.7% through to 1998.

## THE WESTERN PROVINCES

The four provinces of western Canada are economically and financially quite diverse. Alberta and British Columbia do not receive equalization payments from the federal government, whereas Saskatchewan and Manitoba are part of the group of "have not" provinces. Of the four, Manitoba suffered the worst as a result of the recession in 1991. British Columbia is expected to experience the strongest growth from 1994 through 1996.

### A. British Columbia

The British Columbia budget was tabled in the Legislative Assembly on 28 March 1995.

### 1. Revenue Trends

Unlike other governments in Canada, the provincial government in British Columbia continues to experience relatively healthy revenue growth. Revenues in 1993, at $16,243 million, were 11% higher than the year earlier and grew another 10.8% in 1994. Revenues in 1995 totalled $19,244 million, more than $500 million higher than predicted one year earlier. For 1996 total revenue is estimated at $20,300 million.

Tax revenues have been increasing every year. Personal income taxes have been growing since 1992 at an annual rate of 6% while corporate taxes have been increasing annually at a rate of 23%. The introduction of a much higher corporation capital tax has added well over $300 million to provincial coffers every year since 1993. Sales tax receipts are also growing rapidly.

Cash transfers from the federal government have been increasing by an average of only 1.6% per year since 1992, compared to 8.6% per year for all revenues and 9.1% per year for tax revenues. In 1996, cash transfers from the federal government are expected to decline to $2,343 million from $2,432 million in 1995.

### 2. Expenditure Trends

From 1992 to 1996, total government expenditures from the Consolidated Revenue Fund have been growing at an annual rate of 4.2%. Growth in spending in 1995 and the estimated growth for 1996 have declined to under 3%. These rates of spending growth are high by the standards of other governments in Canada.

Spending has grown fastest in the area of debt servicing, social services, education and public protection. Health expenditures are growing at a rate slightly above the average. Social services spending is only now showing a decline in growth -- from 1992 to 1994 it grew by 17% per year. Spending on general government operations, transportation and natural resources has been curtailed since 1992, a trend which is expected to continue. At estimated $20,186 million for 1996, total government spending will be 18% higher than in 1992.

There are several features cause British Columbia government expenditures to be understated according to these figures. If the government borrows early to fund its operations, the interest earned is deducted from spending, not added to revenue. More importantly though, much of the government's capital spending is done through Crown corporations and agencies and hence is off budget. In 1993, for example, the government decided to record highway capital spending off budget; consequently, trends in spending growth since that time are understated.

### 3. Debt, Deficit and Interest Costs

As of 31 March 1992, taxpayer supported debt in British Columbia stood at $12,547.5 million. It grew to $18,802.5 million as of 31 March 1995 and is expected to grow even more, to $19,529 million next year. Taxpayer debt per capita stands at about $5,200.

The operating deficit of the government has declined significantly since 1992 when it was $2,534.4 million. For 1995 it is $370 million and is expected to turn into a surplus of $114 million in 1996. As of 1995, the government no longer needs to finance its operations through borrowing. The reduced operating deficit, coupled with the winding up of the sinking fund and a reduction in cash holdings and short-term investments is actually enabling the government to reduce the amount of government direct debt outstanding.

But the deficit numbers cited above exclude a wide variety of government spending that takes place off budget, as was mentioned in the previous section. What, then, is the total annual deficit of the government? One way to calculate the government's total deficit is to calculate annual changes in the level of taxpayer supported debt. This debt includes all provincial government debt with the exception of British Columbia Hydro and Power Authority and British Columbia Railway Company, both of which are commercial enterprises. On this basis, the deficit in 1995 was $821 million, down from $3,348 million in 1993. In 1996 it is expected to decline only modestly, to $726 million.

In 1995, debt service charges were $964 million, up 50% from 1992. These charges consume only 5% of total government revenue, which is very low by Canadian standards.

**4. Federal Measures to Limit Transfers**

The British Columbia government does not rely heavily upon fiscal transfers, which account for 12.6% of total revenues in 1995. The variety of federal measures affecting transfers to the provinces affect B.C. as well, including the provisions that limited the growth of Canada Assistance Plan transfers to the non-equalization-receiving provinces. The 1995 federal budget announced the creation of a new Canada Health and Social Transfer that would further reduce federal transfers. The B.C. budget suggests that the new CHST will cost the provincial government $457 million in 1997 and $801 million in 1998, when compared to 1995 transfer levels. By 1998, federal cash transfers are expected to cover only 11% of provincial government costs of health care, post-secondary education and social assistance.

