Measuring the Fiscal Performance of Canada’s Premiers

by Charles Lammam, Milagros Palacios, Amela Karabegović, and Niels Veldhuis
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Executive summary

In a world of increasing competitiveness, sound fiscal policy is a critical determinant of long-term economic success. Sound fiscal policy requires that governments balance their financial affairs and avoid imposing a tax burden so heavy that it becomes a disincentive for people to work hard, save, invest, and be entrepreneurial, while still ensuring adequate and efficient public services. So, our political leaders should prioritize, rather than simply increase, government resources; ensure balanced budgets; and focus on improving incentives for individuals and businesses to engage in productive economic activity.

Since there is currently no objective measure of how provincial premiers are performing in the area of fiscal policy, it is difficult for Canadians to hold the premiers accountable for the relative performance of their fiscal policies. The goal of Measuring the Fiscal Performance of Canada’s Premiers is to fill this void. This report provides Canadians with an objective, empirical assessment of how Canada’s premiers have managed their province’s public finances and whether they have pursued sound long-term economic policies.

How performance is measured

The report measures the relative fiscal performance of ten Canadian premiers for the duration of their time in office up to the most recent year of available data (2009/10). Some premiers are evaluated over a longer period than others: former Manitoba Premier Gary Doer, for example, came to power in October 1999 and was evaluated for the longest period (2000/01–2009/10), whereas Saskatchewan’s Premier Brad Wall entered office in November 2007 and was evaluated for the shortest period (2008/09–2009/10).


Overall results

The Western provincial premiers dominated the top half of the overall rankings, occupying four of the top five spots. Premier Gordon Campbell of British Columbia ranked first overall with a score of 89.1 out of 100.0 (figure 1). Former Premier Gary Doer of Manitoba ranked second with
a score of 78.2. The only non-Western premier in the top half was Newfoundland & Labrador’s Premier Danny Williams, who scored 71.0 and ranked third. Premier Ed Stelmach of Alberta (66.4) was fourth; Brad Wall of Saskatchewan (57.9) was fifth.

Of the remaining premiers, only Québec’s Premier Jean Charest (53.7) scored above 50.0. Three of the four remaining Premiers were from Atlantic Canada: Rodney MacDonald, former premier of Nova Scotia (33.7), Shawn Graham, former premier of New Brunswick (33.2), and Robert Ghiz of Prince Edward Island (30.0). Ontario’s Dalton McGuinty, with a score of 29.7, ranked last overall.

Components used to measure overall performance

1 Government Spending

This component measures the relative performance of the premiers in the area of government spending. Premiers who managed government spending in a relatively prudent manner, showing restraint and not allowing spending to increase at unsustainable levels, performed better than those who did not.

Premier Gordon Campbell of British Columbia ranked first on the Government Spending component with a perfect score of 100.0 (figure 2).
Only three other premiers scored above 50.0: former Premier Gary Doer of Manitoba (85.5), Premier Jean Charest of Quebec (81.7), and Premier Danny Williams of Newfoundland & Labrador (61.2). The remaining six premiers each scored below 50.0.

2 Taxes

This component measures the relative performance of the premiers in the area of taxation. Premiers that maintained lower corporate and personal income taxes and that reduced marginal rates at key income levels performed better than their counterparts. Corporate and personal income taxes were assessed because they are among the most economically damaging types of taxes levied by government. In addition, premiers with fewer tax brackets in their personal income-tax system were rewarded with better performance.

British Columbia’s Premier Gordon Campbell topped the rankings on the Taxes component: he ranked first with a score of 83.1 (figure 3). Shawn Graham of New Brunswick (80.3) ranked a close second followed by Ed Stelmach of Alberta (61.7), Danny Williams of Newfoundland & Labrador (51.7), and Brad Wall of Saskatchewan (50.9). The other five premiers scored below 50.0.
3 Debt and Deficits

This last component measures the relative performance of the premiers in the area of debt and deficits. Premiers who incurred annual deficits and increased government debt performed worse than those who balanced the books and paid down debt. Importantly, annual deficits increase the overall level of government borrowing and debt, requiring more and more tax dollars to be spent on debt servicing and ultimately reducing the amount of money available for public services.

Four premiers tied for top position on the Debt and Deficits component with a perfect score of 100.0: Brad Wall of Saskatchewan, Danny Williams of Newfoundland & Labrador, Gary Doer of Manitoba, and Ed Stelmach of Alberta (figure 4). All four had average budget surpluses during their time in office. Premier Campbell of British Columbia also averaged a surplus but reduced net debt to a lesser extent than the other premiers and, as a result, scored 84.3 out of 100 and ranked fifth overall. Rodney MacDonald of Nova Scotia and Jean Charest of Quebec were the only other two premiers to score above 50.0. The other three premiers (Robert Ghiz, Dalton McGuinty, and Shawn Graham), each of whom had average deficits during their time in office, failed to score 50.0 or higher.
Conclusion

In a world of increasing competitiveness, where capital, labour, goods, and services are increasingly able to move freely from one jurisdiction to another, it is more important than ever for premiers to focus on fiscal policies that lay the foundation for economic growth and prosperity. This report objectively measures the fiscal performance of 10 Canadian premiers. While the analysis points to large differences in performance among the premiers, Western premiers generally performed better than their Central and Eastern counterparts. Premiers Gordon Campbell of British Columbia, Gary Doer of Manitoba, and Danny Williams of Newfoundland & Labrador performed best while Premiers Shawn Graham of New Brunswick, Robert Ghiz of Prince Edward Island, and Dalton McGuinty of Ontario performed worst.
Introduction

In a world of increasing competitiveness, sound fiscal policy is a critical determinant of long-term economic success. Sound fiscal policy requires that governments balance their financial affairs and avoid imposing a tax burden so heavy that it becomes a disincentive for people to work hard, save, invest, and be entrepreneurial, while still ensuring adequate and efficient public services. So, our political leaders should prioritize, rather than simply increase, government resources; ensure balanced budgets; and focus on improving incentives for individuals and businesses to engage in productive economic activity. Unfortunately, calls for increased government spending and large deficits have become more common with the onset of the recent economic downturn. Joining these calls for an increase in government intervention in the economy have been suggestions that an economic downturn is precisely the wrong time for fiscal prudence and a long-term reduction in the tax burden. While an economic downturn does put additional strain on government resources, prudent fiscal performance can nevertheless be achieved by focusing on policies that attract investment and jobs and that, in turn, lead to economic growth and prosperity. The economic record shows clearly that this is in fact a far superior option if a return to stable economic growth and prosperity is the goal of public policy.

Since there is currently no objective measure of how provincial premiers are performing with respect to fiscal policy, it is difficult for Canadians to hold the premiers accountable for the relative performance of their fiscal policies. The goal of Measuring the Fiscal Performance of Canada's Premiers is to fill this void. This report provides Canadians with an objective, empirical assessment of how Canada's premiers have managed their province's public finances and whether they have pursued sound long-term economic policies.

Organization

The next section explains why fiscal performance matters for economic growth and performance. The third section describes the methodology used in this report to assess the fiscal performance of the ten premiers. The fourth section presents the results and overall rankings. At the end, there is a section giving a province-by-province analysis of the results and appendices giving technical information about the methodology used in the study.
Why fiscal performance matters

This study evaluates the performance of the premiers based on three core components of fiscal policy: [1] Government Spending, [2] Taxes, and [3] Debt and Deficits. In this section, we explain why each of these components is important for economic growth.

1 Why government spending is important

While few would dispute that some level of government spending is necessary for a well-functioning economy, the negative effects of too much government spending cannot be understated. Indeed, a large body of academic research has found that increased government spending can in fact hinder economic performance.\(^1\) Harvard professor Alberto Alesina has led important research on the economic effects of government spending. For instance, in a seminal study published in the prestigious *American Economic Review* in 2002, professor Alesina and his colleagues examined the link between government spending, business profits, and investment in 18 industrialized countries from 1960 to 1996. They found that increased government spending is associated with reduced investment in private business. Specifically, “an increase of one percentage point in the ratio of primary government spending to GDP leads to a decrease in investment as a share of GDP of 0.15 percentage points” (Alesina et al., 2002: 572). Over a five-year period, the cumulative decline in investment was calculated to reach 0.74 percentage points.

The researchers concluded that private-sector investment declined when government spending increased because government employment increased as its spending increased, which inevitably drove up public-sector wages. Higher public-sector wages then put upward pressure on wages that competed with private-sector jobs. The increased wage costs for businesses then decreased profits, which ultimately lowered the level of business investment.\(^2\) This is a critical insight into the economic effects of increased government spending.

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1 For more comprehensive reviews of this literature, see Mitchell, 2005; Clemens and Veldhuis, 2002; and Harris and Manning, 2006.
2 Several other researchers have found a negative relationship between government spending and investment, corroborating Alesina’s results. For instance, in research published by the National Bureau of Economic Research, Mountford and Uhlig (2008) found that government spending increases have a negative effect on private investment. Link (2006) also found that government expenditures displace private investment. Similarly,
It is particularly important because it is upon investment that we build economic prosperity, productivity growth, and higher living standards. In other words, investment lays the foundation upon which economic success is built.

More recent research by professor Alesina corroborates his earlier work. In a 2009 study, professor Alesina and his Harvard colleague, Silvia Ardagna, examined large changes in fiscal policy in Canada and 20 other industrialized countries from 1970 to 2007 (Alesina and Ardagna, 2009). They found that fiscal policy driven by increased government spending is associated with reduced economic growth while the reverse is true for fiscal policy based on tax cuts.⁴

Empirical research and Canadian economic history provide evidence that reducing government spending can actually improve economic performance. Consider Canada’s historical record. After five decades of steadily increasing the size of government through significant spending increases, Canada reduced the overall size of government over a 15-year period (1992–2007) by first cutting government spending and constraining its growth thereafter. Since peaking in 1992, the size of government in Canada, measured in terms of total spending at all levels of government as a share of gross domestic product (GDP), decreased from 53% to less than 40% in 2007 (OECD, 2009a). This was a dramatic departure from the 1960s, 1970s, and 1980s, when Canada leaned towards ever bigger government. As governments reduced and constrained spending, a greater share of the resources in the economy was controlled by individuals, families, and businesses. The result was a robust Canadian economy with average inflation-adjusted economic growth since the mid-1990s exceeding that of the United States and every other G7 country (OECD, 2009b).

The effects of Canada’s spending reductions are documented in an important and comprehensive study published by the European Central Bank (Schuknecht and Tanzi, 2005). There, economists Ludger Schuknecht and Vito Tanzi studied the economic impact of reductions in the size of government in Canada and elsewhere. Interestingly, the dramatic increase in government spending in Canada between 1960 and the 1980s was not unique. Nor was Canada unique in reducing the size of its government in the

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⁴ Landau (1983) found that government expenditure reduces the rate of growth of real GDP per person through reduced investment.

