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The Budget Performance Index 2000: Comparing the Recent Fiscal Conduct of Canadian Governments

by Joel Emes
The Fraser Institute

Contents

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Introduction

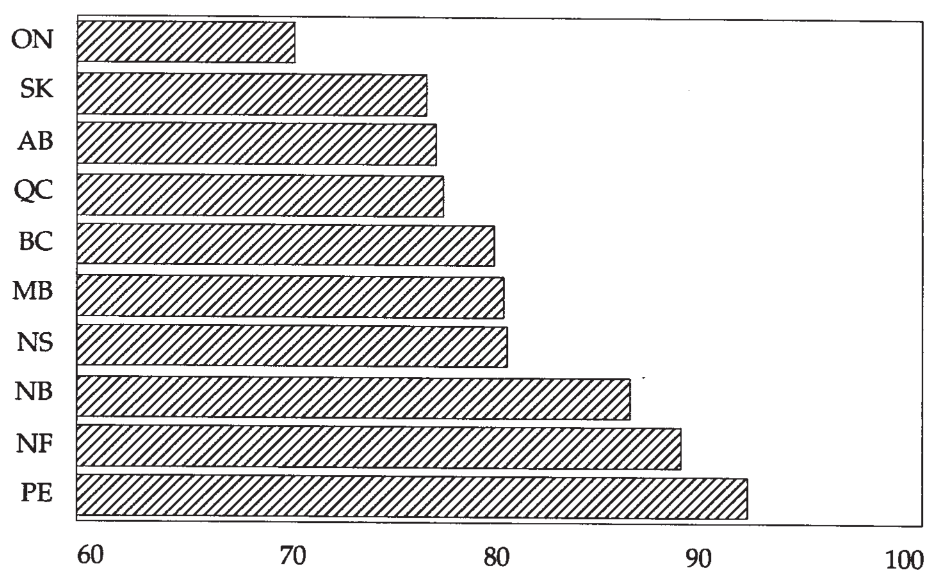
The Budget Performance Index measures the recent fiscal performance of the provinces and the federal government. The index incorporates a variety of measures of spending, tax rates, tax revenues, deficits, and debt. This study aims to provide Canadians with information about how their local and provincial governments tax, spend, and manage debt relative to other Canadian jurisdictions.

This study is meant to provide more detailed comparisons among the provinces than that allowed by The Fraser Institute's Fiscal Performance Index, which only compares the taxing and spending actions of the Canadian provinces to each other and to the US states. Thus, for purely Canadian comparisons, the Budget Performance Index is best; for Canada-US comparisons, the Fiscal Performance Index is more appropriate.

As this study uses consolidated provincial-local data, all references to an individual province include both provincial and local government activities. Consolidated data ensures that those provinces with a high concentration of spending responsibility and taxation authority at the provincial level (see figure 1) do not get penalized simply because of this difference. The change in focus from provincial to consolidated data was suggested by one of the provincial finance departments. Suggestions of this sort regarding methodology are welcome.

The period over which most variables in the study are measured is fiscal year 1995/96 through fiscal year 1999/00. The exceptions are tax rates, which are measured in calendar years 1995 and 1999, and debt per capita and debt as a percent of GDP, which are measured from fiscal year 1994/95 through fiscal year 1998/99.

Figure 1: Provincial Spending as a Percent of Consolidated Provincial-Local Spending, 1996/97



Sources: Statistics Canada, Public Institutions Division, Financial Management System; calculations by the author.

The remainder of this study is organized into three parts. The "Budget Performance Index" section presents the tables for the overall index and its sub-indices. "Jurisdictional Analysis" provides each jurisdiction's score and rank for the overall index and sub-indices as well as a brief discussion of the jurisdiction's performance. The "Methodology" section provides details on the data used, and comments on the construction of the index.

The Budget Performance Index

Alberta out-performed all the other provinces and the federal government receiving a score of 74.3 out of a possible 100 on the Budget Performance Index. Table 1 shows each jurisdiction's Budget Performance Index score and rank, as well as the scores and ranks of each on the sub-indices. Figure 2 presents the Budget Performance Index scores ranked from highest to lowest. Two figures stand out in table 1: Alberta's perfect score on the debt and deficit sub-index, and the federal government's perfect score on the spending sub-index.

Alberta holds or shares top position on every variable in the debt and deficit sub-index because the province did not have a single deficit year over the period of the study, it decreased its debt by almost $3,000 per person, and it all but eliminated its net debt. (Alberta has announced that it has eliminated its net debt as of 1999/00, but the debt data in this study ends in 1998/99.)

The federal government holds the top spot on every one of the spending variables. This may seem strange since The Fraser Institute has frequently reminded Canadians that the federal deficit was eliminated mainly because of increased tax revenue, and that narrowly-defined federal spending actually increased rather than decreased over the deficit elimination period. The latest reminder comes from Andrew Kosnaski in the February 2000 *Fraser Forum*. Kosnaski shows that 77 percent of the federal deficit elimination between 1993/94 and 1997/98 can be attributed to revenue increases while only 23 percent of the improvement in the deficit was due to spending decreases. Kosnaski further shows that of the changes in program spending between 1993/94 and 1997/98, transfers to persons and transfers to provinces decreased by $3.5 billion and $6.8 billion, respectively, while federal departmental spending increased by $4.2 billion. Although the federal government did eliminate its deficit mainly through increased revenue, and its low score on the Tax Rates and Revenue