The B.C. budget argues that federal offloading of costs is actually higher than the Government of Canada admits. As far as the province is concerned, only the cash portion of federal transfers is important. It uses three arguments to make this case: 1. the tax point transfer does not show up in the books of any government, federal or provincial; 2. the tax transfer was actually a re-alignment of taxing powers to overcome structural imbalances in the financing of the federation, not a permanent contribution to provincial programs; and 3. the federal government has recovered through tax increases whatever room it may have vacated earlier.

According to the federal government, the annual entitlement for major transfers to British Columbia will decline by $282 million from 1995 to 1997.

### 5. Deficit Control Measures

The British Columbia economy has performed well over the past few years by Canadian standards and the province has a modest debt burden. Nevertheless, the high rate of expenditure growth required the government in 1993 to take measures designed to curb growth in the deficit. Most of those measures were designed to raise more revenue.

This budget outlines a debt management plan, whose goal is to maintain the highest credit rating of any Canadian province, to eliminate over 20 years the cumulative deficit on current spending, to reduce taxpayer supported debt over the next 20 years to 10% of GDP, and to ensure that interest costs never consume more than 8.5% of provincial tax revenues in any year.

### 6. Economic Forecasts

In 1994, the British Columbia economy grew by 4.3%, well above the 3.4% growth rate expected earlier, while employment grew by 4%. The province remains a favourable destination for immigrants. According to the budget documents, the economy of the province is expected to grow at a slower pace in 1995 and 1996 and perform just slightly worse than the national economy as a whole. The unemployment rate should fall to 9.1% by 1996.

## B. Saskatchewan

The Saskatchewan budget was tabled in the Legislature in February 1995. The Minister of Finance, the Hon. Janice MacKinnon, predicted a balanced budget for the year 1995-96 and announced that the 1994-95 year had also produced a surplus of $119 million.

### 1. Revenue Trends

In 1992, the total income of the Saskatchewan government was $4,052 million. By 1995 it had risen to $5,267 million and is expected to grow by only a small amount through to 1999. Transfers from the federal government, at $1,384 million, represent about 27% of total revenues. They are expected to fall as a result of the 1994 federal budget and will fall even more rapidly as a result of the 1995 federal budget. These transfers generate more revenue for Saskatchewan than does the personal income tax.

**2. Expenditure Trends**

In 1995, operating expenditures, including capital spending, were $4,267 million while public debt charges amounted to $881 million. In 1991, operating spending was $4,543 million. Operating spending in 1999 is still expected to be well below the 1991 level, while debt servicing costs are projected to decline slightly as a result of falling levels of net debt.

**3. Deficits, Debt and Interest Costs**

The government of Saskatchewan had hoped to achieve a balanced budget by 1997 -- it did so by 1995. The budget is in surplus even when spending on capital projects is included.

Debt servicing costs are rising quickly, from $523 million in 1992 to $881 million in 1995 (16.7% of revenues). The reason for this is clear. The budgetary deficits of the early 1990s have contributed greatly to the rise in the net debt position of the government. When added to the write-off of $1,453 million in assets in 1992, these factors caused the accumulated deficit to grow from $3,688 million as of 31 March 1992 to a forecast amount of $7,677 million as of 31 March 1996, a doubling in four years. In 1996, the accumulated deficit amounted to about $7,660 per capita.

As the government is projecting surpluses to the end of the decade, it expects the debt to GDP ratio to decline to 51% in 1999, compared to 73.2% in 1993.

**4. Federal Measures to Limit Transfers**

The budget argues that federal transfer changes have cost the province in the neighbourhood of $500 million per year since 1992. In 1996, the total cost of federal off-loading is estimated to be $522 million, of which $278 million comes from reduced EPF transfers, $150 million on the agricultural side, $43 million for treaty Indians and the remaining $51 million from other transfers.

By 1999, federal cash transfers are expected to account for 25% of provincial government revenues, down from 31% in 1992. This estimate is based on the 1994 federal budget and hence does not take into account lower transfers under the new Canada Health and Social Transfer as announced by Mr. Martin in his 1995 budget.