⁵ Alesina and Ardagna (2009) also found that cutting government spending is much more effective than increasing taxes for reducing government debt and deficits and avoiding economic recessions. Indeed, they documented several instances where spending cuts are associated with economic expansions. In related work, Stefan Fölster and Magnus Henrekson (2001) examined the impact of government spending on economic growth in highly developed countries and found a strongly negative relationship: for every 10% increase in government’s consumption of GDP, economic growth fell by 0.7 to 0.8 percentage points.
1990s. Indeed, the relative size of government in most industrialized countries reached a peak sometime between 1982 and 2002 and then began to decrease, in many cases quite dramatically.

Schuknecht and Tanzi divided countries into two groups: ambitious reformers and timid reformers. Countries were considered ambitious reformers if reductions in government spending as a percentage of GDP exceeded five percentage points. Reformers were also split into early reformers (countries that reached their maximum spending levels by the early to mid-1980s) and late reformers (countries that reached their maximum spending levels by the early to mid-1990s). Canada was classified as an ambitious and late reformer as government spending as a percentage of GDP reached a maximum in 1992 and decreased by 12 percentage points by 2002.

Schuknecht and Tanzi then examined the impact of the spending reductions on a host of indicators. The critical insight from their work is that reductions in the size of government were not accompanied by decreases in economic growth. To the contrary, in most cases, economic growth improved after the reforms took place and economic growth rose twice as fast among ambitious reformers than among timid reformers. This evidence, along with a sizeable literature that agrees with Schuknecht and Tanzi’s findings, demonstrates that it is best for governments to reduce spending significantly and quickly.

4 Similar results were found for employment: improvements in ambitious countries were greater than those in timid countries. The authors also found that the effects on income distribution within countries were small and largely mitigated “by faster growth and by better targeting of public spending” (Schuknecht and Tanzi, 2005: 6).

5 A comprehensive body of academic work supports Schuknecht and Tanzi’s finding that the share of government spending in the economy has a considerable effect on economic growth and social progress. See Clemens and Veldhuis, 2002, Harris and Manning, 2006, and Mitchell, 2005 for reviews of key empirical studies on the size of government and economic growth.

6 In recent years, Canadian governments (both federal and provincial) have strayed away from constrained government spending and instead have embarked on quite large spending programs to provide fiscal “stimulus.” Based on the results from history and empirical research, Canadians would benefit from cutting this spending with the aim of shrinking the size and scope of government.

There is certainly room to scale back spending without reducing the quality of public services. Antonio Afonso, along with colleagues Ludger Schuknecht and Vito Tanzi, analyzed the performance and efficiency of the government sector in 23 industrialized countries, including Canada (Afonso et al., 2005). For Canada, the researchers found that governments could attain the same public-sector performance using only 75% of its current government spending, implying that 25% of government spending is wasteful.

These findings support those from a recent study from the Fraser Institute that found that Canada’s federal government wasted between $99 billion and $125 billion over the period from 1992 to 2006 on failed or poorly managed programs, cost overruns, under- and over-payments, and other manifestations of government failure (Clemens et al., 2007a).
In summary, economic research shows that sound policy in the area of government spending is characterized by restraint and setting priorities rather than simply increasing levels of spending. In many cases where the level of spending is excessive, research shows that spending cuts and restraint can have a positive impact on economic outcomes.

2 Why taxes are important

Tax rates and the structure of the tax system can have a significant impact on the economic incentives faced by various economic actors (individual workers, investors, businesses) and, because of this, on a jurisdiction’s economic success or failure. Taxes influence the decisions and behaviour of individuals and businesses. When deciding whether to work an additional hour or to invest an additional dollar, the most important tax rate is the marginal tax rate. It matters most because it directly affects the proportion of increased income that is left after taxes.

Marginal tax rates
Marginal tax rates that increase with income, as is the case in a “progressive tax system,” have a particularly damaging impact on economic incentives. Progressive tax systems take a greater proportion of income from those with higher incomes than from those with lower incomes. Progressivity is normally achieved by applying higher marginal tax rates to people and businesses as they earn more income. These higher marginal tax rates have a negative effect on incentives and economic growth because they discourage people from undertaking additional work effort, savings, investment, and entrepreneurship.

A large body of economic research indicates that high and increasing marginal tax rates, whether on personal income, corporate income, or corporate capital have a profound negative impact on decisions to work, save, invest, and act entrepreneurially. Two studies by European scholars Fabio Padovano and Emma Galli confirm the negative effects of high marginal tax rates on economic growth. In analyzing data for 23 highly developed countries from 1951 to 1990, Padovano and Galli (2001) found that high marginal tax rates and progressivity tended to be negatively associated with long-term

7 For additional discussion of the marginal tax rate, see Chen, 2000.
8 Flat or single-rate tax systems, however, can also achieve progressivity by including an exemption for lower-income earners (see Clemens and Emes, 2001).
9 For comprehensive reviews of the academic literature on the economic impacts of taxation, see Palacios and Harischandra, 2008; Murphy and Clemens, 2010; Clemens and Veldhuis, 2005; and Veldhuis and Clemens, 2006.
economic growth. In a subsequent study (2002), they found that an increase of 10 percentage points in marginal tax rates decreased the annual rate of economic growth by 0.23 percentage points.

Several additional studies corroborate the finding that high and increasing marginal taxes negatively affect economic growth. For example, economists Eric Engen and Jonathan Skinner examined more than 20 studies looking at evidence on tax rates and economic growth in the United States and abroad. They concluded from their review of these studies that “a major tax reform reducing all marginal rates by 5 percentage points, and average tax rates by 2.5 percentage points, is predicted to increase long-term growth rates by between 0.2 and 0.3 percentage points” (Engen and Skinner 1996: 34).10

More recently, professors Christina and David Romer (2007) of the University of California, Berkeley analyzed the impact of changes in the tax burden on economic growth. In this important study, the authors investigated the effects of tax reforms on GDP in the United States in the post-war period. They found that such tax changes had very large effects on GDP: an increase in the tax burden of 1% of GDP lowered economic output (real GDP) by roughly 2% to 3%. They also found that tax increases led to sharp falls in investment, which ultimately depressed GDP.

Economic research also shows that moving to a flatter tax system—one that is less progressive or, ideally, one with a single tax rate applied to all income levels—leads to improved economic performance by giving individuals stronger incentives to work, save, invest, and act entrepreneurially (Clemens, 2008). Flatter tax systems have the added benefit of being easier for taxpayers to comply with and governments to administer, which leads to lower government spending on administration and reduces the hidden costs of tax compliance.11

**Structure of the tax system**

The structure of the tax system—the “mix” of taxes levied by governments on physical capital, income, wages, and consumption—has a bearing on economic growth as well. The choice of tax mix—how much of total tax revenue is collected from each type of tax—is important since some taxes are more damaging

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10 While this may appear small, the cumulative effect can be enormous. The authors speculated that, if an inefficient tax structure had been in place in the US from 1960 to 1996, the amount of output currently lost would have totalled more than $500 billion annually or 6.4% of 1996 GDP.

11 The costs associated with taxes extend far beyond the direct amount of taxes collected and incentives affecting economic behaviour. Taxes also produce indirect costs for taxpayers: the most significant are compliance costs, the resources that individuals and firms consume in order to comply with tax regulations; and administrative costs, the expenses that government incurs and, ultimately, citizens pay, to manage and enforce the tax-collection system. These costs are not insignificant: estimates of tax compliance and administrative costs in Canada are in the order of billions of dollars (Clemens, 2008).
to the economy than others (Clemens et al., 2007b). For example, the economic cost to society of raising one additional dollar of tax revenue through capital taxes and corporate and personal income taxes is significantly higher than raising revenue through consumption taxes like the GST or HST.\textsuperscript{12} So governments can improve economic performance by changing the tax mix so they collect revenue from the least costly and economically damaging types of taxes.

In summary, economic research shows that sound policy in the area of taxation is characterized by low marginal tax rates that do not increase with income (that is, flatter tax systems), and by a tax mix that relies less on the most damaging types of taxes, those levied on production (i.e., corporate and personal income taxes).

3 Why debt and deficits are important

Debts and deficits are a critical aspect of fiscal performance because annual deficits increase the overall level of government borrowing and debt, and require more and more tax dollars to be spent on interest payments. Further, increased interest payments reduce the amount of money available for program spending on public services (such as health care, education, infrastructure, and so on) and for tax relief.

Economic opinion is divided on the effects of fiscal deficits. The classical view holds that deficits raise interest rates (and thus the cost of capital) by increasing the demand for loanable funds. Higher interest rates, through the higher costs of capital, lead to a reduction in (or “crowding out” of) investment or net exports (or both), thus lowering national income in the long run (Ball and Mankiw, 1996). Many studies have found a positive relationship between government debt and interest rates and support the classical view of how deficits undermine economic growth. For example, Harvard professor Martin Feldstein (1986) determined that each percentage point increase in the five-year projected ratio of budget deficits to gross national product (GNP) raises the long-term government bond rate by approximately 1.2 percentage points. Eric Engen and Glenn Hubbard (2004) concluded that an increase in government debt equivalent to 1% of gross domestic product (GDP) would increase the long-term real interest rate by about three basis points.\textsuperscript{13}

\textsuperscript{12} The economic efficiency cost of raising an additional dollar of government tax revenue through corporate incomes taxes is $1.55 and only $0.17 through sales taxes like the GST and HST. For a more thorough discussion of why capital-based taxes (i.e., taxes on production) impose greater economic costs than sales taxes (i.e., taxes on consumption), and for a review of estimates of the efficiency cost of various types of taxes, see Clemens et al., 2007b.

\textsuperscript{13} See also Hoelscher, 1986 for evidence on the positive relationship between government debt and interest rates.
Other research has found that no significant relationship exists between deficits and interest rates (Hoelscher, 1983; McMillin, 1986; Evans, 1987; Barro, 1989). The empirical findings of Harvard professor Robert Barro, for instance, suggest that households view deficits as an implicit future tax. Accordingly, households will offset a rise in government borrowing by raising their own level of private savings, thereby mitigating any effect on interest rates.\footnote{While the empirical evidence on the relationship between interest rates and deficits may not be conclusive, the fact remains that deficits add to government debt, which increases the burden on future generations. This additional burden will have to be paid eventually either through tax increases or reductions in government spending in the future.}

In addition, empirical evidence shows a direct negative relationship exists between public debt and economic growth. Consider the findings from a recent important study published by the International Monetary Fund, which examined the relationship between public debt levels and economic growth for a group of advanced and emerging countries over almost four decades (Kumar and Woo, 2010). They found that a 10-percentage point increase in a country’s debt-to-GDP ratio leads to a decrease in economic growth per person by 0.2 percentage points, “mainly due to reduced investment and slower growth of the capital stock per worker” (2010: 21). Another key recent study, by University of Maryland professor Carmen Reinhart and Harvard University professor Kenneth Rogoff, found much of the same: persistent deficits propel public debt to levels that impede economic growth (Reinhart and Rogoff, 2010).

