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Market solutions to public policy problems

Fiscal Performance Index, 2007

Main Conclusions

- The Fiscal Performance Index measures the performance of the federal and provincial governments on 29 measures of taxation, spending, and deficits and debt over the past five years (2001/02 to 2005/06).
- Alberta received the top score of 83.3 (out of 100.0) on the Fiscal Performance Index. The Federal Government (74.3) ranked second, followed by British Columbia (65.3) in third.
- Canada's most populous provinces, Ontario (53.1 out of 100.0) and Quebec (32.0), ranked 6th and 10th, respectively, on the Fiscal Performance Index.
- The federal government claimed the top position on the Government Spending component with a score of 84.1 out of 100.0.
- Seven provinces (Ontario, Manitoba, New Brunswick, Prince Edward Island, Quebec, Saskatchewan, and Nova Scotia) had scores below 50.0 on the Government Spending component.
- Western Canadian provinces and the federal government dominated the top of the rankings on the Tax Rates and Revenues component. Alberta received the highest score (90.7 out of 100.0) followed by British Columbia (72.9), the federal government (63.8), and Saskatchewan (60.3).
- Ontario (ranked 8th) and Quebec (ranked 9th), received scores of 51.2 and 42.9, respectively, on the Tax Rates and Revenues component.
- All jurisdictions received scores above 60.0 on the Debt and Deficits component except for Quebec (29.3), Newfoundland and Labrador (16.4), and Prince Edward Island (14.0).

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Introduction

Governments across Canada are facing increasing pressures on a number of fronts: calls to increase spending, particularly in areas like health and education; demands for legislated debt reduction; and certainly not least, calls for greater tax competitiveness. The ability of governments to balance these pressures and pursue sound fiscal policy over both the shorter and the longer terms can be a critical determinant of long-term economic success. As such, governments in Canada must be held accountable for their fiscal performance.

The objective of this Fraser Alert is to provide Canadians with information necessary to judge government performance in taxing, spending, and managing financial resources. Specifically, the Fiscal Performance Index (FPI)[1] measures the performance of the federal and provincial governments on a variety of measures of government spending, tax rates and revenues, and debts and deficits from 2001/02 to 2005/06.

The Fiscal Performance Index: Overall Results

The Fiscal Performance Index contains three components: (1) Government Spending, (2) Tax Rates and Revenues, and (3) Debt and Deficits. Each component contains multiple measures and there are, in total, 29 measures. Each measure is scored on a scale from 0 to 100, where the top-performing jurisdiction is scored at 100 while the lowest performing province is given a zero.[2] The scores for the measures are weighted equally within each component. To compute an overall index, the three components were equally weighted.

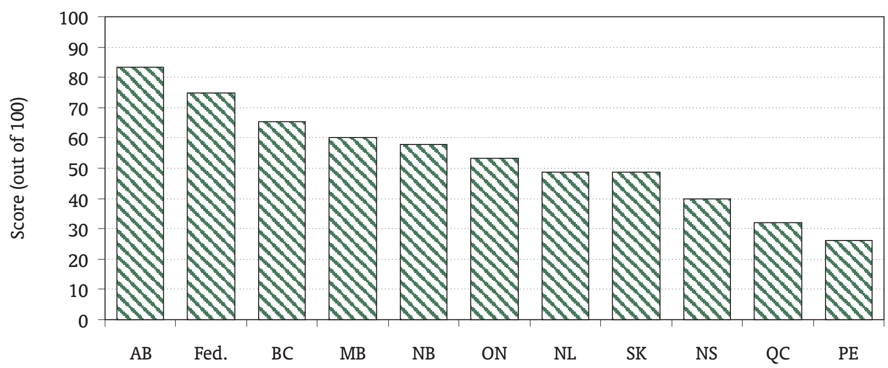
Table 1 contains the overall Fiscal Performance Index scores for each jurisdiction as well as their scores for the three components. Figure 1 displays the overall Fiscal Performance Index scores. Alberta received the top score of 83.3 (out of 100.0) in the Fiscal Performance Index, followed by the federal government (74.3) and British Columbia (65.3). Manitoba (60.1), New Brunswick (57.8) and Ontario (53.1) were the only other jurisdictions to receive a score over 50.0. Prince Edward Island holds the dubious distinction of ranking last with a score of 26.3.