Figure 2: Budget Performance Index 2000

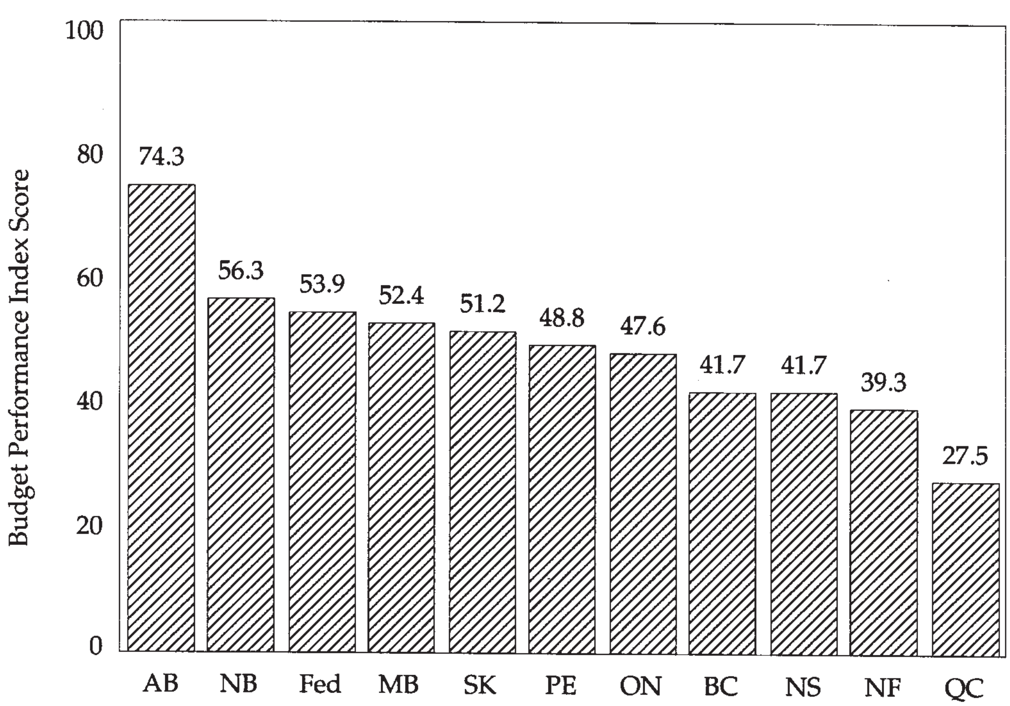


Table 1: Budget Performance Index, 2000

	Spending Score	Spending Rank	Tax Rates & Revenue Score	Tax Rates & Revenue Rank	Debt & Deficit Score	Debt & Deficit Rank	Budget Performance Index Score	Budget Performance Index Rank
AB	44.9	4	77.9	1	100.0	1	74.3	1
NB	52.3	3	62.3	3	54.2	7	56.3	2
Fed	100.0	1	31.8	11	29.8	9	53.9	3
MB	31.4	7	57.8	6	67.9	3	52.4	4
SK	22.3	9	60.6	4	70.5	2	51.2	5
PE	38.7	6	44.0	9	63.7	4	48.8	6
ON	54.1	2	71.5	2	17.1	10	47.6	7
BC	28.2	8	58.9	5	38.0	8	41.7	8
NS	12.1	11	55.2	7	57.8	5	41.7	9
NF	12.6	10	50.6	8	54.7	6	39.3	10
QC	40.7	5	38.6	10	3.1	11	27.5	11

Sources: Statistics Canada, Public Institutions Division, FMS data; federal and provincial public accounts, budgets and updates; calculations by the author.

sub-index certainly bears this out, it did cut spending between 1994/95 and 1999/00 while the provinces as a whole increased spending. Federal spending cuts coupled with steady population growth and strong GDP and personal income growth explain why the federal government scores so well on the Spending sub-index. Federal government spending scores are also helped by the fact that federal transfers to the provinces, which were cut by $2.9 billion (11 percent) are included as federal spending. While this treatment boosts the federal scores it does not change the overall result. Even if we look at federal spending net of transfers to the provinces, the federal government would receive a top score on each component of the sub-index. The federal government's spending values would change to -2.7 (from -3.0), -4.2 (from -4.4), -3.5 (from -3.8), and 15.4 (from 18.0) if transfers to the provinces were not treated as federal spending. These transfers are counted as federal spending because, ultimately, the federal government has discretion over the level of these transfers. This means that even though the provinces had to deal with the federal cuts to provincial transfers, the federal government gets the credit for the cuts. The federal government gets the credit because there is no good reason to assume that the federal budget would have been balanced had the choices of where, or even if, to cut federal spending had been controlled by the provinces.

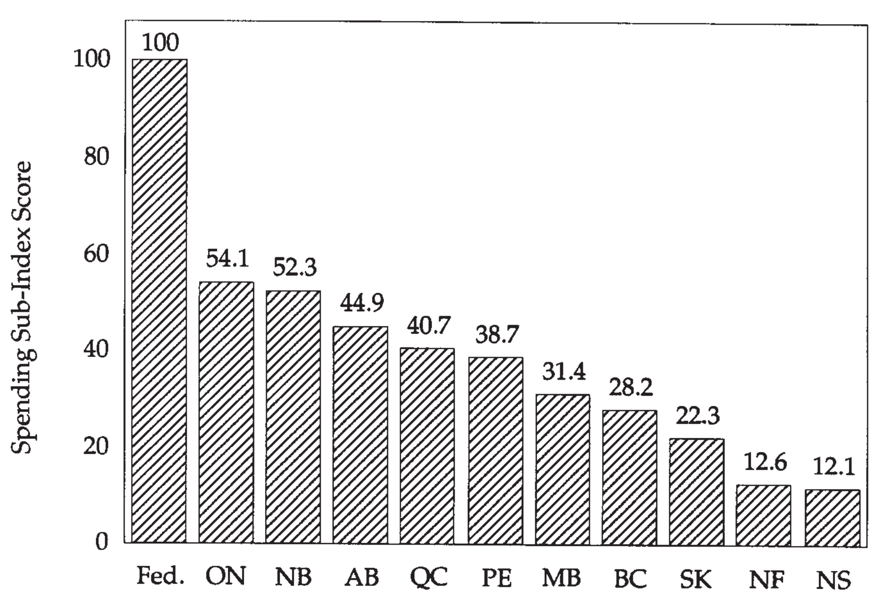
Spending

Table 2 reports the Spending sub-index and includes each jurisdiction's values for the four variables as well as their score and rank. Figure 3 presents the Spending sub-index scores ranked