In summary, economic research shows that sound policy in the area of debt and deficits is characterized by minimal reliance on borrowing to finance government spending. This means balancing spending with revenues and avoiding excessive use of debt.

\footnote{This argument is commonly referred to as Ricardian Equivalence. For an overview of the theory, see Law and Clemens, 1998.}
How performance is measured

This report measures the relative performance of premiers from Canada's ten provinces based on three core components of fiscal policy. Each premier's performance is measured over the time he held office up to the most recent year of available data (the 2009/10 fiscal year). Some premiers are evaluated over a longer period than others. For instance, former Manitoba Premier Gary Doer came into power in October 1999 and was evaluated for the longest period (2000/01–2009/10) whereas Saskatchewan's Premier Brad Wall entered office in November 2007 and was evaluated for the shortest period (2008/09–2009/10) (table 1).

The report measures the performance of seven premiers currently in power and three former premiers. Former Manitoba Premier Gary Doer retired in October 2009 and was replaced by Greg Selinger. Since former Premier Doer was in power for more than half of the 2009/10 fiscal year, his performance was assessed instead of Premier Selinger's.

In October 2010, Progressive Conservative leader David Alward replaced Shawn Graham as New Brunswick's Premier. Since Graham was in power for the entire fiscal year of 2009/10, his fiscal performance was evaluated.

Darrel Dexter, the current premier of Nova Scotia, took office in June of 2009 but his performance was not assessed. Data from the 2009/10 fiscal year is instead attributed to Nova Scotia's previous premier, Rodney MacDonald, who served as premier of the province from February 2006 to June 2009. Premier Dexter was excluded from the current assessment and the data for 2009/10 applied to the assessment of former Premier MacDonald's fiscal performance because Dexter tabled his 2009 provincial budget in September 2009, half way through the 2009/10 fiscal year, and his budget was essentially the same as that tabled by MacDonald in May 2009. The most notable difference between the two budgets was the expected fiscal balance for 2009/10: MacDonald's budget of May 2009 projected a slight budget surplus for 2009/10 while Dexter's budget of September 2009 projected a budget deficit of roughly $500 million. The change from a virtually balanced budget under former Premier MacDonald to a deficit budget under Premier Dexter was brought about by two factors: [1] revenues in Premier Dexter's budget were lower than former Premier MacDonald's budget had forecast; and [2] spending in Premier Dexter's budget was higher than in former Premier MacDonald's budget (Steele, 2009). Decreased revenues under Premier Dexter reflected eroding economic conditions that were largely beyond his control. The increased spending, on the other hand, was to “bring the province’s obligations under the [memorandum of understanding with the universities] to an orderly conclusion” (Steele, 2009: 5). This apparently was an outstanding issue caused by the MacDonald government and needed to be resolved.
# Table 1: Time in office of the premiers assessed

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<td>(a) Gary Doer is the former premier of Manitoba. He retired on October 19, 2009 and was replaced by Greg Selinger.</td>
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<td>(b) Shawn Graham is the former premier of New Brunswick. He was replaced by David Alward after losing New Brunswick’s provincial election on September 27, 2010.</td>
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<td>(c) Rodney MacDonald is the former premier of Nova Scotia. Darrel Dexter was elected as Premier of Nova Scotia on June 9, 2009.</td>
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Each premier received an overall score and rank based on their performance on three components of fiscal policy: Government Spending, Taxes, and Debt and Deficits (table 2). For premiers to be accountable for their own performance, and not the performance of their predecessors, we used annual changes instead of levels for most of the measures.\(^\text{16}\)

Table 2: Components, sub-components, and measures

1. Government Spending
   i. Average annual difference between program spending growth and GDP growth
   ii. Average annual difference between program spending growth and inflation plus population growth

2. Taxes
   A. Corporate Income Tax
      i. General corporate income tax rate, 2010
      ii. Average annual percentage change in the general corporate income tax rate
   B. Personal Income Tax
      i. Marginal tax rate at $50,000 in 2010
      ii. Marginal tax rate at $75,000 in 2010
      iii. Marginal tax rate at $150,000 in 2010
      iv. Average annual percentage change in the marginal tax rate at $50,000 (in 2010 dollars)
      v. Average annual percentage change in the marginal tax rate at $75,000 (in 2010 dollars)
      vi. Average annual percentage change in the marginal tax rate at $150,000 (in 2010 dollars)
      vii. Number of tax brackets, 2010

3. Debt and Deficits
   i. Average annual deficit or surplus as a percentage of GDP
   ii. Average annual percentage change in net debt as a share of GDP

\(^{16}\) For five measures in the Taxes component, we used levels to assess the premiers’ performance. Levels were used to measure tax rates since premiers can enact rate changes in a relatively short period of time. Since individuals and businesses compare levels of tax rates as well as trends across jurisdictions, this is an appropriate measure to use.
1 **Government spending**

The first component measures the extent to which the Premiers managed government spending prudently and whether the discretionary portion of provincial government spending is on a sustainable path. The Government Spending component consists of two measures. The first measure is the average annual difference between the growth in government program spending and economic growth, the growth in gross domestic product (GDP), over the premier’s tenure. Premiers who increased spending at a rate faster than economic growth did not manage spending sustainably and are considered to have performed poorly on this measure. The second measure of Government Spending is the average annual difference between growth in program spending and inflation-plus-population growth in the province during the premiers’ tenure. Premiers who increased spending faster than the rate needed to compensate for inflation and population growth did not exercise restraint and are ranked lower than their counterparts.

2 **Taxes**

The second component evaluates the premiers’ performance on tax policy. The Taxes component comprises two sub-components: Corporate Income Tax and Personal Income Tax. Premiers were evaluated on these taxes because they are among the most damaging because of the economic costs they impose on society (see Clemens et al., 2007b). The Corporate Income Tax (CIT) sub-component gauges the corporate income-tax burden with two measures: the top general corporate income-tax rate in 2010 and the average

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17 Discretionary spending is the portion of the budget over which the government has full control. To a great extent, governments cannot control the interest costs incurred on outstanding debt. For those reasons, we distinguish between total spending and discretionary (or program) spending.

18 The Corporate Capital Tax was considered as a third sub-component but excluded since most provinces have already eliminated, or plan to eliminate, this damaging type of business tax. See Appendix 2 for details on the various provincial plans to eliminate capital taxes on non-financial and financial institutions. For more in-depth discussions on the corporate capital tax, see McQuillan and Cochrane, 1996; TD Bank Financial Group, 2007; and Clemens et al., 2002. Other tax indicators were considered for the Taxes component but excluded because there were no appropriate empirical measures. For example, we considered evaluating premiers on the share of revenues from taxes with lower economic costs, the tax penalty for growing businesses (that is, the corporate income-tax differential for small and large businesses), the harmonization of sales taxes, and the differential tax treatment by business type (that is, differing tax rates for general and financial institutions).
annual change in the top general CIT rate over the premier’s tenure. Premiers who maintained a lower general corporate income-tax rate and reduced it relative to their counterparts performed better on this sub-component.

The Personal Income Tax (PIT) sub-component gauges the personal income-tax burden with seven measures. These include both personal marginal income tax (PIT) rates in 2010 and the average annual changes in those rates over the premier’s tenure at three levels of income: $50,000, $75,000, and $150,000. Premiers who maintained lower PIT rates at these income levels and reduced rates on average relative to their counterparts are ranked more favourably. The PIT sub-component also includes a measure of the number of brackets in the province’s PIT system to gauge the degree of tax progressivity. Personal income-tax systems with fewer tax brackets ranked higher than those with more.

3 Debt and deficits

The final component evaluates premiers on their use of deficit financing for government spending and whether they increased or reduced the province’s accumulated debt burden. This component consists of two measures, both of which are calculated relative to the size of the provincial economy (GDP). Deficits are captured by the average annual deficit (or surplus) as a percentage of GDP over the premier’s tenure. Premiers who recorded deficits performed worse than those who balanced the books or registered surpluses. Debts

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19 These three levels of income were selected because they generally apply to highly skilled workers that are most mobile and likely to relocate based on the economic environment and tax incentives in a jurisdiction. Interestingly, two consecutive federal governments, one Liberal, the other Conservative, have emphasized the need to reduce personal income tax rates at these income levels in order to make Canada more competitive internationally. In 2005, then-Prime Minister Paul Martin’s economic plan, A Plan for Growth and Prosperity, stated: “Lower personal taxes would also provide greater rewards and incentives for middle- and high-income Canadians to work, save, and invest” (Canada, Department of Finance, 2005: 131). Prime Minister Stephen Harper’s economic plan, Advantage Canada, also stressed that “Canada’s tax burden on highly skilled workers is too high relative to other countries ... Canada needs lower personal income tax rates to encourage more Canadians to realize their full potential” (Canada, Department of Finance, 2006: 46). Both governments concluded that Canada maintains among the highest marginal personal income-tax rates on middle and upper income earners among the G7 countries. The income levels used to make these conclusions are similar to those considered in this sub-component. The average annual changes in marginal tax rates were evaluated for incomes of $50,000, $75,000, and $150,000. The income levels were adjusted for inflation and are in 2010 dollars.

20 While short-term dips in economic activity are inevitable and can strain government resources, a premier should strive to balance the budget over the business cycle.
are captured by the average annual percentage change in net direct debt as a share of GDP. Premiers who reduced net debt to a greater extent ranked higher than their counterparts who increased it.

### Overall scores

The overall scores range from zero to 100, where a higher value indicates better performance. To compute an overall score, the scores for the three components (Government Spending, Taxes, and Debt and Deficits) were averaged. Each of the component scores were calculated by averaging the scores of all the sub-components or measures included. It is important to note that the overall score is a relative rather than an absolute measure of fiscal performance. Premiers who did well on spending and taxes, relative to others, and balanced their budgets scored higher than those who did not (for additional details on methodology, see Appendix 1).

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21 Net direct debt (or “net debt” for short in this study) is calculated by subtracting assets held by the government from the gross (total) direct debt of the province. Direct debt is the accumulated debt incurred by a government and its agencies and constitutes a direct legal contract. It excludes other forms of government liabilities such as debt guarantees, contingent liabilities and contractual commitments, and deferred program obligations (that is, pensions and health benefits).
Fiscal performance of Canada’s premiers

Overall results

The Western provincial premiers dominated the top half of the overall rankings, occupying four of the top five spots. Premier Gordon Campbell of British Columbia ranked first overall with a score of 89.1 out of 100.0 (table 3). Former premier Gary Doer of Manitoba ranked second with a score of 78.2. The only non-Western premier in the top half was Newfoundland & Labrador’s Premier Danny Williams, who scored 71.0 and ranked third. Premier Ed Stelmach of Alberta (66.4) was fourth; Brad Wall of Saskatchewan (57.9) was fifth.