Table 1: Fiscal Performance Index, 2007

	Government Spending Score (out of 100)	Government Spending Rank (out of 11)	Tax Rates & Revenue Score (out of 100)	Tax Rates & Revenue Rank (out of 11)	Debt & Deficit Score (out of 100)	Debt & Deficit Rank (out of 11)	Fiscal Performance Index Score (out of 100)	Fiscal Performance Index Rank (out of 11)
AB	59.2	3	90.7	1	100.0	1	83.3	1
Fed.	84.1	1	63.8	3	75.0	4	74.3	2
BC	54.5	4	72.9	2	68.5	6	65.3	3
MB	43.9	6	54.0	6	82.5	2	60.1	4
NB	39.3	7	52.2	7	82.0	3	57.8	5
ON	45.1	5	51.2	8	63.0	8	53.1	6
NL	72.5	2	57.0	5	16.4	10	48.6	7
SK	17.0	10	60.3	4	68.4	7	48.6	7
NS	15.2	11	33.9	11	70.2	5	39.7	9
QC	23.8	9	42.9	9	29.3	9	32.0	10
PE	24.4	8	40.4	10	14.0	11	26.3	11

Sources: Statistics Canada, 2006; Statistics Canada, Public Institutions Division, 2006; Treff and Perry, 2006; budgets of federal and provincial governments; calculations by the authors.

Figure 1: Fiscal Performance Index, 2007



Source: See table 1.

Component 1: Government Spending

The first component of the Fiscal Performance Index measures the spending performance of Canadian governments. The Government Spending component evaluates government spending based on three measures: average annual percentage change in inflation-adjusted spending (less federal transfers)[3] per person; average annual

Table 2: Government Spending[1]

	Average annual percent change in real spending less transfers per capita, 2001/02 and 2005/06	Average annual percent change in spending less transfers as a percentage of GDP, 2001/02 to 2005/06	Average spending less transfers as a percentage of GDP, 2001/02 to 2005/06	Score (out of 100)	Rank (out of 11)
Fed.	(0.6)	(2.1)	16.1	84.1	1
NL[2]	1.5	(5.3)	19.8	72.5	2
AB	2.0	(1.7)	17.1	59.2	3
BC	0.2	(1.7)	23.1	54.5	4
ON	0.8	0.5	21.1	45.1	5
MB	0.9	(0.7)	23.2	43.9	6
NB	1.2	0.4	22.0	39.3	7
PE	2.0	0.9	24.3	24.4	8
QC[3]	1.4	0.2	27.0	23.8	9
SK	2.8	0.6	25.1	17.0	10
NS[2]	3.7	1.4	22.0	15.2	11

Notes

[1]Provincial data excludes federal transfers; federal data includes them.

[2]In 2005, the federal government reached agreements with Nova Scotia and Newfoundland and Labrador to provide a 100 percent off-set against reductions in equalization payments resulting from offshore resource revenues. As a result of the agreements, the federal government provided Newfoundland and Labrador and Nova Scotia with up-front payments of $2.0 billion and $830 million, respectively. Nova Scotia has dedicated the $830 million to reduce the provincial government's debt (for further details, see Nova Scotia, Department of Finance, 2005). Newfoundland and Labrador allocated its $2.0 billion up-front payment to its unfunded pension obligations (for further details, see Newfoundland and Labrador, Department of Finance, 2006). Statistics Canada's Financial Management System (FMS), upon which the Government Spending component is based, treated these payments as one-time transfers in 2005/06. To ensure that these one-time transfers do not distort the spending analysis, they were excluded from the federal transfers that these provinces received.

[3]Government spending in Quebec is adjusted for the federal tax abatement.

Sources: Statistics Canada, 2006; Statistics Canada, Public Institutions Division, 2006; calculations by the authors.