According to the federal government, the 1997 CHST entitlement for Saskatchewan is estimated at $888 million, almost $100 million less than the combined EPF/CAP transfers in 1995. Total entitlements for 1997, including equalization, are estimated at $1,450 million, up $39 million from 1995.

### 5. Spending the Fiscal Surplus

The budget notes that in 1995, the government of Saskatchewan enjoyed a surplus of $119 million, well ahead of schedule. From 1996 to 1999, the status quo surplus is expected to add up to $783 million. The budget proposes to split this surplus into three categories with 37% being used to reduce accumulated debt, 33% being used to reduce taxes (80% of the available funds will reduce the deficit reduction surtax while 20% will be used to reduce corporate taxes), and 30% is to be used to enhance services to the citizens of Saskatchewan.

The most prominent tax reduction is the application of a $150 non-refundable credit against the Debt Reduction Surtax paid by individual taxpayers.

### 6. Economic Forecasts

In 1994, real GDP in Saskatchewan increased by 3.8%, which the budget projects will decline to 1.8% in 1995. Real growth to 1998 is expected to average just less than 2% per year while the unemployment rate should average about 7%. Like the federal government, the government of Saskatchewan is employing economic assumptions that tend to be slightly more pessimistic than those of private sector forecasters.

## C. Alberta

The Alberta budget was tabled in the Legislative Assembly on 21 February 1995.

### 1. Revenue Trends

Total revenues in 1990 were $9,720 million. By 1992 they had grown to $11,630 million, representing an annual increase of 9.4%. They reached $13,950 million in 1995, $1,270 million higher than projected in last year's budget. This extraordinary revenue windfall comes from higher royalty payments and increased sales of leases. These non-renewable resource revenues are expected to fall by $800 million in 1996, down to more normal levels. Higher lottery fund revenues as well as increased personal and corporate income tax receipts are expected to continue into 1996.

Total revenues for 1996 are estimated to be 4.3% less than in 1995 and 2.5% less than in 1994. Revenues for planning purposes must be based on prudent forecasts. Consequently, planned resource revenues must be the lesser of the average actual revenues of the previous five years or 90% of the amount forecast by the Alberta Treasury. A similar rule now applies to corporate income tax estimates as well. Thus the 1996 revenue estimates are reduced by $391 million from the amounts forecast by the Treasury. In other words, the 1996 revenue estimate, which is used for the purposes of planning under the *Balanced Budget and Debt Retirement Act*, is 2.8% lower than that projected by the Treasury's model.

### 2. Expenditure Trends

In 1990, total expenditures were about $12,057 million. This grew to $13,402 million in 1992, an annual growth of 5.4%. By 1994 it had grown to $15,586 million, almost 30% higher than in 1990. Total spending in 1995, at $14,416 million, is about 7.5% less than in 1994 and should fall a further 3% to $14,000 million in 1996. This is to be accomplished by a two-year, 13% drop in program spending.

The 1996 spending estimates are divided into the following major categories: health (25%), education (19%), debt servicing (13.5%), and family and social services (10%).

At $11,844 million, program spending in 1998 is planned to be about $2,600 million less than it was in 1993. This represents an 18% decline. Areas of spending priority will also see cuts but they will be less dramatic. Education spending will be cut by less than 6%, for example. Health care spending will be cut by just under 18%, advanced education cuts will be about 16%, and welfare spending cuts will be about 19%. All other programs will see cuts of about 27%.

### 3. Debt, Deficits and Interest Costs

As of 31 March 1993, the net debt of the Alberta government stood at $11,824 million. This amount is far above earlier figures because of accounting changes introduced by the government. In particular, the net debt now reflects unfunded pension liabilities of $4,500 million that were not accounted for earlier. By 31 March 1995 it stood at approximately $13,590 million and will rise further to $14,415 million in 1996. The net debt, excluding unfunded pension liabilities, is $8,203 million in 1995, $2,985 per capita.

The consolidated deficit for 1993 was $3,415 million (4.5% of provincial GDP). It fell by more than $2,000 million in 1994 and a $110 million surplus was achieved 1995. This surplus is an extraordinary event as the budget is expected to return to deficit next year to the tune of about $500 million. Growing surpluses, however, are expected after 1996.