Of the remaining premiers, only Québec’s Premier Jean Charest (53.7) scored above 50.0. Three of the four remaining Premiers were from Atlantic Canada: Rodney MacDonald, former premier of Nova Scotia (33.7), Shawn Graham, former premier of New Brunswick (33.2), and Robert Ghiz of Prince Edward Island (30.0). Ontario’s Dalton McGuinty, with a score of 29.7, ranked last overall.

1 Government Spending

Premier Gordon Campbell of British Columbia ranked first on the Government Spending component with a perfect score of 100.0 (table 4). Only three other premiers scored above 50.0: Gary Doer, former premier of Manitoba (85.5), Premier Jean Charest of Quebec (81.7), and Premier Danny Williams of Newfoundland & Labrador (61.2). The remaining six premiers each scored below 50.0. The former premier of Nova Scotia, Rodney MacDonald, ranked last (10th) with a score of 13.4 out of 100.0.

As explained in the methodology section, Government Spending is composed of two measures. The first compares the growth in government program spending, which excludes capital spending and interest payments, to the growth in the provincial economy (GDP). The second measure compares the growth in government program spending to inflation-plus-population growth; it measures real growth in government spending per person. The results for each measure are summarized below.
Average annual difference between growth in program spending and growth in GDP

Premier Campbell of British Columbia ranked first on this measure with a score of 100.0 (table 4), as he did on the overall Government Spending component. Only three other Premiers scored above 50.0: Manitoba’s Gary Doer (95.2), Newfoundland & Labrador’s Danny Williams (87.3), and Quebec’s Jean Charest (78.0). The six other premiers all scored below 50.0 and, in many cases, the growth in government program spending over the course of the Premiers’ tenure compared to growth in GDP was substantial. For example, Premier Ed Stelmach of Alberta, who ranked last on this measure, increased program spending by an average of 7.0 percentage points above the rate of GDP growth over his tenure. Such growth in spending is not sustainable and demonstrates poor management of public resources.

None of the premiers, however, was able to constrain the growth in government program spending to match the growth in the economy. In every
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<td>spending</td>
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<td>Average annual difference (in percentage points) between growth in program spending and growth in GDP</td>
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<td>Average annual difference (in percentage points) between growth in program spending and growth in inflation plus population</td>
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<td>Score</td>
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<td>Danny Williams</td>
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<td>Shawn Graham</td>
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<td>Rodney MacDonald</td>
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<td>Nova Scotia</td>
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Sources: Canada, Department of Finance (2009); Provincial Budgets (2009 and 2010); Provincial Public Accounts (various issues); Statistics Canada (2009a and 2009c); calculations by authors.

Note: From 2000/01 to 2008/09, a number of accounting changes were made to the provincial Public Accounts data. In most cases, the authors used adjusted data (i.e., data that has been adjusted retroactively) that is published in the respective provincial budgets. However, in two cases the adjusted data were not available for the entire time period under consideration. Up until the 2002/03 fiscal year, Manitoba’s financial reporting included general government activities only. In 2003/04, Manitoba began reporting consolidated numbers for general government activities and government entities such as public schools (Manitoba, Ministry of Finance, 2004: 63). Similarly, in 2006/07 Quebec added education and health government entities to their financial reporting (Quebec, Ministère des Finances, 2009a). Both of these changes affected some of the measures used in this study. Unfortunately, given the long tenure of both former Premier Doer and Premier Charest, the adjusted data were not available for the duration of their tenure. Since we examine changes in the measures, rather than levels, these accounting changes mainly affected the year in which the changes took place. Therefore, data for the 2003/04 fiscal year was excluded when computing the measures in the Government Spending and Debt and Deficits components for former Premier Doer. The Taxes component was not affected. Similarly, data for the 2006/07 fiscal year was excluded when computing the Debt and Deficits measures for Premier Charest. The measures for the remaining two components were not affected.
case, the average growth in government program spending over the premier’s tenure exceeded growth in GDP. In many cases, this resulted from increased spending over the last two years as premiers attempted to combat the recession with “stimulus” spending. Unfortunately, such attempts were pursued despite overwhelming evidence that shows stimulus spending to be ineffective (Veldhuis and Lammam, 2010a, 2010b) and despite the evidence discussed in section 2 that shows excessive increases in government spending are ultimately harmful to economic performance.

ii Average annual difference between growth in program spending and inflation-plus-population growth
Premier Campbell of British Columbia also topped the rankings on the second Government Spending measure with a score of 100.0. Under his leadership, program spending exceeded inflation-plus-population growth by an average of 1.6 percentage points. Three other premiers scored above 50.0: Quebec Premier Jean Charest (85.4), Gary Doer, former premier of Manitoba (75.8), and Alberta Premier Ed Stelmach (74.9). The other six premiers scored below 50.0; Saskatchewan’s Premier Brad Wall ranked last as growth in government spending exceeded inflation-plus-population growth by 6.5 percentage points, on average, over the course of his leadership (table 4). The growth in program spending under these six premiers compared to growth in inflation-plus-population indicates a clear lack of spending restraint during their tenures. All premiers, however, generally performed poorly on this measure since each of them increased real (inflation-adjusted) per-person program spending over their time in office.

2 Taxes
British Columbia’s Premier Gordon Campbell topped the rankings on the Taxes component: he ranked first with a score of 83.1 (table 5a). Shawn Graham of New Brunswick (80.3) ranked a close second followed by Ed Stelmach of Alberta (61.7), Danny Williams of Newfoundland & Labrador (51.7), and Brad Wall of Saskatchewan (50.9). The other five premiers scored below 50.0 and former Premier of Nova Scotia, Rodney MacDonald, ranked last with a score of 11.5.

A Corporate Income Tax
The Corporate Income Tax sub-component examines two aspects of corporate income taxes: [i] the top general corporate income-tax rate in 2010 and [ii] the average annual change in the general corporate income-tax rate over the premier’s tenure. The premiers of Western provinces claimed four of the five top spots on the Corporate Income Tax sub-component (table 5b). Premier
Campbell of British Columbia ranked first with a score of 95.6, followed by Shawn Graham of New Brunswick (89.7), Gary Doer of Manitoba (74.2), Brad Wall of Saskatchewan (70.5), and Ed Stelmach of Alberta (69.3). Premier Dalton McGuinty of Ontario (54.1) also scored above 50.0. The scores of Premier Ed Stelmach and, to a lesser extent, Premier Brad Wall, however, are the result of actions taken by their predecessors. In both cases, the premiers in office before them dramatically reduced corporate income-tax rates. As a result, Premiers Stelmach and Wall now benefit from those lower corporate income tax rates through higher scores.

The remaining four premiers all scored below 50.0. Jean Charest (33.4) is among these four and was the only premier to increase the corporate income-tax rate, on average, over the course of his tenure (table 5b).22 The

22 Premier McGuinty of Ontario increased the corporate income-tax rate shortly after coming into power in 2003 but because of a cut in 2010 (more are planned over the next three years) McGuinty reduced the corporate income-tax rate in Ontario, on average, during his tenure.

Table 5a: Taxes, scores (out of 100) and ranks (out of 10)

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<tr>
<th>Premier</th>
<th>Score</th>
<th>Rank</th>
<th>Corporate Income Tax Score</th>
<th>Rank</th>
<th>Personal Income Tax Score</th>
<th>Rank</th>
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<tr>
<td>Gordon Campbell</td>
<td>83.1</td>
<td>1</td>
<td>95.6</td>
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<td>70.6</td>
<td>2</td>
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<tr>
<td>Shawn Graham</td>
<td>80.3</td>
<td>2</td>
<td>89.7</td>
<td>2</td>
<td>70.9</td>
<td>1</td>
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<td>Ed Stelmach</td>
<td>61.7</td>
<td>3</td>
<td>69.3</td>
<td>5</td>
<td>54.1</td>
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<td>Alberta</td>
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<td>Danny Williams</td>
<td>51.7</td>
<td>4</td>
<td>34.3</td>
<td>7</td>
<td>69.2</td>
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<td>Newfoundland &amp; Labrador</td>
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<tr>
<td>Brad Wall</td>
<td>50.9</td>
<td>5</td>
<td>70.5</td>
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<tr>
<td>Gary Doer</td>
<td>49.1</td>
<td>6</td>
<td>74.2</td>
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<td>24.1</td>
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<td>Dalton McGuinty</td>
<td>39.2</td>
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<td>54.1</td>
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<td>Jean Charest</td>
<td>25.3</td>
<td>8</td>
<td>33.4</td>
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<td>17.2</td>
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<td>Robert Ghiz</td>
<td>19.1</td>
<td>9</td>
<td>19.3</td>
<td>9</td>
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<tr>
<td>Rodney MacDonald</td>
<td>11.5</td>
<td>10</td>
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Sources: Tables 5b and 5c; calculations by authors.
other three premiers scoring below 50.0 (Williams, Ghiz, and MacDonald) maintained relatively high corporate income-tax rates in comparison to the rates in effect under the top-ranking premiers.

B Personal Income Tax

The Personal Income Tax sub-component is based on seven measures. It examines both the marginal tax rate in 2010 and the average annual change over the premier’s tenure at three income levels ($50,000, $75,000, and $150,000, in 2010 dollars) as well as the number of brackets in 2010 (table 5c).

Only four Premiers, two from Atlantic Canada and two from Western Canada, scored above 50.0. Former premier Shawn Graham of New Brunswick ranked first overall on the Personal Income Tax sub-component with a score of 70.9 out of 100.0. Gordon Campbell of British Columbia followed closely in second with a score of 70.6 as did Newfoundland & Labrador’s Premier Danny Williams.
Williams with a score of 69.2. All three Premiers have reduced personal income-tax rates for all three income levels examined. Alberta’s Premier Ed Stelmach (54.1) was the only other premier to score above 50.0, although these results are almost entirely due to actions undertaken by Alberta’s previous leader.