Table 3a: Tax Rates and Revenues

	Personal Income Tax Score (out of 100)	Corporate Capital Tax Score (out of 100)	Corporate Income Tax Score (out of 100)	Tax Revenues Score (out of 100)	Tax Rates and Revenues Score (out of 100)	Rank (out of 11)
AB	72.7	100.0	97.9	92.4	90.7	1
BC	63.3	81.8	75.6	71.0	72.9	2
Fed.	45.7	90.4	42.5	76.6	63.8	3
SK	68.1	55.1	56.4	61.6	60.3	4
NL	41.8	69.9	49.7	66.7	57.0	5
MB	59.5	37.2	62.5	57.0	54.0	6
NB	56.7	43.2	76.6	32.2	52.2	7
ON	55.5	49.2	31.5	68.5	51.2	8
QC	37.0	42.1	53.8	38.6	42.9	9
PE	44.1	50.0	40.7	26.9	40.4	10
NS	31.5	21.6	40.7	41.7	33.9	11

Sources: Statistics Canada, 2006; Statistics Canada, Public Institutions Division, 2006; Treff and Perry, 2006; budgets of federal and provincial governments; calculations by the authors.

percentage change in spending (less federal transfers) as a percent of gross domestic product (GDP); and average spending (less federal transfers) as a percentage of GDP.[4,5] Table 2 presents the scores for the Government Spending component.

The federal government claims the top position on the Government Spending component with a score of 84.1 out of 100.0. It is the only Canadian government to register average annual percentage decreases in spending per person (inflation-adjusted) and as a percentage of GDP over the past five years (2001/02 to 2005/06). In addition, the federal government registers the lowest average spending as a percentage of GDP among all Canadian governments.

Newfoundland and Labrador ranks second with a score 72.5. One of the primary reasons for Newfoundland and Labrador's high score is its relatively large average annual percentage decrease in spending (less federal transfers) as a percentage of GDP (column 2, table 2). While Newfoundland and Labrador has experienced rapid GDP growth over the past five years (9.2% on average), the government has managed to constrain spending increases (3.2% on average).

Only two other jurisdictions (Alberta and British Columbia) received scores above 50.0 on the Government Spending component. The remaining seven provinces had scores below 50.0; Nova Scotia ranked last with a score of 15.2 out of 100.0.

Quebec maintains the largest provincial government (consolidated to include both provincial and local spending but excluding federal transfers) at 27.0% of GDP.[6] Saskatchewan follows at 25.1% (column 3, table 2). Alberta had the smallest government among the provinces, with provincial and local government spending consuming 17.1% of GDP, nearly 10.0 percentage points lower than Quebec.

Component 2: Tax Rates and Revenues

The second component of the Fiscal Performance Index measures government performance on tax rates and revenues. The Tax Rates and Revenues component comprises four subcomponents: (i) Personal Income Taxes, (ii) Corporate Capital Taxes, (iii) Corporate Income Taxes, and (iv) Tax Revenues.[7] Table 3a summarizes the scores for each of the four subcomponents and presents the overall Taxes Rates and Revenues scores for each jurisdiction.

Table 3b: Personal Income Tax Rates

	Top personal income tax rate (provincial or federal portion only)[1], 2006	Threshold at which the top personal tax rate applies[2], 2006	Middle personal income tax rate (provincial or federal portion only)[1,3], 2006	Threshold at which the middle personal tax rate applies[2], 2006	Percentage change in top personal income tax rate (provincial or federal portion only), 2002 to 2006	Percentage change in middle personal income tax rate (provincial or federal portion only), 2002 to 2006	Score (out of 100)	Rank (out of 11)
AB	10.0	N/A	10.0	N/A	0.0	0.0	72.7	1
SK	15.0	107,367	13.0	37,579	(3.2)	(1.9)	68.1	2
BC	14.7	94,121	11.5	59,592	0.0	0.0	63.3	3
MB	17.4	65,000	13.5	30,544	0.0	(12.3)	59.5	4
NB	17.8	108,768	15.7	50,176	0.0	0.0	56.7	5
ON	17.4	72,102	11.2	55,160	0.0	0.0	55.5	6
Fed.	29.0	118,285	24.0	54,567	0.0	0.0	45.7	7
PE	18.4	61,509	14.5	41,306	0.0	0.0	44.1	8
NL	19.6	59,180	16.9	44,094	0.0	0.0	41.8	9
QC	19.2	57,430	15.2	28,710	0.0	0.0	37.0	10
NS	19.3	93,000	16.7	56,537	5.0	5.3	31.5	11