Debt servicing costs in 1993 were $1,433 million. By 1996 interest costs should reach $1,895 million, just over 14% of total revenues.

**4. Federal Measures to Limit Transfers**

The 1995 budget has nothing to say about the matter. The Treasurer, Mr. Jim Dinning, is quoted as saying the recent federal budgetary measures are manageable and have been factored into Alberta's budget. (Cash transfers from the federal government account for only 12.4% of the revenues of the Alberta government.)

According to the 1995 federal budget, the annual transfer entitlements for Alberta in 1997 will be $212 million less than in 1995.

**5. Deficit Control Measures**

The Alberta government has previously enacted the *Deficit Elimination Act*, which established a four-year timetable for the achievement of a consolidated budget balance, mandating a surplus every year after 1996. The government's performance was well within the limits for 1994 and 1995. The government is now forecasting a surplus for 1995, something it had not originally expected, due largely to unexpectedly high revenues which will probably not be repeated in 1996. As part of this deficit reduction plan, every department must establish a business plan that includes target spending to the year 1998.

The Act is to be amended and renamed the *Balanced Budget and Debt Retirement Act*. Starting in 1998, the government must reduce the net debt subject to this Act (i.e. total net debt less unfunded pension liabilities) by $343 million per year, which would eliminate that net debt by the year 2022.

**6. Economic Forecasts**

The Alberta economy grew by 5.1% 1993 and 4.5% in 1994. The government is basing its projections on economic growth of 2.7% in 1996 and 3% in 1997 and 1998. The unemployment rate is expected to fall to 6.8% by 1998.

The Alberta Treasury assumptions are somewhat more optimistic than the private sector average for 1994 and slightly more pessimistic for 1995. It is assuming interest rates well above private sector forecasts.

## D. Manitoba

The 1995 Manitoba budget was tabled in the Legislative Assembly on 9 March 1995.

### 1. Revenue Trends

Operating revenues were $4,697 million in 1993, growing to $5,023 million in 1995 and are predicted to reach $5,263 million in 1996. Total budgetary revenues include special transfers from the lotteries and stabilization accounts and hence are higher than operating revenues by about $250 million in 1995. (Over the subsequent three years operating revenues should increase by just under 2.5% per year.)

### 2. Expenditure Trends

Current program spending in 1995 was $4,469 million, a level that is expected to be maintained until 1999. Total operating spending in 1996 is expected to be $5,113 million, which should also be held constant to 1999. Net capital spending is just over $300 million per year.

### 3. Debt, Deficits and Interest Costs

As of 31 March 1993, the general purpose net debt of the province stood at $6,179 million, almost 17% higher than the year before. It was equal to 26% of provincial GDP. By 1996 it should increase to $6,992 million (about $6,192 per capita), also 26% of GDP. Total net debt, including that of the provincial hydro corporation as well as others, is expected to reach $13,954 million, equal to 52% of GDP.

Manitoba has been steadily running a deficit since 1990. In 1993, the deficit, at $566 million, was 69% higher than the previous year. The government portrays the 1995 deficit as $218 million, equal to 0.8% of GDP, and projects a surplus of $48 million in 1996.

All lottery earnings go into a separate account, unlike the practice in most other provinces, with an annual transfer to fund certain lottery-financed programs. In recent years the government has also been transferring some moneys from the lotteries fund to reduce the deficit. The government has also established a stabilization fund into which it deposited $200 million in 1989. Withdrawals from these accounts are treated as income and deposits into the stabilization fund are treated as expenditures. While such transactions have no overall impact on the debt, they can alter the timing of reported deficits. Thus a 1989 surplus of $59 million was turned into a $141-million deficit on account of a $200-million deposit into the stabilization fund. Similarly, a $200-million withdrawal in 1993 helped give the appearance that the deficit for that year was $4 million less than that for the previous year, when it was in fact $206 million more.

In 1996 there is to be a special lotteries transfer of $145 million, in addition to the $90-million deficit reduction transfer from the lotteries account that was in place in 1995 and continues in 1996. In 1995 there was also a $20-million transfer from the fiscal stabilization account.

