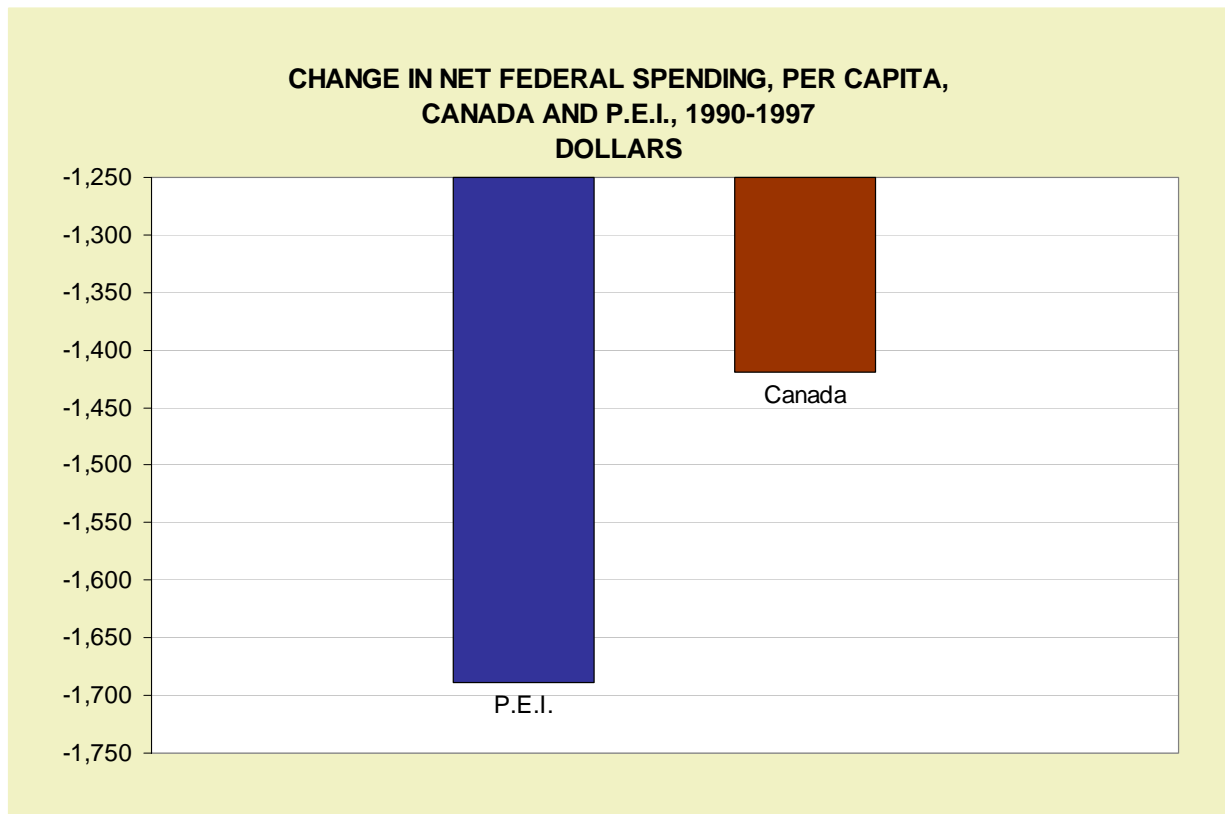


Federal Spending Exceeds Federal Revenues in Most Provinces

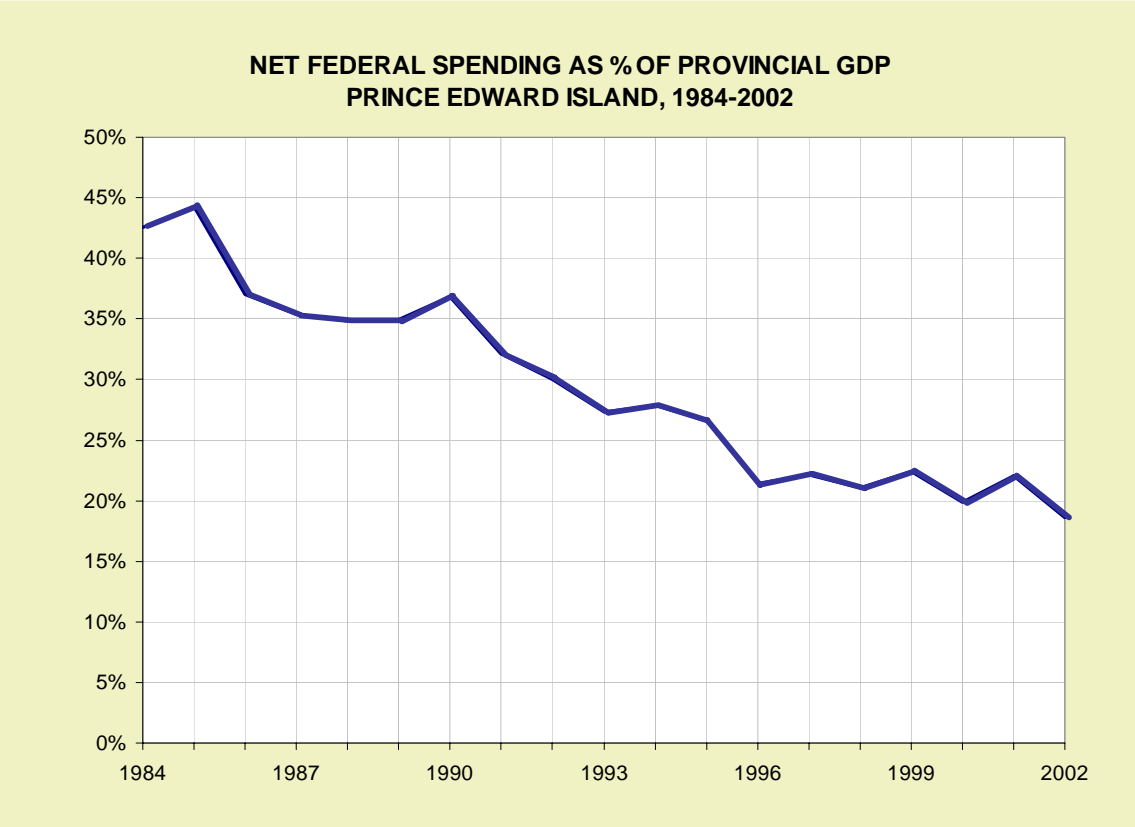
On November 22, 2004, an article written by Bruce Little entitled "Doing the math on the have and have-not provinces" appeared in the Business Section of The Globe and Mail. The article points out that federal spending exceeds federal revenues in most provinces, while Alberta, Ontario and British Columbia contribute to the federal surplus. Mr. Little states that, "The biggest net beneficiary was PEI, at \$5,105 per person..." in 2002.

On Prince Edward Island federal spending per capita, net of taxes, fell by \$1,689 between 1990 and 1997.

The article suggests that the less well-off provinces are a continuing drain on the federal coffers, while the three richer provinces largely account for the federal surplus. It is unfortunate that Mr. Little did not look at the figures more closely. They show, for example, that the movement from federal deficit to surplus, starting in 1997, came more from poorer provinces, such as Prince Edward Island, than richer. The graph below shows that, in Prince Edward Island, federal spending per capita, net of taxes, fell by \$1,689 between 1990, when the federal deficit was \$33 billion and 1997, when it became a surplus. For the nation it was \$1,419. Islanders evidently contributed more to the federal move from deficit to surplus than provinces on average.



PEI has become far less dependent on federal transfer payments over time. The graph below shows that *Net federal expenditures* in PEI, the result of the difference between total federal spending in the province less the amount of federal taxes paid, fell from 44.3 per cent of its GDP in 1985 to 18.6 per cent in 2002.



This major improvement is the result of many factors, including economic growth, reduced Employment Insurance payments, and lower federal transfers to the provincial government. It would be interesting if the *Globe and Mail* presented *these* facts.

Mitch Murphy,

Provincial Treasurer