Notes
[1]Personal income-tax rates include surtaxes, when applicable. Quebec's tax rates are adjusted for the federal tax abatement.
[2]Thresholds are adjusted for surtaxes when applicable. Alberta has a single tax rate, so the threshold does not apply.
[3]The middle personal income-tax rate is defined as the rate between a jurisdiction's minimum and maximum rate. When a jurisdiction has more than one middle rate, the rates and thresholds are averaged. For example, British Columbia has five personal income-tax brackets. The middle three rates and thresholds were averaged to produce a single middle rate and threshold.
Sources: Treff and Perry, 2006; budgets of federal and provincial governments; calculations by the authors.

Alberta received the highest score (90.7 out of 100.0) on the Tax Rates and Revenues component and was the top performer on each of the four subcomponents. British Columbia ranked second with an overall score of 72.9 out of 100.0, followed by the federal government (63.8), and Saskatchewan (60.3). It is important to note the large gap between Alberta (first place) and British Columbia (second place). Canada's most populous provinces, Ontario (ranked 8th) and Quebec (ranked 9th), received scores of 51.2 and 42.9, respectively.

Personal Income Tax (PIT)

This subcomponent measures the personal income-tax burden based on tax rates, both in terms of current levels and changes over the past five years, and the level of income at which the rates currently apply (table 3b). Both the top marginal personal income-tax rate and the threshold at which it applies as well as the middle income-tax rate and its threshold are examined.[8]

The three western Canadian provinces, Alberta, Saskatchewan, and British Columbia dominate the overall scores and rankings for this measure. Alberta ranks first with a score of 72.7 out of 100.0, largely as a result of its single-rate personal income tax, which is the only single-rate tax in the country. Saskatchewan ranked second with a score of 68.1 while British Columbia followed in third with a score of 63.3. Saskatchewan was the only jurisdiction that reduced both top and middle personal income-tax rates over the past five years.

Table 3c: Corporate Capital Tax Rates

	Introductory general corporate capital tax rate (%), 2006	Threshold at which the introductory general corporate capital tax rate applies, 2006 (in millions)	Top general corporate capital tax rate (%)[1], 2006	Threshold at which the top general corporate capital tax rate applies[1], 2006 (in millions)	Introductory financial corporate capital tax rate (%), 2006	Threshold at which the introductory financial corporate capital tax rate applies, 2006 (in millions)	Top financial corporate capital tax rate (%)[1], 2006	Threshold at which the top financial corporate capital tax rate applies[1], 2006 (in millions)	Percentage change in introductory general corporate capital tax rate (provincial or federal portion only), 2002 to 2006	Percentage change in top general corporate capital tax rate (provincial or federal portion only), 2002 to 2006	Percentage change in introductory financial corporate capital tax rate (provincial or federal portion only), 2002 to 2006	Percentage change in top financial corporate capital tax rate (provincial or federal portion only), 2002 to 2006	Score (out of 100)[6]	Rank (out of 11)
AB	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100.0	1
Fed[2]	N/A	N/A	N/A	N/A	1.25	1,000.0	1.25	1,000.0	(100.0)	(100.0)	0.0	0.0	90.4	2
BC	N/A	N/A	N/A	N/A	1.00	0.0	3.00	1,000.0	(100.0)	(100.0)	0.0	0.0	81.8	3
NL[3]	N/A	N/A	N/A	N/A	4.00	5.0	4.00	10.0	N/A	N/A	0.0	0.0	69.9	4
SK[4]	0.45	20.0	0.45	20.0	0.70	20.0	3.25	1,000.0	(25.0)	(25.0)	0.0	0.0	55.1	5
PE	N/A	N/A	N/A	N/A	5.00	2.0	5.00	2.0	N/A	N/A	66.7	66.7	50.0	6
ON	0.30	10.0	0.30	10.0	0.60	10.0	0.90	400.0	0.0	0.0	0.0	0.0	49.2	7
NB	0.25	5.0	0.25	5.0	3.00	10.0	3.00	10.0	(16.7)	(16.7)	0.0	0.0	43.2	8
QC	0.53	1.0	0.53	1.0	1.05	0.0	1.05	0.0	(18.0)	(18.0)	(32.3)	(32.3)	42.1	9
MB	0.30	5.0	0.50	20.0	3.00	5.0	3.00	5.0	0.0	0.0	0.0	0.0	37.2	10
NS[5]	0.53	5.0	0.26	10.0	4.00	0.5	4.00	0.5	5.0	5.0	33.3	33.3	21.6	11