Table 2: Spending Sub-Index

	Average annual change in real spending less transfers* per capita (percent)	Average annual change in spending less transfers* as a percentage of GDP (percent)	Average annual change in spending less transfers* per $1,000 of personal income (percent)	Spending less transfers* as a percentage of GDP, 1999/00	Score	Rank
Fed.	(3.0)	(4.4)	(3.8)	18.0	100.0	1
ON	(0.7)	(2.8)	(1.6)	21.7	54.1	2
NB	(0.8)	(2.5)	(1.7)	22.1	52.3	3
AB	0.1	(1.0)	(1.6)	19.9	44.9	4
QC	(0.9)	(2.4)	(1.8)	26.0	40.7	5
PE	0.3	(1.3)	(0.4)	20.0	38.7	6
MB	0.2	(1.1)	(1.0)	23.3	31.4	7
BC	(1.6)	(0.5)	(0.9)	25.6	28.2	8
SK	0.4	(0.8)	(0.8)	25.0	22.3	9
NF	2.1	(1.0)	0.5	23.3	12.6	10
NS	1.5	(0.3)	0.4	23.4	12.1	11

Figure 3: Spending Sub-Index



from highest to lowest. As mentioned above, the federal government holds top spot on every one of these variables and thus receives the top score on this sub-index.

Tax rates and revenue

Table 3 reports the Tax Rates and Revenue sub-index and includes each jurisdiction's values for the nine variables, as well as their score and rank. Figure 4 presents the Tax Rates and Revenue sub-

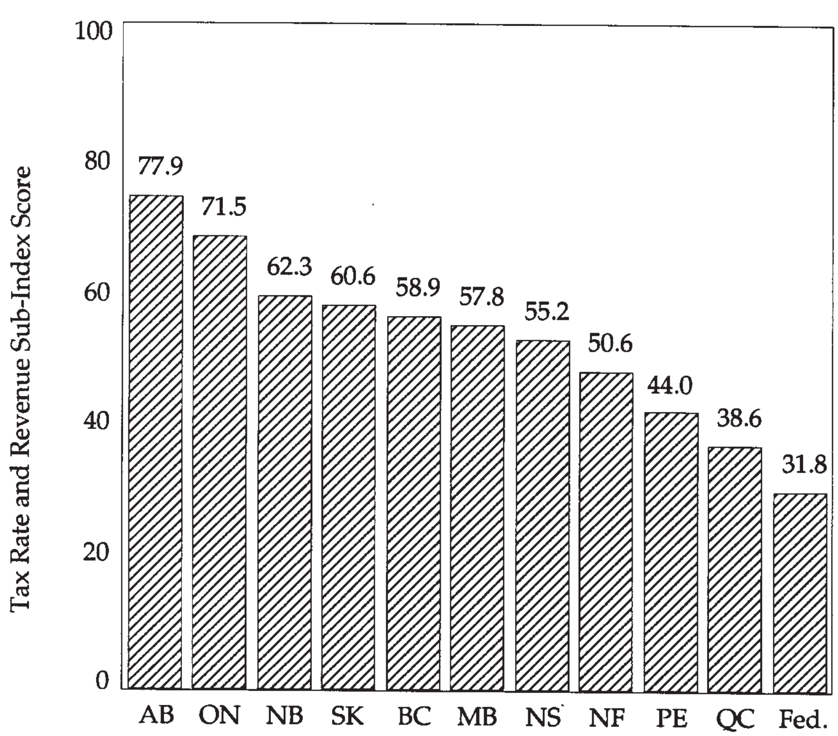
Table 3: Tax Rates and Revenue Sub-Index

	Percentage change in top personal* income tax rate (provincial or federal portion only)	Percentage change in sales tax rate (provincial or federal portion only)	Percentage change in general business income tax rate (provincial or federal portion only)	Top personal* income tax rate (provincial or federal portion only), 1999	Sales tax rate (provincial or federal portion only), 1999	Top corporate income tax rate (General business rate), 1999	Tax revenue* as a percentage of GDP (provincial- local or federal portion only), 1999/00	Federal transfers* as a percent of total provincial revenue, 1999/00**	Average annual change in tax revenue* as a percentage of GDP	Score	Rank
AB	(3.2)	0.0	0.00	14.28	0.0	15.50	14.2	7.9	2.7	77.9	1
ON	(18.3)	0.0	0.00	17.87	8.0	15.50	17.6	9.8	(0.3)	71.5	2
NB	(6.3)	(27.3)	0.00	18.79	8.0	17.00	15.5	37.4	(1.6)	62.3	3
SK	(3.5)	(33.3)	0.00	19.90	6.0	17.00	18.0	19.3	0.7	60.6	4
BC	(6.3)	0.0	0.00	21.39	7.0	16.50	17.4	11.1	0.0	58.9	5
MB	(5.3)	0.0	0.00	18.07	7.0	17.00	17.2	27.8	(0.8)	57.8	6
NS	(3.4)	(27.3)	0.00	18.34	8.0	16.00	16.7	39.3	0.2	55.2	7
NF	10.0	(33.3)	0.00	22.01	8.0	14.00	15.9	38.4	(2.7)	50.6	8
PE	(1.7)	0.0	6.67	18.66	10.0	16.00	16.1	38.3	(0.1)	44.0	9
QC	(1.9)	15.4	0.00	21.22	7.5	16.25	22.7	22.7	1.4	38.6	10
Fed.	(1.4)	0.0	0.00	30.89	7.0	28.00	17.4	n/a	1.1	31.8	11