The remaining six premiers, Brad Wall, Dalton McGinty, Gary Doer, Robert Ghiz, Jean Charest, and Rodney MacDonald, scored below 50.0. There is a stark difference in the marginal tax rates on personal income imposed by these lagging premiers and rates under the top performers. For instance, Nova Scotia’s Rodney MacDonald maintained a marginal tax rate of 19.3% on workers earning income of $150,000 while Alberta’s Ed Stelmach maintained a rate of just 10.0%.23

3 Debt and Deficits

Four premiers tied for top position on the Debt and Deficits component with a perfect score of 100.0: Brad Wall of Saskatchewan, Danny Williams of Newfoundland & Labrador, Gary Doer of Manitoba, and Ed Stelmach of Alberta (table 6). All four had average budget surpluses during their time in office and reduced net debt as a share of GDP.24 Premier Campbell of British Columbia scored 84.3 out of 100.0 and ranked fifth overall. Premiers Rodney MacDonald of Nova Scotia and Jean Charest of Quebec were the only other two premiers to score above 50.0. The other three premiers (Robert Ghiz, Dalton McGuinty, and Shawn Graham), each of whom had average deficits during their time in office, failed to score 50.0 or higher. Former premier Shawn Graham of New Brunswick ranked last with a score of zero; he not only had an average deficit during his tenure but also increased net debt as a share of GDP, each year, on average.

As explained in the methodology section, the Debt and Deficits component comprises two measures. The first compares a premier’s average annual deficit or surplus as a share of the provincial economy (GDP). The second compares the average annual change in net debt as a share of provincial GDP during a premier’s tenure. The results for each are summarized below (p. 31).

23 The latest data on personal income taxes for Nova Scotia’s Rodney MacDonald is for 2009 since the 2010 data reflect tax changes made by current premier, Darrel Dexter. For instance, Nova Scotia’s marginal tax rate on income of $150,000 in 2010 is 21.0%. In 2009, the rate (after accounting for the surtax) was 19.3%. Premier Dexter announced this tax increase in Nova Scotia’s 2010 budget, which temporarily suspended Nova Scotia’s surtax and created an additional top rate of 21.0% on income of $150,000 and higher. Since this change was enacted by the current premier, Rodney MacDonald’s performance on this measure was evaluated using the 19.3% rate.

24 Note that Premier Stelmach’s assessment on this component is based on only one measure since net debt in Alberta is actually zero; the province has more assets than debt.
Table 5c: Personal Income Tax, scores (out of 100) and ranks (out of 10)

<table>
<thead>
<tr>
<th>Premier Name</th>
<th>Province</th>
<th>Score</th>
<th>Rank</th>
<th>Marginal tax rate at $50,000 (2010)</th>
<th>Rate (%)</th>
<th>Score</th>
<th>Rank</th>
<th>Marginal tax rate at $75,000 (2010)</th>
<th>Rate (%)</th>
<th>Score</th>
<th>Rank</th>
<th>Marginal tax rate at $150,000 (2010)</th>
<th>Rate (%)</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shawn Graham</td>
<td>New Brunswick</td>
<td>70.9</td>
<td>1</td>
<td>12.5</td>
<td>47.3</td>
<td>4</td>
<td>13.3</td>
<td>57.3</td>
<td>4</td>
<td>14.3</td>
<td>65.4</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gordon Campbell</td>
<td>British Columbia</td>
<td>70.6</td>
<td>2</td>
<td>7.7</td>
<td>100.0</td>
<td>1</td>
<td>10.5</td>
<td>96.5</td>
<td>2</td>
<td>14.7</td>
<td>60.2</td>
<td>4</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Danny Williams</td>
<td>Nfld &amp; Labrador</td>
<td>69.2</td>
<td>3</td>
<td>12.7</td>
<td>45.4</td>
<td>5</td>
<td>14.4</td>
<td>42.0</td>
<td>6</td>
<td>14.4</td>
<td>64.1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ed Stelmach</td>
<td>Alberta</td>
<td>54.1</td>
<td>4</td>
<td>10.0</td>
<td>78.8</td>
<td>3</td>
<td>10.0</td>
<td>100.0</td>
<td>1</td>
<td>10.0</td>
<td>100.0</td>
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<td></td>
<td></td>
</tr>
<tr>
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<td>41.0</td>
<td>7</td>
<td>13.0</td>
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</tr>
<tr>
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<td>Ontario</td>
<td>24.3</td>
<td>6</td>
<td>9.2</td>
<td>89.5</td>
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<td>56.1</td>
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<tr>
<td>Gary Doer</td>
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<td>6</td>
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<tr>
<td>Robert Ghiz</td>
<td>Prince Edward Is.</td>
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<td>8</td>
<td>13.8</td>
<td>30.9</td>
<td>8</td>
<td>16.7</td>
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<tr>
<td>Jean Charest</td>
<td>Quebec</td>
<td>17.2</td>
<td>9</td>
<td>16.4</td>
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<td>10</td>
<td>16.4</td>
<td>14.4</td>
<td>7</td>
<td>19.2</td>
<td>0.5</td>
<td>9</td>
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<td></td>
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</tr>
<tr>
<td>Rodney MacDonald</td>
<td>Nova Scotia</td>
<td>3.8</td>
<td>10</td>
<td>15.0</td>
<td>16.5</td>
<td>9</td>
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<td>8</td>
<td>19.3</td>
<td>0.0</td>
<td>10</td>
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<td></td>
</tr>
</tbody>
</table>

Sources: Treff and Perry, various issues, 2000–2007, 2008; PriceWaterHouseCoopers, 2010; Provincial Budgets, 2009, 2010; calculations by authors.

Notes: (a) Personal income tax rates include surtaxes where applicable. Quebec’s tax rates are adjusted for the federal abatement. (b) The number of tax brackets includes surtaxes. (c) In this table, there are instances where two premiers receive slightly different scores even though their underlying data appears to be the same. This is because the scores are based on data that contain several decimal places. In addition, it is possible for two premiers to receive the same score even if the underlying data are not the same if the underlying data fall outside of the −/+ 1.5 standard deviations from the mean, a premier gets an automatic zero or a 100. See Appendix 1 for additional details on how the scores are calculated. (d) The average annual changes in marginal tax rates were evaluated for incomes of $50,000, $75,000, and $150,000 (in 2010 dollars) to avoid the problem of threshold indexation causing perceived tax rate declines. The three levels of income were adjusted for inflation using changes in the national Consumer Price Index (CPI). Doing so also insured that premiers who have been in power for longer periods are not put in a position of disadvantage compared to those who have been in power for shorter periods. (e) The personal income-tax rates for 2010 (and all other years) are the rates in effect at year’s end.
Table 5c, con’t: Personal Income Tax, scores (out of 100) and ranks (out of 10)

<table>
<thead>
<tr>
<th></th>
<th>Change in the marginal tax rate at $50,000</th>
<th>Change in the marginal tax rate at $75,000</th>
<th>Change in the marginal tax rate at $150,000</th>
<th>Number of tax brackets, 2010</th>
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<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Score</td>
<td>Rank</td>
<td>Percent</td>
</tr>
<tr>
<td>Shawn Graham</td>
<td>−3.9</td>
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<td>New Brunswick</td>
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<td></td>
</tr>
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<td>Gordon Campbell</td>
<td>−4.5</td>
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<td>−3.0</td>
</tr>
<tr>
<td>British Columbia</td>
<td></td>
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</tr>
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<td>Ed Stelmach</td>
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<td>5</td>
<td>0.0</td>
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<tr>
<td>Alberta</td>
<td></td>
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</tr>
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<td>Brad Wall</td>
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<td>5</td>
<td>0.0</td>
</tr>
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<td>Saskatchewan</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Dalton McGuinty</td>
<td>0.0</td>
<td>0.0</td>
<td>5</td>
<td>0.0</td>
</tr>
<tr>
<td>Ontario</td>
<td></td>
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<td></td>
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<tr>
<td>Gary Doer</td>
<td>−1.1</td>
<td>27.1</td>
<td>4</td>
<td>−0.2</td>
</tr>
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<td>Manitoba</td>
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<tr>
<td>Prince Edward Is.</td>
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</tr>
<tr>
<td>Jean Charest</td>
<td>0.0</td>
<td>0.0</td>
<td>5</td>
<td>−2.0</td>
</tr>
<tr>
<td>Quebec</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rodney MacDonald</td>
<td>0.0</td>
<td>0.0</td>
<td>5</td>
<td>0.0</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td></td>
<td></td>
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</table>

(f) The latest personal income tax data for Nova Scotia’s Rodney MacDonald is for 2009 since the 2010 data reflect tax changes made by current Premier Darrel Dexter. For instance, Nova Scotia’s marginal tax rate on income of $150,000 in 2010 is actually 21.0%. In 2009, the rate (after accounting for the surtax) was 19.3%. Current Nova Scotia Premier Darrell Dexter announced this tax increase in Nova Scotia’s 2010 budget, which temporarily suspended Nova Scotia’s surtax and created an additional top rate of 21.0% on income of $150,000 and higher. Given that this change was enacted by the current Premier Dexter, Rodney MacDonald’s performance on this particular measure was evaluated using the 19.3% rate.
Table 6: Debt and Deficits, scores (out of 100) and ranks (out of 10)

<table>
<thead>
<tr>
<th>Premier</th>
<th>Score</th>
<th>Rank</th>
<th>Percent</th>
<th>Score</th>
<th>Rank</th>
<th>Percent</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brad Wall Saskatchewan</td>
<td>100.0</td>
<td>1</td>
<td>1.47</td>
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<tr>
<td>Danny Williams Newfoundland &amp; Labrador</td>
<td>100.0</td>
<td>1</td>
<td>0.85</td>
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<td>1</td>
<td>−16.3</td>
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</tr>
<tr>
<td>Gary Doer Manitoba</td>
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<td>1</td>
<td>0.51</td>
<td>100.0</td>
<td>1</td>
<td>−3.2</td>
<td>100.0</td>
<td>1</td>
</tr>
<tr>
<td>Ed Stelmach Alberta</td>
<td>100.0</td>
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<td>0.01</td>
<td>100.0</td>
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<td>N/A</td>
<td>N/A</td>
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</tr>
<tr>
<td>Gordon Campbell British Columbia</td>
<td>84.3</td>
<td>5</td>
<td>0.13</td>
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<td>−0.4</td>
<td>68.5</td>
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</tr>
<tr>
<td>Rodney MacDonald Nova Scotia</td>
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<td>−0.04</td>
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<td>Jean Charest Quebec</td>
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<td>−0.41</td>
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<td>0.9</td>
<td>53.0</td>
<td>7</td>
</tr>
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<td>−0.82</td>
<td>11.2</td>
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<td>−0.7</td>
<td>70.9</td>
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</tr>
<tr>
<td>Dalton McGuinty Ontario</td>
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<td>9</td>
<td>−0.76</td>
<td>17.6</td>
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<td>3.6</td>
<td>22.2</td>
<td>8</td>
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<tr>
<td>Shawn Graham New Brunswick</td>
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<td>0.0</td>
<td>10</td>
<td>6.0</td>
<td>0.0</td>
<td>9</td>
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</tbody>
</table>

Sources: Canada, Department of Finance (2009); Provincial Budgets (2009 and 2010); Provincial Public Accounts (various issues); Statistics Canada (2009a and 2009c); calculations by authors.