With the exception of 1993, the Manitoba government has generally maintained an operating surplus; this continues. The deficit position of the government in the 1990s is actually better than it was in the latter half of the 1980s. The medium-term fiscal plan projects a budgetary surplus of $48 million in 1996. In 1997 a balance is expected and by 1999 a $348-million surplus is forecast. Public debt costs in 1996 are expected to be $648 million (11.8% of revenues), 13% higher than in 1995. This is due almost entirely to higher interest rates. Debt servicing costs are expected to fall slightly in subsequent years. This medium-term fiscal plan has taken into account the measures in the 1994 federal budget, but not those in the 1995 federal budget.

### 4. Federal Measures to Limit Transfers

The 1995 budget argues that federal transfer cuts have cost the provincial government $1,000 million in cumulative revenue losses since 1988. The 1994 and 1995 federal budgets have imposed further cuts, totalling $391 million from 1996 to 1998.

According to the federal government, entitlements for major transfers to Manitoba will decline by only $7 million from 1995 to 1997, even though the cuts due to the establishment of the CHST will result in a reduction of just over $100 million.

### 5. Deficit Control Measures

The government announced in the budget its plans to introduce The Balanced Budget, Debt Repayment and Taxpayer Protection Act. This, starting in 1996, would impose a prohibition against deficits in the total operations of the government, including capital spending. Income for the purposes of calculating deficits would include withdrawals from the Fiscal Stabilization Fund; however, the fund would have to be equal to at least 5% of annual expenditures. Deficits could be incurred only in case of war, serious disaster or a drop of 5% or more in total revenues. If an ineligible deficit did, for some unexpected reason, occur, it would have to be offset the next year. In such a case, all members of the provincial cabinet would see a 20% reduction in their ministerial pay. If a deficit occurred again in the next year, the penalty would rise to 40%.

The Act would also require the establishment of a Debt Retirement Fund into which the government would have to deposit $75 million each year starting in 1998, plus 7% of all moneys previously withdrawn from the fund to retire debt. The government would have to withdraw money from the fund to pay down debt at least once every five years. Debt would be retired as it came due or when market conditions permitted a purchase of debt outstanding in the market.

The taxpayer protection part of the Act would require any increase in rates for personal or corporate income tax, sales tax or payroll tax to be subject to public referendum. The only exceptions would be changes that were revenue neutral or changes in response to tax room provided by the federal government in compensation for reductions in federal transfers to the provinces.

### 6. Economic Forecasts

The budget forecasts real economic growth at 3.0% in 1995 and 2.7% in 1996. The unemployment rate is expected to fall to 8.2% in 1996, from 9.2% in 1994. The growth in real output and employment is expected to be slightly lower than the Canadian average.

## THE ATLANTIC PROVINCES

The four provinces of Atlantic Canada constitute the poorest region of the country. These provinces have the highest unemployment rates and the lowest per capita incomes in Canada. They also rely heavily on transfers from the federal government.

The financial positions of these provinces vary greatly. In 1994 Prince Edward Island recorded a net debt of over $421 million, almost $3,200 per capita. This is well below the average of the Atlantic provinces. Newfoundland, on the other hand, registered a net debt that year that exceeded $8,800 per capita.

## A. Prince Edward Island

The PEI budget was tabled on 30 March 1995. Although the government has one of the better debt positions of Canadian governments, its small size and lack of economic diversity have led to one of the worst credit ratings in Canada. In addition, the PEI government is very large in relation to the size of the provincial economy. Consequently, the government is very wary of its deficit and debt position.

### 1. Revenue Trends

Total provincial revenues for 1995 are $820 million, up 6.9% from the amount originally projected in the 1994 budget, but the budget projects revenues for 1996 to fall to $794 million. These figures compare with total receipts of $660 million in 1990. Revenues in 1995 benefited from an unexpectedly large increase in equalization revenues.

For 1996, the PEI government is expecting a drop in cash payments from the federal government, as well as a slight decline in own-source revenues, due mostly to a 50% drop in investment income. Tax revenues are expected to increase by 4.3%.

### 2. Expenditure Trends

Total spending on current account and net capital account amounted to $689 million in 1990, rising to $830 million in 1995, an increase of 3.8% per annum. For 1996, total spending is expected to drop to $790 million.

### 3. Debt, Deficit and Interest Costs

As of 31 March 1993, the net debt of the government of Prince Edward Island stood at $352 million, up from $191 million only four years earlier. Deficits in 1993 and 1994 were $82.3 million and $71.3 million respectively, up from $7.9 million in 1990. The 1995 deficit came in at under $10 million and a surplus of $2.7 million is projected for 1996.