Table 4: Percentage point change in tax rates

Province	Change in top personal income tax rate (provincial or federal portion only)	Change in sales tax rate (provincial or federal portion only)	Change in general business income tax rate (provincial or federal portion only)
NF	2.0	(4.0)	0.00
PE	(0.3)	0.0	1.00
NS	(0.6)	(3.0)	0.00
NB	(1.3)	(3.0)	0.00
QC	(0.4)	1.0	0.00
ON	(4.0)	0.0	0.00
MB	(1.0)	0.0	0.00
SK	(0.7)	(3.0)	0.00
AB	(0.5)	0.0	0.00
BC	(1.4)	0.0	0.00

Figure 4: Tax Rate and Revenue Sub-Index



index scores ranked from highest to lowest. Table 4 shows the percentage point changes in top personal income, sales, and business income tax rates, and is included to show how the actual rates affecting taxpayers changed. The sub-index makes use of the percentage changes in these variables so that a jurisdiction with a high tax rate that implements a relatively small tax cut does not receive a better score than a jurisdiction with a low tax rate which implements the same tax cut. An example that illustrates the importance of this distinction is included in the Methodology section. A few of the highlights in table 3 are Ontario's large cut to, and Newfoundland's increase in, personal income taxes, and the cuts in the sales tax rate in Newfoundland, Nova Scotia, New Brunswick, and Saskatchewan. The federal government ranked last on this sub-index, which emphasizes the fact that the federal deficit was eliminated largely because of revenue increases and high tax rates.

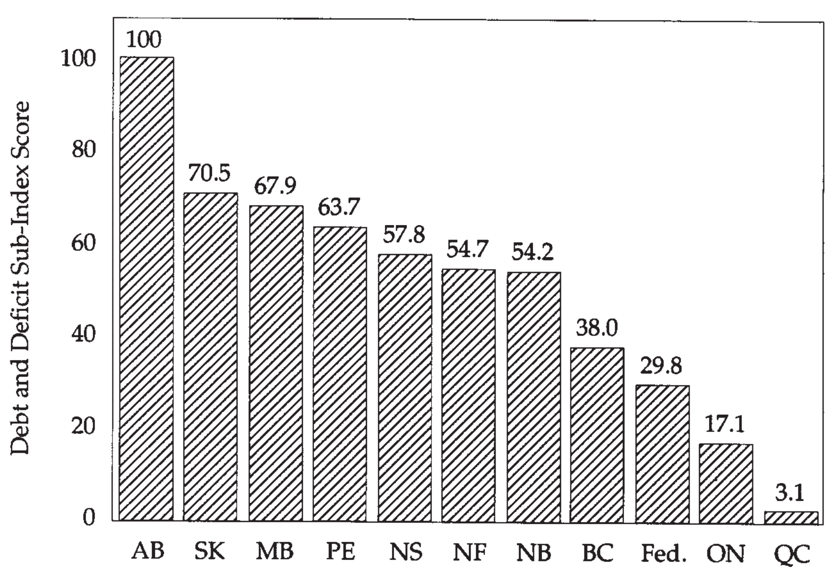
Debt and deficit

Table 5 summarizes the Debt and Deficit sub-index and includes each jurisdiction's values for the four variables, as well as its score and rank. There are six columns of data because "Average annual sur-

Table 5: Debt and Deficit Sub-Index								
Prov	Average annual surplus (deficit) per capita (dollars)*	Average annual surplus (deficit) per capita (adjusted) (dollars)	Average annual surplus (deficit) as a percentage of GDP*	Average annual surplus (deficit) as a percentage of GDP (adjusted)	Change in debt per capita, 1994/95 to 1998/99 (dollars)	Percentage point change in debt as a percentage of GDP, 1994/95 to 1998/99	Score	Rank
AB	717	0	2.0	0.0	(2,986)	(95.4)	100.0	1
SK	73	0	0.3	0.0	(1,031)	(21.9)	70.5	2
MB	218	0	0.9	0.0	(663)	(19.5)	67.9	3
PE	197	0	0.9	0.0	(212)	(12.8)	63.7	4
NS	(31)	(31)	(0.1)	(0.1)	(134)	(10.2)	57.8	5
NF	21	0	0.1	0.0	1,110	(6.9)	54.7	6
NB	(40)	(40)	(0.2)	(0.2)	192	(9.0)	54.2	7
BC	(141)	(141)	(0.5)	(0.5)	132	4.1	38.0	8
Fed.	(216)	(216)	(0.8)	(0.8)	230	(9.5)	29.8	9
ON	(248)	(248)	(0.8)	(0.8)	1,461	3.7	17.1	10
QC	(342)	(342)	(1.4)	(1.4)	1,130	(0.9)	3.1	11