Notes:
(a) While the top four premiers received same score of 100, they were ranked in descending order of the size of their surplus as a percentage of GDP.
(b) Premier Ed Stelmach was assessed on only the first Debt and Deficits measure. He was not assessed on the second measure since Alberta’s net debt is negative (i.e., the gross debt is smaller in value than financial assets).
(c) Premiers that generated surpluses, on average, during their time in office are automatically assigned a score of 100. This is done because, by definition, surplus money is used to reduce debt.
(d) During his time in power, Premier Robert Ghiz maintained a deficit, on average, but still managed to reduce net debt as a share of the economy. A deficit or surplus is defined as the difference between the total revenue and total expenditures. Net debt, on the other hand, is computed as gross debt (i.e., gross government general debt plus gross debt from crown corporations) minus financial assets. This means that changes in net debt could be due to changes not only in gross government general debt but also changes in gross debt from crown corporations, changes in financial assets, or both. As a result, it is possible to incur a deficit while at the same time reducing net debt, as is the case with Premier Robert Ghiz of Prince Edward Island.
(e) From 2000/01 to 2008/09, a number of accounting changes were made to the provincial Public Accounts data. In most cases, we used adjusted data (i.e., data that has been adjusted retroactively), which is published in the respective provincial budgets. However, in two cases the adjusted data were not available for the entire time period under consideration. Up until the 2002/03 fiscal year, Manitoba’s financial reporting included general government activities only. In 2003/04, Manitoba began reporting consolidated numbers for general government activities and government entities such as public schools (Manitoba, Ministry of Finance, 2004: 63). Similarly, in 2006/07 Quebec added education and health government entities to their financial reporting (Quebec, Ministère des Finances, 2009a). Both of these changes affected some of the measures used in this study. Unfortunately, given the long tenure of both former Premier Doer and Premier Charest, the adjusted data were not available for the duration of their tenure. Since we examine changes in the measures, rather than levels, these accounting changes mainly affected the year in which the changes took place. Therefore, data for the 2003/04 fiscal year was excluded when computing the measures in the...
i Average annual deficit or surplus as a percentage of GDP
Five premiers—Brad Wall, Danny Williams, Gary Doer, Gordon Campbell, and Ed Stelmach—had an average surplus during their tenures and earned a perfect score of 100.0. The surpluses ranged from 1.47% of GDP (Wall) to 0.01% of GDP (Stelmach). It is important to emphasize that no additional credit accrued to a premier for the size of his province’s surplus and each received a score of 100.0 on this measure.²⁵

Former Premier MacDonald and Premier Charest also scored above 50.0, scoring 95.6 and 55.5. The other three premiers, Dalton McGuinty of Ontario (17.6), Robert Ghiz of Prince Edward Island (11.2), and Shawn Graham of New Brunswick (0.0) scored below 50.0. All three Premiers experienced recurring and relatively large deficits as a share of the provincial economy during their mandates.

ii Average annual change in net debt as a share of GDP
Premiers Brad Wall (Saskatchewan), Danny Williams (Newfoundland & Labrador), and Gary Doer (Manitoba) scored a perfect 100.0 for their average annual reduction in net debt as a share of provincial GDP. Only two other premiers, Robert Ghiz of Prince Edward Island and Gordon Campbell of British Columbia, reduced net debt as a share of GDP during their tenures. The four remaining premiers, Rodney MacDonald (Nova Scotia), Jean Charest (Quebec), Dalton McGuinty (Ontario), and Shawn Graham (New Brunswick) increased net debt as a share of GDP during their tenures.²⁶

²⁵ That is, provinces that generated average surpluses over the period of analysis are treated as though they had 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, providing additional credit for larger surpluses would result in double counting.

²⁶ Alberta Premier Ed Stelmach was not evaluated on the second Debt and Deficit measure since net debt in Alberta is actually zero; the province has more assets than debt.

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Notes:
- Government Spending and Debt and Deficits components for former Premier Doer. The Taxes component was not affected. Similarly, data for the 2006/07 fiscal year was excluded when computing the Debt and Deficits measures for Premier Charest. The measures for the remaining two components were not affected.
- Data on net debt for 2009/10 are sourced from the provincial budgets. However, the most recent provincial budgets in Newfoundland & Labrador and Prince Edward Island did not provide net debt figures for the 2009/10 fiscal year. As a result, the average net debt as a share of GDP for premiers in these provinces (Danny Williams and Robert Ghiz, respectively) excludes data for the 2009/10 fiscal year.
- During their tenures, Premiers Brad Wall of Saskatchewan and Danny Williams of Newfoundland & Labrador significantly outperformed the other premiers in reducing their net debt positions as a share of provincial GDP. Because their reductions were significant outliers relative to the others, both premiers automatically received a perfect score of 100.0 on this indicator and their net debt performances were excluded from the min-max analysis. It is important to note that Danny Williams’ performance was excluded despite the fact that his average net debt reduction was within the range specified by the exclusion rule (i.e., 1.5 standard deviations from the mean). We excluded Williams’ average net debt reduction because including it would have influenced the overall scores and rankings to the point of rendering them meaningless. That is, the net debt measure would have materially driven the overall results. Both the min-max methodology and rules governing exclusions from the min-max analysis are detailed in Appendix 1.
Conclusion

In a world of increasing competitiveness, where capital, labour, goods, and services are increasingly able to move freely from one jurisdiction to another, it is more important than ever for premiers to focus on fiscal policies that lay the foundation for economic growth and prosperity. This report objectively measures the fiscal performance of ten Canadian premiers. While the analysis points to large differences in performance among the premiers, Western premiers generally performed better than their Central and Eastern counterparts. Premiers Gordon Campbell of British Columbia, Gary Doer of Manitoba, and Danny Williams of Newfoundland & Labrador performed best while Premiers Shawn Graham of New Brunswick, Robert Ghiz of Prince Edward Island, and Dalton McGuinty of Ontario performed weakest.
Province-by-province analysis

Gordon Campbell
British Columbia

<table>
<thead>
<tr>
<th></th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>89.1</td>
<td>1st</td>
</tr>
<tr>
<td>Government Spending</td>
<td>100.0</td>
<td>1st</td>
</tr>
<tr>
<td>Taxes</td>
<td>83.1</td>
<td>1st</td>
</tr>
<tr>
<td>Debt and Deficits</td>
<td>84.3</td>
<td>5th</td>
</tr>
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</table>

Gordon Campbell became premier of British Columbia in June 2001, was re-elected in May 2005, and again in May 2009. Premier Campbell ranked 1st overall with a score of 89.1 owing largely to strong performance on the Government Spending and Taxes components, ranking 1st on both. On Debt and Deficits, he ranked 5th.

Government Spending
Premier Campbell scored a perfect 100.0 and ranked 1st on the Government Spending component by managing the growth in government spending in a relatively sustainable manner and showing more restraint than any of the other premiers. During his tenure, Premier Campbell has held average growth in program spending (4.4%) only slightly above the average rate of economic growth (4.1%).

Premier Campbell ran a particularly tight fiscal ship during his first term in office (2001/02–2004/05). Over those four years, he held average growth in program spending (2.8%) significantly below average economic growth (4.7%). Unfortunately, Premier Campbell has not exercised the same degree of restraint since his first term and on many occasions allowed government spending to increase beyond the rate of economic growth. The result was an expansion in the size of government to 21.1% of GDP in 2009/10 from 19.4% of GDP at the end of his first term in 2004/05.

Taxes
One of Premier Campbell’s most significant fiscal achievements during his time in office has been on the Taxes component. The cuts to personal and corporate income taxes implemented shortly after he came into power as well as those scheduled and implemented over a number of years thereafter
helped earn him top spot on the Taxes component (overall score of 83.1 and 1st-place ranking).

In his first budget (2001), Premier Campbell enacted a 25% across-the-board reduction in personal income-tax rates, followed by additional cuts in 2007 and 2008. His 2001 budget also reduced the general corporate income-tax rate from 16.5% to 13.5% in 2002 with subsequent reductions to 10.5% in 2010.27 Currently, British Columbia has the second lowest corporate income-tax rate of all the provinces, behind only Alberta’s 10.0% rate.

Debt and Deficits
While Premier Campbell ranked 5th among the 10 premiers on the Debt and Deficits component, he scored 84.3 out of 100 as a result of generally recording surpluses and reducing government net debt during his time in office. From 2001/02 to 2009/10, British Columbia’s average surplus amounted to 0.13% of GDP, earning him a perfect score of 100.0 and 1st place ranking on the first Debt and Deficits measure. Over the same period, Campbell reduced British Columbia’s net debt from 18.5% of GDP in 2001/02 to 15.7% in 2009/10.28

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27 The corporate income-tax rate in British Columbia will be reduced further to 10.0% in 2011. Importantly, Campbell eliminated the economically damaging corporate capital tax on both non-financial (2002) and financial institutions (2010) (see Veldhuis et al., 2009a).

28 It is important to note that in recent years Premier Campbell has increased British Columbia’s net debt as a share of GDP. For instance, he increased net debt from a low of 11.6% of GDP in 2007/08 to 15.7% of GDP in 2009/10. The increase is the result of annual deficits over recent years and increased capital spending financed by government debt.
Ed Stelmach
Alberta

Rank: 4th
Period evaluated: 2007/08–2009/10
In office: December 14, 2006–present

Score  Rank
Overall: 66.4  4th
Government Spending: 37.4  5th
Taxes: 61.7  3rd
Debt and Deficits: 100.0  1st

Ed Stelmach became premier of Alberta in December 2006. His fiscal performance was evaluated over the three-year period from 2007/08 to 2009/10. Premier Stelmach ranked 4th overall with a score of 66.4. While he performed relatively well on the Debt and Deficits (1st) and Taxes (3rd) components, he ranked 5th on the Government Spending component.

Government Spending
Premier Stelmach has increased government spending significantly since assuming office. The average growth in program spending (8.2%) has been greater than both average economic growth (1.2%) and average inflation-plus-population growth (5.2%). His profligate spending has increased the size of Alberta’s government (total spending as a percentage of GDP) from 12.4% of GDP in 2006/07 to 15.5% of GDP in 2009/10.

Taxes
The failure to control government spending resulted in no tax relief in Alberta. After all, governments must restrain spending in order to create the fiscal room for tax relief. However, even without enacting any tax relief, Premier Stelmach ranked relatively high on the Taxes component (3rd with a score of 61.7) because, over his tenure, he has kept personal and corporate income-tax rates unchanged. Since Alberta has among the lowest personal and corporate income-tax rates in the country, and the country’s only single-rate personal income-tax system, Premier Stelmach ranked relatively well on this component.