Notes

[1]For those jurisdictions with a single tax rate for corporations and financial institutions, the introductory and the top capital tax rate is considered the same. This also applies for the thresholds at which those rates are effective.

[2]The federal government in its 2006 Budget eliminated the general corporate capital tax, retroactive to January 1, 2006.

[3]For financial institutions, the rate is 4% with a deduction for $5 million, if paid-up capital is less than $10 million. Otherwise there is no deduction.

[4]Saskatchewan decreased its general corporate capital tax rate from 0.6% to 0.3%, effective July 1, 2006. The rate presented was pro-rated for December 31, 2006.

[5]Nova Scotia decreased its introductory and maximum general corporate capital-tax rate from 0.55% to 0.5% and 0.275 to 0.25%, respectively. Both changes were effective July 1, 2006. The rates presented were pro-rated for December 31, 2006.

[6]Jurisdictions that do not have corporate capital taxes (displayed as N/A) received a score of 100.0 out of 100.0.

Sources: Treff and Perry, 2006; budgets of federal and provincial governments; calculations by the authors.

Table 3d: Corporate Income Tax Rates

	Top corporate income tax rate (general business rate), 2006	Percentage change in general business income tax rate (provincial or federal portion only), 2002 to 2006	Score (out of 100)	Rank (out of 11)
AB[1]	10.4	(21.0)	97.9	1
NB	13.0	(14.8)	76.6	2
BC	12.0	(11.1)	75.6	3
MB[2]	14.8	(10.6)	62.5	4
SK[3]	15.5	(8.8)	56.4	5
QC	9.9	9.5	53.8	6
NL	14.0	0.0	49.7	7
Fed.	21.0	(16.0)	42.5	8
PE	16.0	0.0	40.7	9
NS	16.0	0.0	40.7	9
ON	14.0	12.0	31.5	11

Notes
[1]General business income-tax rate decreased from 11.5% to 10%, effective April 1, 2006. The rate presented was pro-rated for December 31, 2006.
[2]General business income-tax rate decreased from 15.0% to 14.5%, effective July 1, 2006. The rate presented was pro-rated for December 31, 2006. Manitoba will further decrease its rate from 14.5% to 14%, effective July 1, 2007.
[3]General business income tax rate decreased from 17.0% to 14.0%, effective July 1, 2006. The rate presented was pro-rated for December 31, 2006. Saskatchewan will further decrease its corporate tax rate from 14% to 13%, effective July 1, 2007.
Sources: Treff and Perry, 2006; budgets of federal and provincial governments; calculations by the authors.

Five of eleven jurisdictions (the federal government, Prince Edward Island, Newfoundland and Labrador, Quebec, and Nova Scotia) failed to receive a score above 50.0. Nova Scotia received the lowest score (31.5) and ranked last on this subcomponent and was the only jurisdiction to increase personal income-tax rates over the past five years.