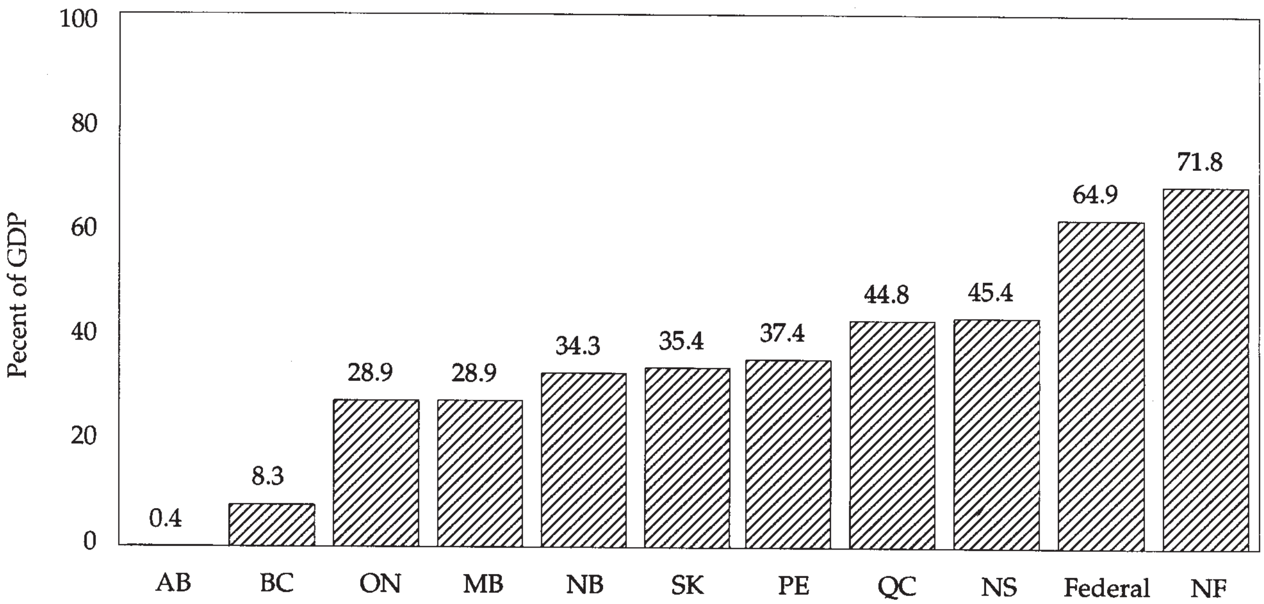
Sources: Statistics Canada, Public Institutions Division, FMS data; federal and provincial public accounts, budgets and updates; calculations by the authors.
*Not included in the calculation of the sub-index.

Figure 5: Debt and Deficit Sub-Index



plus (deficit) per capita" and "Average annual surplus (deficit) as a percentage of GDP" are shown in their adjusted and unadjusted forms. The adjusted values are the ones used in the calculation of the sub-index. The adjustment involves assigning zeroes to any jurisdiction with a surplus as, by definition, surplus money is either spent or reduces net debt. As spending and changes in debt are measured elsewhere in the Budget Performance In-

Figure 6: Debt as a Percent of GDP, 1998/99



Sources: Fraser Institute, *Canadian Government Debt 1999: A Guide to the Indebtedness of Canada and the Provinces*; federal and provincial budgets and public accounts; calculations by the author.

dex, leaving these two variables unadjusted would result in a bias favouring provinces that had large surpluses. Figure 5 presents the Debt and Deficit sub-index scores ranked from highest to lowest.

Alberta dominated this sub-index with a surplus in every year, a $2,986 decrease in debt per capita, and the almost total elimination of net debt, reflected in the large decrease in the debt-to-GDP ratio. Figure 6 shows the debt to GDP ratio by jurisdiction for 1998/99.[1] Five jurisdictions (Newfoundland, Prince Edward Island, Manitoba, Saskatchewan, and Alberta) had an annual average surplus for the period of the study, and the debt-to-GDP ratio fell in nine jurisdictions, the exceptions being Ontario and British Columbia.

1 For more information about the debts of all levels of government in Canada, see *Canadian Government Debt 1999: A Guide to the Indebtedness of Canada and the Provinces,* available from The Fraser Institute (www.fraserinstitute.ca/publications/critical_issues/1999/debt/).

Jurisdiction Analysis

This section focuses on each jurisdiction's performance.

Federal Government

Federal Government	*Score*	*Rank*
Budget Performance	53.9	3
Spending	100.0	1
Tax Rates & Revenue	31.8	11
Debt & Deficit	29.8	9

The federal government received an overall score of 53.9 for a rank of 3rd on the strength of spending cuts offset by poor scores on tax rates and revenue and debt and deficit.

Spending

The federal government cut spending between 1994/95 and 1999/00 while the provinces as a whole increased spending. Federal spending cuts coupled with steady population growth and strong GDP and personal income growth explain why the federal government scores so well on the Spending sub-index. Federal government spending scores are also helped by the fact that transfers to the provinces are included as federal spending, although this factor alone does not affect its spending sub-index rank.

Tax rates and revenue

The federal government received a score of 31.8 and the bottom rank on the Tax Rates and Revenue sub-index because of a relatively small drop in personal income tax, no changes to other tax rates, high marginal personal and corporate income tax rates, and strong growth in revenue as a percent of GDP.

Debt and deficit

The federal government scored 29.8 for a rank of 9th on the Debt and Deficit sub-index because it had an overall deficit as well as increased debt over the respective study periods. The only variable which shows improvement is debt as a percent of GDP.

British Columbia

British Columbia	*Score*	*Rank*
Budget Performance	41.7	8
Spending	28.2	8
Tax Rates & Revenue	58.9	5
Debt & Deficit	38.0	8

British Columbia received an overall score of 41.7 for a rank of 8th. Its best showing was 5th on the Tax Rate and Revenue sub-index because of personal income tax cuts, a relatively low reliance on federal transfers, and no growth in revenue as a percent of GDP.

Spending

British Columbia received a score of 28.2 to rank 8th on the Spending sub-index. The poor showing is the result of relatively small decreases in spending relative to GDP and personal income, and a high spending-to-GDP ratio.

Tax rates and revenue

British Columbia scored 58.9 for the 5th rank on the Tax Rates and Revenue sub-index because of personal income tax cuts, a relatively low reliance on federal transfers, and no growth in revenue as a percent of GDP.