Debt and Deficits
Premier Stelmach’s failure to restrain spending also resulted in a budget deficit in 2008/09 after 14 consecutive years of surpluses. The province ran another deficit in 2009/10. To make up the budgetary shortfalls, Stelmach’s government used Alberta’s Sustainability Fund, which was created to protect against unexpected drops in revenue and the costs of emergencies.
Despite recording deficits in 2008/09 and 2009/10, the province’s relatively large surplus in 2007/08 resulted in a small average surplus of 0.01% of GDP over the three-year period. As a result of registering an average surplus, Premier Stelmach scored of 100.0 and tied with four other premiers for 1st place on the Debt and Deficits component. He was not evaluated on the second measure, however, because Alberta’s net debt is actually zero (the province has more assets than debt).
Brad Wall
Saskatchewan

Rank: 5th
Period evaluated: 2008/09 – 2009/10
In office: November 21, 2007–present

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<tr>
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<tr>
<td>Taxes</td>
<td>50.9 5th</td>
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<tr>
<td>Debt and Deficits</td>
<td>100.0 1st</td>
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</table>

Brad Wall became premier of Saskatchewan in November 2007. Premier Wall’s fiscal performance was therefore evaluated from 2008/09 to 2009/10 in this year’s report. He ranked 5th overall with a score of 57.9 out of 100.0. He performed best on the Debt and Deficits component (1st) and poorly on the Government Spending component (8th).

Government Spending
Premier Wall’s low score (22.9) and ranking (8th) on the Government Spending component was caused by a failure to restrain spending. His government increased program spending at an average rate of 10.1%, greater than average economic growth (6.2%) and average inflation-plus-population growth (3.6%). The size of Saskatchewan’s provincial government (total spending as a percentage of GDP) has expanded under Premier Wall’s leadership from 16.9% of GDP in 2007/08 to 18.2% of GDP in 2009/10.

Taxes
Premier Wall ranked 5th among the premiers on the Taxes component with a score of 50.9 out of 100. He performed relatively well on the corporate income taxes sub-component (ranking 4th with a score of 70.5) and poorly on personal income taxes (ranking 5th with a score of 31.3). Under Premier Wall, the corporate income-tax rate has decreased from 13% in 2007 to 12% in 2008. However, this rate cut was announced by Lorne Calvert, the former premier, in 2005 as part of a multi-year plan to make Saskatchewan’s business tax regime more competitive. Premier Wall simply allowed the planned reduction to proceed as scheduled. Saskatchewan’s current corporate income-tax rate of 12% is higher than rates in both Alberta (10%) and British Columbia (10.5%). Unfortunately, Premier Wall has not addressed Saskatchewan’s relatively high marginal personal income-tax rates, especially the rate at $150,000.
Debt and Deficits

Premier Wall has achieved exceptional results on the Debt and Deficits component earning a perfect score of 100.0 and the top spot, which was shared with three other premiers. From 2008/09 to 2009/10, he maintained the largest average surplus (1.47% of GDP) among the premiers. He also significantly reduced Saskatchewan's net debt from 11.9% of GDP in 2007/08 to 6.6% in 2009/10.
Gary Doer
Manitoba

Rank: 2nd
Period evaluated: 2000/01 – 2009/10
In office: October 5, 1999–October 19, 2009

Score       Rank
Overall: 78.2  2nd
Government Spending: 85.5  2nd
Taxes: 49.1  6th
Debt and Deficits: 100.0  1st

Gary Doer was premier of Manitoba from October 1999 to October 2009. While Greg Selinger replaced him as premier in late 2009, we assessed Premier Doer since he was in power for more than half of the 2009/10 fiscal year. Former Premier Doer ranked 2nd overall, scoring 78.2 out of 100.0 and performing well on both the Government Spending (2nd) and Debt and Deficits (1st) components but ranking poorly (6th) on the Taxes component.

Government Spending
Former Premier Doer scored 85.5 and ranked 2nd on the Government Spending component and managed the growth in government spending better than most premiers. During his tenure, he kept average growth in program spending at 5.6%, slightly above the average rate of economic growth (5.0%). Only Gordon Campbell showed more restraint.

Taxes
Unfortunately, Premier Doer was not able to restrain spending growth enough to allow for more meaningful tax reductions. As a result, he performed poorly on the Taxes component with a score of 49.1 (ranking 6th). Had he kept average spending growth in line with average population-plus inflation growth (2.7%), significant fiscal room would have been generated to allow for tax reductions.

Former Premier Doer did reduce personal income-tax rates during his term in office but other premiers did so to a greater extent. Manitoba’s marginal personal tax rates at all three income levels ($50,000, $75,000, and $150,000) remain among the highest in country, which lowered his score on the Tax component.

Former Premier Doer’s performance on the Corporate Income Tax sub-component was more encouraging (score of 74.2 and 3rd-place ranking). While Manitoba tied for the 5th-highest corporate income-tax rate in 2010 at 12.0%, he dramatically reduced the rate during his time in office from 17% in 2001 to 12% in 2010.
Debts and Deficits
Premier Doer tied for 1st place with three other premiers who excelled on the Debt and Deficits component. From 2000/01 to 2009/10, he maintained an average surplus of 0.5% of GDP and, as a result, was able to reduce Manitoba's net debt from 31.4% of GDP in 1999/00 to 24.2% of GDP in 2009/10.
Measuring the Fiscal Performance of Canada's Premiers

**Dalton McGuinty**

**Ontario**

- Rank: 10th
- Period evaluated: 2004/05–2009/10
- In office: October 23, 2003–present

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<td>9th</td>
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Dalton McGuinty became premier of Ontario in October 2003 and was re-elected in 2007. Sadly for Ontarians, he ranked last with a score of 29.7 out of 100.0.

**Government Spending**

Premier McGuinty scored 29.8 and ranked 7th on the Government Spending component, indicating a spendthrift approach to managing Ontario’s public finances. From 2004/05 to 2009/10, the average growth of program spending (7.7%) was over three times greater than the average rate of economic growth (2.4%) and significantly greater than average population-and-inflation growth (2.8%). As a result, Ontario’s size of government (total spending as a percentage of GDP) increased from 16.2% of GDP in 2003/04 to 20.8% of GDP in 2009/10.

**Taxes**

Premier McGuinty scored 39.2 and ranked 7th on the Taxes component. Shortly after entering office in 2003, despite a key campaign promise not to raise taxes, Premier McGuinty increased personal income taxes through the introduction of the Ontario Health Premium.\(^{29}\) In addition, he cancelled the planned elimination of the personal income surtax put in place by the previous government and increased business taxes by raising the general corporate income-tax rate from 12.5% to 14.0%.

Fortunately for Ontarians, Premier McGuinty realized the destructive impact of such tax policies and turned about completely on tax policy in his 2009 budget. One of the key tax reforms included in the 2009 budget was a phased-in reduction to the general corporate income-tax rate from 14.0% in 2009 to 10.0% by 2013.\(^{30}\)

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\(^{29}\) The Ontario Health Premium is basically a tax to fund health care though this report does not capture this tax increase.

\(^{30}\) Another important tax reform contained in budget 2009 was the move to a harmonized sales tax (HST) on July 1, 2010. However, the report does not capture this positive change.
Debt and Deficits
Premier McGuinty scored 19.9 out of 100 on the Debt and Deficits component, ranking 9th among the 10 premiers. To finance large increases in government spending, McGuinty often resorted to deficit financing (i.e., borrowed money) and this inevitably resulted in increased government debt. From 2004/05 to 2009/10, he ran an average budget deficit of 0.8% of GDP and, as a result, Ontario’s net debt increased from 28.2% of GDP in 2003/04 to 34.1% in 2009/10.
Jean Charest became premier of Québec in June 2003, re-elected in 2007, and again in 2008.\(^{31}\) Premier Charest ranked 6\(^{th}\) overall with a score of 53.7 out of 100.0. While Premier Charest performed relatively well on the Government Spending component (ranking 3\(^{rd}\)), he ranked in the bottom half on both the Taxes (8\(^{th}\)) and the Debt and Deficits (7\(^{th}\)) components.

**Government Spending**

Premier Charest scored 81.7 and ranked 3\(^{rd}\) on the Government Spending component behind Gordon Campbell (100.0) and Gary Doer (85.5). While he showed more restraint than most premiers, his spending record certainly is not to be considered prudent. From 2003/04 to 2009/10, average growth in program spending (5.0%) exceeded average GDP growth (3.2%) and average inflation-and-population growth (2.5%).

**Taxes**

Premier Charest performed poorly on the Taxes component, scoring just 25.3 and ranking 8\(^{th}\). He and Ontario’s Dalton McGuinty were the only premiers to enact increases to the corporate income-tax rate.\(^{32}\) Premier Charest also failed to address Quebec’s high personal income tax rates. In fact, Quebec maintains among the highest marginal tax rates on personal income at $50,000, $75,000 and $150,000 in the country.

**Debt and Deficits**

Premier Charest scored 54.2 and ranked 7\(^{th}\) on the Debt and Deficits component as he was among the five premiers to run a deficit—an average deficit of 0.41% of GDP from 2003/04 to 2009/10—over his tenure. As a result, Quebec’s net debt increased from 39.6% of GDP in 2002/03 to 47.5% in 2009/10 under Charest’s leadership.

\(^{31}\) Charest called a snap election in November 2008, arguing that Québec needed a majority government to deal with the economic downtown, and won a majority the following month.

\(^{32}\) At the beginning of his tenure, Premier McGuinty increased the corporate income-tax rate but later reduced it. On average, McGuinty decreased the rate as displayed in table 5b.
**Shawn Graham**  
**New Brunswick**

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Shawn Graham became premier of New Brunswick in October 2006 and was replaced by David Alward, the Progressive Conservative leader, in October 2010. Since Premier Graham was in power for the entire fiscal year of 2009/10, his fiscal performance was evaluated in this year’s report. Premier Graham ranked 8th overall with a score of 33.2.

**Government Spending**

Premier Graham scored 19.2 and ranked 9th on the Government Spending component. During his time in office, average growth in program spending (7.4%) was over three times greater than average economic growth (2.2%) and almost five times greater than inflation-plus-population growth (1.5%). That is, Premier Graham made little attempt to ensure that government spending was on a sustainable path.

**Taxes**

Despite his poor overall showing, Premier Graham is to be congratulated for his performance on the Taxes component, where he scored 80.3 and ranked 2nd. In New Brunswick’s milestone budget in 2009, Premier Graham announced a historic plan to reform both personal and corporate income taxes. The 2009 budget announced plans to replace New Brunswick’s four tax brackets with just two rates and reduce the top marginal personal income-tax rate from one of the highest in Canada to the second lowest, behind only Alberta. On the business side, the province’s corporate income-tax rate is set to fall from 13.0% in 2009 to 8.0% by 2012, giving New Brunswick the lowest rate in Canada.