The net debt as at 31 March 1995 stands at $962.8 million, more than $600 million above the 1993 figure. This enormous jump is due to accounting changes whereby the net debt now includes all unfunded pension liabilities and excludes from assets any advances to schools and hospitals.

The growth in the accumulated deficit of the province has led to an increase in debt servicing costs, which have risen from $84 million in 1991 to $116.5 million in 1995. These charges today consume almost 16 cents out of every dollar of revenue, up from 13 cents in 1990.

**4. Federal Measures to Limit Transfers**

The government of Prince Edward Island relies upon cash transfers from the federal government for about 45% of its total revenues. Federal restraint measures have hit the provincial finances hard. Despite these changes, however, the province did see an unexpected jump in equalization payments of $31 million for 1995. Recent federal initiatives will also affect transfers.

According to the federal government, the new CHST should cost the provincial government about $13 million in 1997, but total entitlements for that year should be about $7 million higher than they were in 1995.

**5. Deficit Control Measures**

From 1988 to 1992, the unemployment rate in Prince Edward Island increased steadily from 13% to 17.7% and during this period the deficit ballooned. In 1991, when other provinces were starting to implement expenditure control measures, the PEI government was relying upon tax increases to fix its budgetary problems. At that time, full harmonization of the provincial sales tax with the GST was contemplated, and several income tax increases were put into place.

In the previous two budgets the focus changed to spending reductions, largely through efficiencies gained in the delivery of government services. For every dollar of revenue increase, two dollars of spending cuts were expected. Tax rates for the personal and corporate income tax, as well as the sales tax, have not been changed. The sales tax base, which was not harmonized with the GST, was broadened; cigarette and gasoline taxes were raised; and property tax credits were reduced.

This budget introduces no new spending or revenue initiatives. Over the past two years however, the government did cut $29 million from programs and reduced public sector salaries and benefits by $23 million. The budget does set out policies to guide the fiscal and economic framework of the province to the year 2000, including the intention to balance the budget over this period and to maintain tax rates below those in the rest of Atlantic Canada.

### 6. Economic Forecasts

The PEI economy performed better than the national average in 1994 and the provincial unemployment rate in early 1994 was 17.1%, down from 18.1% a year earlier. Growth in 1995 is expected to be about 3%.

## B. Nova Scotia

The Nova Scotia budget was tabled in the House of Assembly on 11 April 1995.

### 1. Revenue Trends

In fiscal year 1990, the total revenues of the Nova Scotia Government were $3,775 million, but they fell during the early years of the 1990s. In 1995 they were $3,855 million, much higher than expected. They are expected to grow slightly, to $3,887 million, in 1996. From 1991 to 1993, total revenues were essentially stagnant, due to declining tax revenues and a diminution of cash transfers from the federal government. Equalization payments increased substantially in 1995.

Since 1992, Nova Scotia has experienced a healthy growth in corporate income tax revenues and gaming profits. The latter source of revenue is expected to continue growing strongly in 1996.

### 2. Expenditure Trends

Total net program expenditures on both the current and the capital account have been brought under control and, at $3,334 million in 1995, are below 1993 levels. They are expected to fall again in 1996, to $3,257 million, which would be $238 million (7%) less than in 1993.

The allocation of spending resources clearly indicates a shift away from discretionary activities and a concentration on activities driven by economic and demographic factors. For example, spending on culture and recreation, resource development, transportation and communications has declined in absolute terms. Spending cuts have also been experienced in the fields of health and education. Only social services spending has increased in absolute terms.

Because of growing debt servicing costs, total spending is also declining, but not as rapidly.

### 3. Debt, Deficits and Interest Costs

The provincial deficit in 1994 was $549 million, which was expected to decline only modestly in 1995. Unexpectedly high revenues, however, resulted in a deficit of $290 million. In 1996 the deficit should fall again to $183 million.

The rapid increase in the net debt position of the province in the early 1990s has led to growing debt servicing costs. In 1995, interest charges accounted for 24% of total revenues.

### 4. Federal Measures to Limit Transfers

Cash transfers from the federal government in 1995 were $1,486 million, of which more than $1,000 million represented equalization payments. These revenues accounted for 39% of total revenues. Despite federal restraint in its transfers to the provinces, cash transfers to Nova Scotia have continued to increase.