Debt and deficit

British Columbia received a score of 38.0 and 8th rank on the Debt and Deficit sub-index because it is one of six jurisdictions that had an overall deficit, and is one of five jurisdictions with an increase in debt per capita. Of the two jurisdictions that experienced an increase in its debt-to-GDP ratio, BC's was the higher.

Alberta

Alberta	*Score*	*Rank*
Budget Performance	74.3	1
Spending	44.9	4
Tax Rates & Revenue	77.9	1
Debt & Deficit	100.0	1

Alberta received the top overall score of 74.3 and the top rank. Alberta ranked first on the Tax Rate and Revenue sub-index and the Debt and Deficit sub-index; their only weakness was the 4th place rank on spending due mainly to the increases in spending over the last three years, especially the large increase in 1999/00.

Spending

Alberta received a score of 44.9 to rank 4th on the Spending sub-index. This is the only sub-index that Alberta did not dominate. Its rank reflects increased spending per capita and relatively small declines in spending as a percent of GDP and personal income.

Tax rates and revenue

Alberta scored 77.9 for the top rank on the Tax Rates and Revenue sub-index because of small personal income tax cuts, the absence of a sales tax, the lowest top marginal tax rate and tax-to-GDP ratio in the country, and the least reliance of all the jurisdictions on federal transfers.

Debt and deficit

Alberta received a perfect score of 100 and top rank on the Debt and Deficit sub-index because it did not have a single deficit year, decreased debt by almost $3,000 per person, and all but eliminated its net debt.

Saskatchewan

Saskatchewan	*Score*	*Rank*
Budget Performance	51.2	5
Spending	22.3	9
Tax Rates & Revenue	60.6	4
Debt & Deficit	70.5	2

Saskatchewan received an overall score of 51.2 for a rank of 5th based on a good rank for debt and deficits, a moderate rank on tax rates and revenues, and a relatively poor showing on spending.

Spending

Saskatchewan received a score of 22.3 to rank 9th on the Spending sub-index. The poor showing is the result of small increases in spending per capita, small decreases in spending as a percent of GDP and personal income, and a high spending-to-GDP ratio.

Tax rates and revenue

Saskatchewan scored 60.6 for the 4th rank on the Tax Rates and Revenue sub-index because of its growth in tax revenue as a percent of GDP, the small cuts to the personal income tax structure, and high top marginal tax rate. One positive area for Saskatchewan is its significant cut to the sales tax rate.

Debt and deficit

Saskatchewan received a score of 70.5 and 2nd rank on the Debt and Deficit sub-index because it is one of five jurisdictions that posted a surplus for the period of the study and managed a reduction in debt per capita and debt as a percent of GDP, second only to Alberta.

Manitoba

Manitoba	*Score*	*Rank*
Budget Performance	52.4	4
Spending	31.4	7
Tax Rates & Revenue	57.8	6
Debt & Deficit	67.9	3

Manitoba received an overall score of 52.4 for a rank of 4th based on a third place rank for debt and deficits, and a moderate rank on both tax rates and revenue, and spending.

Spending

Manitoba received a score of 31.4 to rank 7th on the Spending sub-index. This moderate showing is the result of small increases in spending per capita, small decreases in spending as a ratio of GDP and personal income, and a high spending-to-GDP ratio.

Tax rates and revenue

Manitoba scored 57.8 for the 6th rank on the Tax Rates and Revenue sub-index because it is in the middle of the pack on tax rates, tax cuts, and tax revenue, both from federal government transfers and as a percent of GDP.

Debt and deficit

Manitoba received a score of 67.9 and 3rd rank on the Debt and Deficit sub-index because it did not have a single deficit year over the study period and managed a significant reduction in debt per capita and debt as a percent of GDP.

Ontario

Ontario	*Score*	*Rank*
Budget Performance	47.6	7
Spending	54.1	2
Tax Rates & Revenue	71.5	2
Debt & Deficit	17.1	10

Ontario received an overall score of 47.6 for a rank of 7th. Ontario's strong performance on spending and tax rates and revenues is significantly offset by its dismal performance on debt and deficits.

Spending

Ontario received a score of 54.1 to rank 2nd on the Spending sub-index. This strong showing is the result of decreases in per capita spending, spending relative to personal income and GDP, and a low spending-to-GDP ratio.

Tax rates and revenue

Ontario scored 71.5 for the 2nd rank on the Tax Rates and Revenue sub-index because it has cut its top marginal tax rate by almost three times that of the next best jurisdiction, has a relatively low corporate income tax rate, a low reliance on federal transfers, and has an average decrease in tax revenue as a percent of GDP.

Debt and deficit

Ontario received a score of 17.1 and 10th rank on the Debt and Deficit sub-index because it had a deficit in every year but one, added $1,461 per person in debt, and increased the debt-to-GDP ratio by 3.7 percentage points.

Quebec

Quebec	*Score*	*Rank*
Budget Performance	27.5	11
Spending	40.7	5
Tax Rates & Revenue	38.6	10
Debt & Deficit	3.1	11

Quebec received the lowest overall score of 27.5 and the 11th rank. Quebec's best rank was 5th on spending; it ranked second to last on tax rates and revenue, and last on debt and deficit. Where appropriate, Quebec's figures have been adjusted to factor out the federal tax abatements. These adjustments had a small positive impact on Quebec's score, but no impact on its Budget Performance Index rank.

Spending

Quebec received a score of 40.7 to rank 5th on the Spending sub-index. This, their best score on any of the three sub-indices, results from decreases in per capita spending, spending relative to personal income, and spending relative to GDP partially offset by the highest spending-to-GDP ratio in the country.