Corporate Capital Tax (CCT)[9]

This subcomponent measures the use of corporate capital taxes in each jurisdiction and to what degree jurisdictions are reducing their use of this tax. Corporate capital taxes are profit-insensitive taxes that are assessed on the value of a firm's debt and equity.[10] There are two different types of capital taxes and both are included in this study: non-financial (general) and financial. For each type of capital tax, both introductory rates (if applicable) and capital taxes designed for established, larger firms are examined.[11] In addition, both the current capital tax rates and thresholds and changes in the rates are assessed.

Alberta ranked first with the lowest use of corporate capital taxes among all Canadian governments (100.0 out of 100.0) (table 3c). It is the only jurisdiction to have eliminated all use of such taxes (general and financial). The federal government (90.4) ranked second and British Columbia (81.8) ranked third. Both the federal government and British Columbia have eliminated the use of general corporate capital taxes over the past five years. Newfoundland (69.9) ranked fourth and, like British Columbia and the federal government, does not make use of the general corporate capital tax.

Saskatchewan reduced its use of corporate capital taxes in 2006 and ranks fifth among the 11 jurisdictions with a score of 55.1.[12] Six jurisdictions (Prince Edward Island, Ontario, New Brunswick, Quebec, Manitoba, and Nova Scotia) received scores at or below 50.0. Nova Scotia ranked last with a score of 21.6.

Corporate Income Tax

This subcomponent measures the degree to which Canadian governments tax business profits in the form of corporate income taxes and is based on the general statutory corporate income-tax rate and how this rate has changed over the past five years (table 3d).[13] Alberta again received the highest score (97.9 out of 100). New Brunswick ranked

Table 3e: Tax Revenues

	Average tax revenue as a percentage of GDP, 2001/02 to 2005/06	Average annual percent change in tax revenue as a percentage of GDP, 2001/02 to 2005/06	Average federal transfers as a percentage of total provincial revenue[1], 2001/02-2005/06	Score (out of 100)	Rank (out of 11)
AB	14.8	(2.1)	8.6	92.4	1
Fed.	15.5	(1.7)	n/a	76.6	2
BC	17.4	(1.7)	12.2	71.0	3
ON	16.1	(0.4)	10.2	68.5	4
NL[2]	14.1	(2.6)	37.4	66.7	5
SK	18.8	(1.9)	15.6	61.6	6
MB	16.8	(1.3)	23.6	57.0	7
NS[2]	16.4	0.3	26.6	41.7	8
QC[3]	20.5	(0.7)	18.8	38.6	9
NB	15.9	1.2	30.4	32.2	10
PE	16.4	1.0	33.9	26.9	11

Notes
[1]The federal government could not be ranked for this variable; its score is calculated based on the other measures in the Tax Revenue subcomponent.
[2]Transfers and total provincial revenue were adjusted considering the payments under the 2005 Atlantic Accord. See footnote 2, table 2 for further details.
[3]Adjusted for the federal tax abatement.
Sources: Statistics Canada, 2006; Statistics Canada, Public Institutions Division, 2006; calculations by the authors.

second with a score of 76.6 followed by British Columbia (75.6), Manitoba[14] (62.5) and Saskatchewan[15] (56.4). Five jurisdictions (Newfoundland and Labrador, the federal government, Prince Edward Island, Nova Scotia, and Ontario) received scores below 50.0. Ontario ranked last with a score of 31.5 as a result of the increase in its corporate income-tax rate over the past five years.

Tax Revenues

The Tax Revenue subcomponent measures the overall tax burden, how the burden has changed over the past five years, and how reliant the provinces are on federal transfers. It comprises three measures: average annual percentage change in tax revenue as a percentage of GDP, average tax revenue as a percentage of GDP, and average federal transfers as a percentage of total provincial revenue.[16]

Alberta received the top score on the Tax Revenues subcomponent, scoring 92.4 out of 100.0 (table 3e). It was the least reliant on federal transfers, registered the second lowest average tax revenue as a percentage of GDP and the second largest average annual percentage decrease in tax revenue as a percentage of GDP over the past five years (2001/02–2005/06).