Although the move to the CHST will cost the provincial government about $100 million in annual transfers, total entitlements to Nova Scotia will continue to grow modestly to 1997 on account of higher equalization payments. According to the federal government, total annual entitlements in 1997 should be $17 million higher than in 1995.

### 5. Deficit Control Measures

The 1994 budget put into place a four-year plan to bring the province's finances under control. The high income surtax was increased for a one-year period and was been made into a two-stage tax. Gasoline taxes were increased; the provincial sales tax, known as the health services tax, was increased from 10% to 11% and its base broadened somewhat.

On the expenditure side, the government cut back operating and capital expenditures from the previous year. In addition, it put into place a four-year expenditure control plan that was to save $300 million in operating costs and $60 million in capital spending over its lifetime. The 1995 budget continues these initiatives.

### 6. Economic Forecasts

The budget forecasts lagging growth for Nova Scotia in the near term, when compared to the Canadian average. Growth in 1996, at 1%, is projected to be about one-third the national average. Unemployment is also expected to rise above 1994 levels in 1996.

## C. New Brunswick

The New Brunswick budget was tabled in the Legislature on 21 February 1995.

### 1. Revenue Trends

Total budgetary revenues in New Brunswick equalled $3,583 million in 1990, rising to $3,690 in 1992. In 1995 total revenues reached $4,006 million.

Last year's budget overestimated receipts from the personal income tax by $80 million. On the other hand, it underestimated corporate income tax receipts by almost $60 million. At $155.8 million, these receipts represented an extraordinarily high CIT revenue, which is expected to decline to $111 million in 1996. On balance, revenues in 1995 were 2% higher than estimated in last year's budget.

The budget is estimating a 2.8% increase in total revenues for 1996. This rate of growth is well below the expected nominal GDP growth for the province.

### 2. Expenditure Trends

In 1991, the New Brunswick government spent $3,773 million on ordinary account expenditures and $296 million on net capital spending. By 1993, these two components reached $4,452 million, a 9.4% increase. In 1995, ordinary expenditures were $3,930 million plus $279 million in net capital spending. This is less than total spending in 1993. Total spending in 1996 is expected to decline to $4,207 million, on account of a decline in net capital spending to compensate for higher ordinary account expenditures. Total spending to the year 2000 is predicted to grow by less than 2% per year.

### 3. Debt, Deficits and Interest Costs

As of 31 March 1992, the net debt of the provincial government amounted to 31% of provincial GDP, up from 27.6% two years earlier. It is now just under 35% of GDP. At 31 March 1995, it stood at $5,516 million. This figure was adjusted upwards in the previous year to account for $1,645 million in accrued pension liabilities. In 1995, the net debt fell, even though the province recorded a deficit, because a surplus of $368 million was taken from Crown corporations. In 1996, however, net debt will decline as the government is expected to record an overall budgetary surplus.

The provincial government is paying about $602 million in interest payments in 1995, just over 15% of revenues.

The budgetary deficit for 1995 was $48 million, substantially less than the $121 million predicted last year. This was due to higher revenues. A budgetary surplus of $68 million is predicted for 1996.

**4. Federal Measures to Limit Transfers**

In 1983, federal revenues accounted for 48.6% of gross ordinary revenues. This has fallen to just under 40% for 1995, equal to $1,595 million. It is expected to fall further in 1996, to 37.5% of gross ordinary revenues ($1,567 million). The 1995 federal budgetary measures are expected to result in higher transfers to New Brunswick. In 1997, total annual entitlements should be $22 million higher than in 1995, according to the federal government. This increase comes from higher equalization payments as the CHST is expected to result in a $71-million drop in entitlements.

**5. Deficit Control Measures**

The New Brunswick government previously passed *An Act Respecting the Balancing of the Ordinary Expenditures and Ordinary Revenues of the Province*. This law was designed to force the government to balance its current account over a three-year period. This budget predicts that by 1996 a cumulative surplus of $89.3 million will have been achieved.

With the apparent success of this budgetary control Act, the government has set its sights on a total budget surplus, not just an ordinary accounts surplus. The government plans to amend the Act to require an overall surplus in the total, consolidated budget of the provincial government from 1997 to 2000. Meeting this target will reduce the amount of net debt outstanding. The fiscal projections in this budget suggest a cumulative surplus of $240 million during this four-year target period.

