



NEWS RELEASE

Federal transfers make up more than 25 per cent of Atlantic Canada's economy

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For immediate release

HALIFAX—Atlantic Canada's dependency on federal spending—equaling over a quarter of the regional economy—leaves it vulnerable to any significant change in transfers from Ottawa, finds a new study released today by the Fraser Institute, an independent, non-partisan, Canadian public policy think-tank.

“The economic crisis in the energy sector, particularly in Alberta and Saskatchewan, may shake the foundations of transfers from Ottawa to the provinces,” said Fred McMahon, a resident fellow at the Fraser Institute and author of *Fiscal Federalism and the Dependency of Atlantic Canada*.

“Alberta's net contributions to the federal government—the difference between federal revenues and spending—financed the lion's share of the funds transferred (net of tax revenues) into Atlantic Canada and Quebec. Those surpluses from Alberta will shrink and perhaps disappear. So where will the money going to Atlantic Canada come from?”

From 2007 to 2019, the full period covered by the most recent data, Ottawa spent nearly \$178,466 per person in Atlantic Canada compared to revenues of \$95,513 per person. That's a net federal transfer of nearly \$82,953 per Atlantic Canadian, three times the net transfer to Quebec of just under \$25,000 per person.

During that same period, federal spending (including Employment Insurance, equalization, health care, and various other subsidies and programs) in Atlantic Canada equaled \$423.2 billion or 27.5 per cent of Atlantic GDP. Federal revenues from Atlantic Canada were \$226.5 billion.

Crucially, the net transfers – the difference between the money being sent to the region compared to the tax revenues collected in the region -- equaled \$196.7 billion, or 12.8 per cent of Atlantic Canada's GDP.

The situation in Alberta is a virtual mirror image. Over the period, Ottawa raised \$617 billion and spent just slightly more than half in the province, \$337 billion. Ottawa raised \$156,471 per Albertan but spent only \$84,980, meaning that Albertans contributed a net \$71,563 per person that was spent outside the province, principally in Atlantic Canada and Quebec.

Previous research has shown that as government spending increases as a share of GDP, it can crowd out private sector activity and make businesses less competitive and more politicized as many shift focus from creating products and services to figuring out how to best capture government subsidies and contracts.

“For every dollar Ottawa raises in Atlantic Canada, it spends almost two dollars. Any change to Canada's fiscal federalism will be a major economic challenge for Atlantic Canada,” McMahon said.

“Relying on federal spending is economically harmful and risky. A reduction of federal transfers in the long run would be a positive for the region.”

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