Tax rates and revenue

Quebec scored 38.6 for the 10th rank on the Tax Rates and Revenue sub-index because it has implemented one of the smallest cuts to personal income tax rates in the country, has increased the sales tax rate, and has had the second largest average increase in tax revenue as a percent of GDP.

Debt and deficit

Quebec received a score of 3.1 and the 11th rank on the Debt and Deficit sub-index because, of the six jurisdictions that had an overall deficit, theirs was the largest. Furthermore, it had the second largest increase in debt per capita, and had only a small decrease in the debt-to-GDP ratio.

New Brunswick

New Brunswick	*Score*	*Rank*
Budget Performance	56.3	2
Spending	52.3	3
Tax Rates & Revenue	62.3	3
Debt & Deficit	54.2	7

New Brunswick received an overall score of 56.3 and the 2nd overall rank. New Brunswick earned a third rank on both spending and tax rates and revenues, as well as a moderate rank on debt and deficits.

Spending

New Brunswick received a score of 52.3 to rank 3rd on the Spending sub-index. This strong showing is the result of relatively large decreases in per capita spending, spending relative to GDP, and spending relative to personal income.

Tax rates and revenue

New Brunswick scored 62.3 for the 3rd rank on the Tax Rates and Revenue sub-index because of personal income and sales tax cuts, the second lowest tax-to-GDP ratio in the country, and the second largest drop in tax revenue as a percent of GDP in the country.

Debt and deficit

New Brunswick received a score of 54.2 and 7th rank on the Debt and Deficit sub-index because it had an overall deficit, an increase in debt per person, and a small decrease in the debt-to-GDP ratio.

Nova Scotia

Nova Scotia	*Score*	*Rank*
Budget Performance	41.7	9
Spending	12.1	11
Tax Rates & Revenue	55.2	7
Debt & Deficit	57.8	5

Nova Scotia received an overall score of 41.7 and the 9th overall rank. Nova Scotia's best rank was 5th on debt and deficits; it ranked 7th on tax rates and revenues, and last on spending.

Spending

Nova Scotia received a score of 12.1 to rank last on the Spending sub-index. This poor showing is the result of increases in spending per capita and spending relative to personal income, and the smallest decrease in spending as a percent of GDP in the country.

Tax rates and revenue

Nova Scotia scored 55.2 for the 7th rank on the Tax Rates and Revenue sub-index because of small personal income tax cuts, a high reliance on federal transfers, and growth in revenue as a percent of GDP. One strong point is its decrease in sales tax because of the introduction of the HST.

Debt and deficit

Nova Scotia received a score of 57.8 and 5th rank on the Debt and Deficit sub-index because it had an overall deficit, a small decrease in debt per person, and a small decrease in the debt-to-GDP ratio.

Prince Edward Island

Prince Edward Island	*Score*	*Rank*
Budget Performance	48.8	6
Spending	38.7	6
Tax Rates & Revenue	44.0	9
Debt & Deficit	63.7	4

Prince Edward Island received an overall score of 48.8 and the 6th overall rank. Prince Edward Island ranked 4th on debt and deficits, 6th on spending, and 9th on tax rates and revenue.

Spending

Prince Edward Island received a score of 38.7 to rank 6th on the Spending sub-index. This moderate showing is the result of increased spending per capita, small decreases in spending relative to personal income and GDP, and a relatively low level of spending as a percent of GDP.

Tax rates and revenue

Prince Edward Island scored 44.0 for the 9th rank on the Tax Rates and Revenue sub-index. It implemented only small personal income tax cuts, it is the only province to have increased the business tax rate, it has the highest sales tax rate in the country, it has a high reliance on federal transfers, and it had only a small decrease in average annual tax revenue as a percent of GDP.

Debt and deficit

Prince Edward Island received a score of 63.7 and 4th rank on the Debt and Deficit sub-index because it is one of five jurisdictions that posted a surplus for the period of the study and it had a decrease in debt per person and in the debt-to-GDP ratio.

Newfoundland

Newfoundland	*Score*	*Rank*
Budget Performance	39.3	10
Spending	12.6	10
Tax Rates & Revenue	50.6	8
Debt & Deficit	54.7	6

Newfoundland received the second lowest overall score of 39.3 and the 10th rank. Newfoundland's best rank was 6th on the Debt and Deficit sub-index; it ranked 8th on tax rates and revenue, and second to last on spending.

Spending

Newfoundland received a score of 12.6 to rank 10th on the Spending sub-index. This results from the largest increase in per capita spending in the country, a moderate decrease in spending relative to GDP, an increase in spending relative to personal income, and a high level of spending relative to GDP.

Tax rates and revenue

Newfoundland scored 50.6 for the 8th rank on the Tax Rates and Revenue sub-index. It is the only province to increase personal income tax rates (by imposing a 10 percent surtax in 1996). Furthermore, it has one of the highest top marginal income tax rates, and it has a high reliance on federal transfers. A few points of strength are that Newfoundland has decreased its sales tax with the introduction of the HST, it has the lowest rate of corporate income tax, and its strong GDP growth has helped it to post the largest decline in average annual tax revenue as a percent of GDP in the country.

Debt and deficit

Newfoundland received a score of 54.7 and the 6th rank on the Debt and Deficit sub-index because although it is one of five jurisdictions that posted a surplus for the period of the study, it had only a small decrease in the debt-to-GDP ratio, and had one of the largest increases in debt per capita in the country.

Methodology

Several of the points discussed here are also covered in the main text. They are repeated here with more detail if appropriate.

As this study uses consolidated provincial-local data, all references to an individual province include both provincial and local government activities. The period of analysis for most variables is fiscal year 1995/96 through fiscal year 1999/00. The exceptions are tax rates which are measured in calendar years 1995 and 1999, and debt per capita and as a percent of GDP which are measured from fiscal year 1994/95 through fiscal year 1998/99.