**6. Economic Forecasts**

According to the budget documents, the New Brunswick economy has performed better than the rest of Canada since 1987. Nominal GDP growth in New Brunswick has on average been 10% higher than the Canadian average while personal income growth has been 15% higher.

The government is forecasting real provincial growth of 2.7% in 1995. This is less than private sector forecasts, which average just over 3%.

## D. Newfoundland and Labrador

The 1995 Newfoundland budget was tabled in the House of Assembly on 23 March 1995.

### 1. Revenue Trends

In 1990, total revenues of the government of Newfoundland were $2,931 million. In 1995 they were $3,244 million, and are expected to grow to $3,398 million in 1996. This 4.7% revenue gain is described by the government as extraordinary, containing such one-time revenues as a second payment from the Government of Canada related to ferry service, some privatization proceeds and additional revenue from the province's sinking fund.

### 2. Expenditure Trends

In 1995, total net expenditures on the current account of the provincial government were $2,827 million; they are expected to decline to $2,814 million in 1996. Capital account spending was $161.4 million in 1995 and is expected to fall to $126 million in 1996.

### 3. Debt, Deficits and Interest Costs

Total public sector debt, net of sinking fund assets and less the debt of the utility corporation, equalled $4,069 million in 1991 and reached $5,475 million in 1995 ($9,414 per capita).

The provincial deficit has fallen steadily since 1991, when it reached $347 million. In 1993 it was $265 million, which fell to $136 million in 1995. For 1996, a $2 million surplus is predicted.

Debt charges in 1993 amounted to $492.5 million. By 1995 they were up to $531 million (16.4% of revenues). In 1996 they should increase further to $547 million.

### 4. Federal Measures to Limit Transfers

In 1987, the federal government contributed 48.5% of the provincial government's revenues via cash grants. This has since declined to 43% and is expected to decline still further, to

40% by 1998. Federal restraint in transfer payments, as outlined in the 1995 budget, is expected to cost the provincial treasury $110 million in 1997 and $160 million in 1998.

According to the federal government, the CHST will reduce transfers to Newfoundland in 1997 by $51 million from 1995. Total major entitlements will be $28 million higher, however, on account of increased equalization benefits.

### 5. Deficit Control Measures

The 1995 budget of the Newfoundland government contains no increases in taxes and introduces further spending restraint. It is reducing grants and subsidies, consolidating administration, reforming the regulatory system, cutting capital spending, seeking privatization opportunities and having Newfoundland and Labrador Hydro remit dividends to the government.

### 6. Economic Forecasts

In 1994, the unemployment rate in Newfoundland was just over 20%; it is expected to remain high. The budget provides no long-or medium-term forecasts. It suggests a provincial growth rate of 3% for 1995, largely as a result of activity around the Hibernia project and other mining and energy activities.

## SUMMARY OF TRENDS

Canadian governments have generally come to the realization that their deficits and accumulated debts are too high. The extent to which they are coming to grips with this problem differs enormously from government to government.

The largest of the political units -- the federal government, Ontario and Quebec -- have by far the highest per capita deficits, as can be seen in Figure 1. These entities are also those that are only modestly reducing their deficits. On the other hand, the smaller units have made the most dramatic progress in curtailing their appetites for deficit spending. Unfortunately their efforts have little impact on the aggregate statistics for the government sector in Canada as a whole.

According to Figure 1, British Columbia has done little to reduce its deficit from 1995 to 1996. This view contrasts with that portrayed in the British Columbia budget, which predicts a surplus for 1996. Included in Figure 1 is spending recorded by the British Columbia government as off-budget. The picture painted here for Ontario also differs from that presented by the Ontario government. Using a basis comparable with that used in the other provinces, the Ontario deficit for 1995 is almost $1,800 million higher than is portrayed in the province's budget plan.

Figure 2 compares the 1995 interest burden for the eleven governments. Three governments stand out from the rest. The interest burden in British Columbia is very low by Canadian standards. This, combined with the strong economic performance of the B.C. economy, suggests that deficit reduction should have been a relatively easy task for that government. By contrast, Nova Scotia and the federal government stand out as having high debt servicing burdens. This makes deficit cutting difficult because that requires large operating surpluses.