The federal government ranked second with a score of 76.6, followed by British Columbia with the score of 71.0. Ontario ranked fourth with a score of 68.5. Four jurisdictions (Nova Scotia, Quebec, New Brunswick, and Prince Edward Island) received scores below 50.0. Prince Edward Island received the lowest score (26.9) on the Tax Revenues subcomponent.

Quebec collects the most tax revenue as a percentage of GDP (20.5%) followed by Saskatchewan (18.8%) and British Columbia (17.4%).[17] There has been little change in tax revenue as a percentage of GDP in most jurisdictions. Over the past five years, the largest average

Table 4: Debt and Deficits

	Average annual surplus/(deficit) per capita[1], 2001/02 to 2005/06	Average annual surplus/ (deficit) as a percentage of GDP[1], 2001/02 to 2005/06	Average net debt as a percentage of GDP[2], 2001/02-2003/04	Score (out of 100)	Rank (out of 11)
AB[3]	1,371	2.3	(7.9)	100.0	1
MB	26	0.1	29.6	82.5	2
NB	(5)	0.0	29.7	82.0	3
Fed.	193	0.5	45.6	75.0	4
NS[4]	(70)	(0.2)	44.0	70.2	5
BC	(279)	(0.8)	12.9	68.5	6
SK	(198)	(0.6)	26.2	68.4	7
ON	(320)	(0.8)	21.6	63.0	8
QC	(581)	(1.7)	45.7	29.3	9
NL[4]	(635)	(1.8)	63.6	16.4	10
PE	(780)	(2.6)	33.6	14.0	11

Notes

[1]Jurisdictions that generated surpluses over the period of analysis are treated as though they balanced their budgets because, by definition, surplus money is either spent or reduces net debt. A jurisdiction that registers an average surplus from 2001/02 to 2005/06 receives a score of 100 on the measure.

[2]Comparable net debt data is only available until 2003/04.

[3]Alberta's financial assets have exceeded its gross debt since 1999/00. Thus, it registered a negative net debt since 1999/00.

[4]Surplus and (deficit) data for the 2005/06 fiscal year in Nova Scotia and Newfoundland were adjusted for the one-time payments from the federal government (see note 2, table 2).

Sources: Statistics Canada, 2006; Statistics Canada, Public Institutions Division, 2006; calculations by the authors.

annual reduction in the tax revenue as a percentage of GDP was in Newfoundland and Labrador (2.6%), Alberta (2.1%), and Saskatchewan (1.9%).

The Atlantic Provinces (Newfoundland and Labrador, Prince Edward Island, New Brunswick and Nova Scotia) and Manitoba are most reliant on federal transfers.

Component 3: Debt and Deficits

The final component of the Fiscal Performance Index measures the use of deficit financing and the relative burden of accumulated debt. The Debt and Deficits component measures the average annual surplus or deficit on a per-capita basis as well as relative to GDP (size of the economy).[18] It also measures the change in net debt relative to the size of the economy.[19]

Alberta ranked first on the Debt and Deficit component with a perfect score of 100.0 out of 100.0. Alberta has aggressively paid down its debt to a point where its current assets are greater than its liabilities. Manitoba (82.5) ranked second followed closely by New Brunswick (82.0). All jurisdictions received scores above 60.0 with the exception of Quebec (29.3), Newfoundland and Labrador (16.4) and Prince Edward Island (14.0). Newfoundland and Labrador maintains the heaviest average debt burden at a troubling 63.6% of GDP.

Conclusion

In a world of increasing international competitiveness, the fiscal performance of national and subnational governments is becoming increasingly important as a catalyst for economic well-being. The Fiscal Performance Index is a succinct presentation of the core areas of fiscal performance: government spending, taxation, and debts and deficits. Those jurisdictions faring well should be commended, while those lagging behind should use other jurisdictions as a model for reform. What is clear on the Canadian front is that all jurisdictions, even those ranking highly, have room for improvement.