The Budget Performance Index consists of a simple average of the scores from three sub-indices.

The first sub-index examines spending. The Budget Performance Index Spending sub-index is composed of four variables:

- Average annual change in real spending less transfers per capita between 1995/96 and 1999/00
- Average annual change in spending less transfers as a percentage of GDP between 1995/96 and 1999/00
- Average annual change in spending less transfers per $1,000 of personal income between 1995/96 and 1999/00
- Spending less transfers as a percentage of GDP in 1999/00

Federal transfers are counted as federal spending because, ultimately, the federal government has discretion over the level of these transfers. This means that even though the provinces had to deal with the federal cuts to provincial transfers, the federal government gets the credit for the cuts. This is because there is no good reason to assume that the federal budget would have been balanced had the choices of where, or even if, to cut federal spending had been controlled by the provinces.

The second sub-index examines tax rates and revenues. The Budget Performance Index Tax Rate and Revenue sub-index is composed of nine variables:

- Percentage change in top personal income tax rate (provincial or federal portion only) between 1995 and 1999**
- Percentage change in sales tax rate (provincial or federal portion only) between 1995 and 1999**
- Percentage change in general business income tax rate (provincial or federal portion only) between 1995 and 1999**
- Top personal income tax rate (provincial or federal portion only) in 1999**
- Sales tax rate (provincial or federal portion only) in 1999**
- Top corporate income tax rate (general business rate) in 1999**
- Tax revenue as a percentage of GDP (provincial-local or federal portion only) in 1999/00
- Federal transfers as a percent of total provincial revenue in 1999/00
- Average annual change in tax revenue as a percentage of GDP between 1995/96 and 1999/00

The personal income, sales, and corporate tax variables (denoted with ** above) are weighted according to the importance of the tax to the revenue of the provinces as a whole. The weights for the six tax rate variables (two for each revenue source) are: top marginal income (1.77), sales (0.84), and corporate (0.39). Table 3 shows that Ontario cut its top marginal personal income tax rate by 18.3 percent and that Saskatchewan and Newfoundland cut their sales tax rates by 33.3 percent. Equal weighting would give more credit to the Newfoundland and Saskatchewan tax cuts on a relatively small tax base than to Ontario's cut on the largest tax base in the country.

The sub-index makes use of the percentage changes in these variables so that a jurisdiction with a high tax rate that implements a relatively small tax cut does not receive a better score than a jurisdiction with a low tax rate that implements the same tax cut. Sales tax cuts in Newfoundland and Saskatchewan are a good example. Newfoundland cut its sales tax rate by four percentage points (from 12 to 8 percent) and Saskatchewan cut its rate by three percentage points (from 9 to 6 percent). The percentage change is the same for both cuts (33.3 percent) but if the percentage point change were used in the sub-index, Newfoundland would receive a higher score on this variable.

The third sub-index examines debts and deficits. The Budget Performance Index Debt and Deficit sub-index is composed of four variables:

- Average annual surplus (deficit) per capita (adjusted) in dollars between 1995/96 and 1999/00
- Average annual surplus (deficit) as a percentage of GDP (adjusted) between 1995/96 and 1999/00
- Change in debt per capita in dollars between 1994/95 and 1998/99
- Percentage point change in debt as a percentage of GDP between 1994/95 and 1998/99

Surplus values in the surplus (deficit) variables in this sub-index are set to zero because, by definition, surplus money is either spent, or reduces net debt. As spending and changes in debt are measured elsewhere in the Budget Performance Index, leaving these two variables unadjusted would result in a bias favouring provinces that had large surpluses.

Quebec's variables, where appropriate, have been adjusted to factor out the federal tax abatement. Specifically, the value of the abatement is subtracted from provincial revenues and expenditures less transfers (i.e., it is treated as a cash transfer). The tax point value of the abatement is removed from Quebec's top marginal tax rate and change in top marginal tax rate variables. The value of the abatement is added to federal transfers and subtracted from provincial revenues in the calculation of "Federal transfers as a percent of total provincial revenue, 1999/00." These changes have been made to ensure Quebec's data is consistent with that from the other provinces. Failing to make this adjustment would penalize Quebec for choosing to take on taxing responsibility and spending authority for programs that the federal government has responsibility for in the rest of the country. No adjustment regarding the abatements has been made to federal data because the purpose of these adjustments is solely to ensure interprovincial comparability.

Each variable in each sub-index is standardized such that the lowest score is zero and the highest score is 100. The variables are then assigned a weight and summed within their respective sub-index. All variables except those described in the tax rate and revenue section above are assigned a weight of one.

Sources

The data for this study come from Statistics Canada's Public Institutions Division Financial Management System (FMS), federal and provincial public accounts, budgets, and quarterly or mid-year fiscal updates. The FMS provincial-local consolidated data for 1994/95 through 1996/97 is augmented with the FMS provincial data for 1994/95 through 1998/99 and public accounts, budgets, and fiscal updates from the provinces and federal government for 1995/96 through 1999/00. The most recent data available at time of production was used.

About the Author

Joel Emes is a senior research economist at The Fraser Institute. He is a regular contributor to the Fraser Institute's monthly magazine *Fraser Forum*, and is co-author of *Tax Facts 10* and *Tax Facts 11*, and *Canada's All Government Debt* (1996, 1998 and 1999 editions). His articles have appeared in the *Globe and Mail*, the *Calgary Herald*, the *Vancouver Sun* and the *London Free Press*. Mr. Emes is also the primary researcher for Tax Freedom Day and the Institute's state-provincial fiscal comparison, the Fiscal Performance Index. He received his M.A. in Economics from Simon Fraser University in 1995.