Notes

1 Prior to 2006, the Fiscal Performance Index was called the Budget Performance Index. "Fiscal Performance" is a more accurate description of the Index, which measures fiscal performance over the past five years rather than the current budget year. The methodology of the Index has changed slightly over the years in order to incorporate additional variables and to assess fiscal performance more accurately. For this reason, the results on the Index are not directly comparable from year to year.

2 The scores on each measure are calculated using a min-max formula.

3 Federal transfers are counted as federal spending because the federal government has discretion over the level of these transfers.

4 For the provinces, government spending consists of spending by both provincial and local governments.

5 Government spending as a percentage of the economy (GDP) and its rate of change best reflect the overall level of government spending compared to the economy and thus most accurately measures whether governments are spending in a sustainable manner. The average annual percentage change in government spending per capita is included to ensure that jurisdictions that are experiencing short-term economic booms do not increase spending at unsustainable rates.

6 Quebec's spending is adjusted for the federal tax abatement.

7 The Tax Rates and Revenues component evaluates government stewardship of both the tax burden (Tax Revenues) and different tax rates. The selection of taxes included as subcomponents was driven by the degree to which the taxes affected the incentives for productive behavior. See Clemens et al., 2007a for a discussion of the effect upon incentives of different types of taxes.

8 Note that there was a change in the methodology used for personal income taxes and the thresholds at which they apply. In previous editions of the FPI, a matrix was used to simultaneously measure tax rates and the income at which they applied. The 2007 edition uses a more standard approach (min-max formula) to measure tax rates and thresholds independently of one another. The two scores are then averaged to calculate an overall rate and threshold score.

9 Note that there was an important change in the way corporate capital taxes are evaluated. In previous editions of the Fiscal Performance Index, average corporate capital-tax revenue as a percentage of own-source revenue was used to measure performance on corporate capital taxes. As a result, some provinces with limited capital bases could perform well because of this limited capital base rather than because they made limited use of capital taxes. The new methodology ranks and scores provincial use of capital taxes based on the rates and the threshold of capital at which the rates become effective.

10 For a more thorough discussion of corporate capital taxes in Canada, please see Clemens, Emes, and Scott, 2002.

11 For those provinces that have a single corporate capital-tax rate, the introductory rate and the rate applicable to larger firms (maximum CCT rate), and their thresholds, are considered the same.

12 The Government of Saskatchewan plans to eliminate the general CCT rate for all corporations, other than provincial Crown corporations and financial institutions, by July 1, 2008. For further information on important changes in business taxes in Saskatchewan, please see Saskatchewan, Department of Finance, 2006a.

13 All Canadian governments maintain preferential corporate income-tax rates for small businesses, which introduces artificial preferences or biases in the marketplace that can pose serious problems. For a thorough discussion of the economics associated with a preferential rate for small business, please see Clemens and Veldhuis, 2005.

14 Manitoba reduced its general business income-tax rate from 15.0% to 14.5%, effective July 1, 2006. The rate presented was pro-rated for December 31, 2006. Manitoba will further decrease its rate from 14.5% to 14% on July 1, 2007.

15 Saskatchewan reduced its general business income-tax rate from 17.0% to 14.0%, effective July 1, 2006. The rate presented was pro-rated for December 31, 2006. Saskatchewan will further decrease its corporate tax rate from 14% to 13%, effective July 1, 2007.

16 The federal government cannot be ranked on average federal transfers as a percent of own source revenue.

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As a result, the federal government's score on the Tax Revenue subcomponent is based on average tax revenue as a percentage of GDP and average annual percentage change in tax revenue as a percentage of GDP from 2001/02 to 2005/06.

17 Quebec's revenue is adjusted for the federal tax abatement.

18 Debt and deficits as a percentage of GDP best reflect the burden each has on an economy. Average annual deficits per capita are included to ensure that the results are not skewed for jurisdictions that are experiencing short-term economic booms.

19 Note that provinces that have generated surpluses over the period of analysis are treated as though they balanced their budgets. This is done because, by definition, surplus money either is spent, or reduces net debt. As spending and changes in debt are measured in other indicators, leaving these indicators with surplus amount would result in double counting.

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