**Debts and Deficits**

It is an unfortunate reality that premiers who do not restrain spending have to rely on deficit financing. Premier Graham is no exception. Not only did New Brunswick have an average deficit over his tenure, but, at 1.02% of GDP, it was the largest among the provinces. As a result, Premier Graham increased New Brunswick’s net ratio of debt to GDP by the largest percentage, on average, of the premiers evaluated.
Rodney MacDonald
Nova Scotia

Rank: 7th
Period evaluated: 2006/07–2009/10

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<td>Taxes</td>
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<tr>
<td>Debt and Deficits</td>
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<td>6th</td>
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Rodney MacDonald became premier of Nova Scotia in February 2006. In May 2009, his government lost a confidence vote and there was a provincial election the following month. The New Democratic Party, led by current Premier Darrel Dexter, won the election and ended MacDonald's tenure as premier. In this edition of *Measuring the Fiscal Performance of Canada's Premiers*, the fiscal performance of MacDonald, not Dexter, was evaluated for the period 2006/07 to 2009/10. \(^{33}\) Premier MacDonald ranked 7th overall with a score of 33.7.

**Government Spending**
Former Premier MacDonald ranked last on the Government Spending with a score of 13.4 out of 100. Under his leadership, the average increase in program spending (7.8%) was significantly greater than average growth in GDP (2.1%) and inflation-plus-population growth (1.7%). That is, MacDonald did not demonstrate a willingness to ensure that government spending grew in a sustainable and prudent manner.

**Taxes**
Former Premier MacDonald also ranked last on the Taxes component, scoring just 11.5. The low score and rank were due to Nova Scotia's high tax rates on both corporate and personal income, which MacDonald did not change over his tenure.

**Debt and Deficits**
Former Premier MacDonald scored 76.2 and ranked 6th on the Debt and Deficits component. During his tenure, Nova Scotia had a small average deficit of 0.04% of GDP and Nova Scotia's net debt as a share of GDP increased, on average.

\(^{33}\) See footnote 15 for an explanation of why Dexter was excluded from the analysis and why the fiscal year 2009/10 was attributed to MacDonald.
Robert Ghiz
Prince Edward Island

Rank: 9th
Period evaluated: 2007/08–2009/10
In office: June 12, 2007–present

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<td>Taxes: 19.1</td>
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<td>Debt and Deficits: 41.0</td>
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Robert Ghiz became premier of Prince Edward Island (PEI) in June 2007. Premier Ghiz ranked 9th overall with a score of 30.0 and in the bottom half on all three components, ranking 6th on Government Spending, 9th on Taxes, and 8th on Debt and Deficits.

Government Spending
Premier Ghiz received a score of 30.0 (out of 100) on the Government Spending component, ranking him 6th among the premiers. So far during Ghiz’s tenure the average growth in program spending (7.8%) has significantly exceeded average GDP growth (3.1%) and average inflation-plus-population growth (2.4%). Premier Ghiz did not to ensure that government spending was increased in a sustainable and prudent manner.

Taxes
Premier Ghiz scored 19.1 and ranked 9th on the Taxes component, ahead of only Nova Scotia’s Rodney MacDonald. Like Nova Scotia, Prince Edward Island’s tax rates on both corporate and personal income are among the highest in the country. Unfortunately, Premier Ghiz has failed to address Prince Edward Island’s uncompetitive tax rates.

Debt and Deficits
Premier Ghiz also performed poorly on the Debt and Deficits component scoring 41.0 and ranking 8th. Most critically, he maintained an average deficit of 0.8% of GDP between 2007/08 and 2009/10.
Danny Williams
Newfoundland & Labrador

Rank: 3rd
Period evaluated: 2004/05–2009/10
In office: November 6, 2003–present

Score  Rank
Overall:  71.0    3
Government Spending:  61.2    4
Taxes:  51.7    4
Debt and Deficits:  100.0    1

Danny Williams became premier of Newfoundland & Labrador in November 2003 and was re-elected in October 2007. Premier Williams ranked 3rd overall with a score of 71.0. His best performance was on the Debt and Deficits component, where he tied for 1st place. He ranked 4th on both the Government Spending and Taxes components.

Government Spending
Premier Williams ranked 4th on the Government Spending component with a score of 61.2. Under his leadership, program spending grew at an average rate of 6.4% compared to an average rate of economic growth of 5.2%. While this level of spending growth should certainly not be held up as an example of prudence, Premier Williams did keep spending growth more in line with economic growth than most other premiers.

Taxes
Premier Williams also ranked 4th on the Taxes component with a score of 51.7. He has reduced marginal personal income-tax rates at all three income levels of income ($50,000, $75,000, and $150,000) assessed in this report. In 2008, for example, he eliminated the surtax of 4.5%, which resulted in a reduction in the number of tax brackets from four to three, and in 2009 and 2010 he made reductions to the three remaining marginal rates. Because of these cuts, Newfoundland & Labrador’s marginal personal income-tax rate at $150,000 is significantly more competitive. Premier Williams has not, however, addressed the province’s relatively high corporate income-tax rate.

Debt and Deficits
Premier Williams performed well on the Debt and Deficits component, scoring 100.0 and ranking 1st. He maintained an average surplus of 0.85% of GDP and reduced Newfoundland & Labrador’s net debt as a percent of GDP substantially.
Appendix 1: Methodology

Fiscal performance is based on three core components of fiscal policy: [1] Government Spending, [2] Taxes, and [3] Debt and Deficits. The overall score ranges from zero to 100.0, where a higher value indicates better fiscal performance. The overall score is the simple average of the three component scores and component scores were derived by averaging the scores of the sub-components (Taxes) or measures within each component (Government Spending and Debt and Deficits).34

For measures where a higher value indicates poor performance, each observation was transformed into a number from zero to 100.0 using the following formula:

\[ \frac{(V_{\text{max}} - V)}{(V_{\text{max}} - V_{\text{min}})} \times 100, \]

where \( V_{\text{max}} \) is the largest value found within a measure, \( V_{\text{min}} \) is the smallest, and \( V \) is the observation to be transformed. For those measures where a higher value indicates good performance, the following formula was used:

\[ \frac{(V_{\text{min}} - V)}{(V_{\text{max}} - V_{\text{min}})} \times 100, \]

where \( V_{\text{min}} \) is the smallest value found within a measure, \( V_{\text{max}} \) is the largest, and \( V \) is the observation to be transformed.

Note that all \( V_{\text{max}} \) and \( V_{\text{min}} \) are derived from the data except for outliers. If there is an observation that is more than ±1.5 standard deviation from the mean, we used \( V_{\text{max}} \) and \( V_{\text{min}} \) based on ±1.5 standard deviation from the mean instead of using \( V_{\text{max}} \) and \( V_{\text{min}} \) derived from the data. That is, we only used the \( V_{\text{max}} \) or \( V_{\text{min}} \) based on ±1.5 standard deviations from the mean if there are observations outside the ±1.5 standard deviations and only on the side of the distribution that has outliers. By doing this, we both preserve the idea of

34 By using simple averages to compute component scores and an overall index, we are not necessarily implying that the three components, the group of sub-components making up a component, or individual measures under a component or sub-component are of equal fiscal importance. Some components, sub-components, and measures may indeed be more important than others. The equal weighting scheme used in this report was chosen because it is simple, transparent, and easy to understand. Those interested in recalculating the index using the weighting scheme of their preference are more than welcome to do so.
relative rankings and avoid a situation where an outlier, captured by $V_{max}$ or $V_{min}$ derived from the data, changes the scores for the rest of the premiers so much that the scores become meaningless.\(^{35}\)

We chose 1.5 standard deviations, and not 1.0 or 2.0, because this criterion covers just over 80% of all observations assuming normal distribution (that is, a bell curve). One standard deviation from the mean may be too narrow since it covers just over 68% of the distribution and two standard deviations too wide since this criterion covers just over 95%. We believe our use of 1.5 standard deviations from the mean rather than 1.0 or 2.0 standard deviations or other criteria is the best method, one that is both objective and allows us to control for outliers while preserving relative rankings of the provincial premiers.

Since a Premier’s performance is evaluated only at the provincial level, Quebec data in [1] Government Spending and [2] Taxes components were adjusted for abatements. All data for [1] Government Spending and [3] Debt and Deficits come from the Provincial Public Accounts and provincial government Budgets.\(^{36}\) Data for [2] Taxes come from various sources, including provincial budgets (see tables 5a, 5b, and 5c for the list of data sources).

\(^{35}\) There was one case in the study where the criterion of 1.5 standard deviations was not used. During their tenures, Premiers Brad Wall of Saskatchewan and Danny Williams of Newfoundland & Labrador did a significantly better job at reducing net debt as a share of provincial GDP. Because their reductions were significant outliers relative to reductions achieved by other premiers, both automatically received a perfect score of 100.0 on this indicator and their net debt performances were excluded from the min-max analysis. It is important to note that Danny Williams’ performance was excluded despite the fact that his average net debt reduction was within the range specified by the exclusion rule (1.5 standard deviations from the mean). This was done because including it would have influenced the overall scores and rankings to the point of rendering them meaningless. That is, the net debt measure would have materially driven the overall results.

\(^{36}\) One may question our use of data from Provincial Public Accounts and Budgets, which are not strictly comparable across provinces, rather than data from Statistics Canada based on the Financial Management System (FMS), which are comparable. In spite of this shortcoming, we decided to use data from the Provincial Public Accounts and Budgets for two reasons. First, Provincial Public Accounts and Budgets provide more timely data. Certain data series based on the FMS, for instance, can lag up to two years. Much more importantly, Statistics Canada discontinued publishing data based on the FMS as of spring of 2010 (Statistics Canada, 2009b). Statistics Canada is moving to the International Monetary Fund’s accounting system called Government Finance Statistics in 2012. This new system will replace the FMS, making the already published FMS data inconsistent with the new data (Statistics Canada, 2009b) and this would prevent us from updating the report in coming years.
Limitations of this Study

Given the recent economic downturn, one might argue that the fiscal performance of the premiers who have been in office for the past couple of years is not directly comparable to premiers who have been in office for a longer period. That is, in good economic times it may be easier to pursue a prudent fiscal policy like constrained spending than it is in a recession. An economic downturn puts additional pressure on government resources by reducing tax revenue through decreased economic activity, while simultaneously increasing spending on automatic stabilizer programs such as Social Assistance and Employment Insurance. The fiscal performance of premiers who have been in power during good and bad economic times may balance out whereas the fiscal performance of those who came to power recently may be based mainly on their performance during the recession. To reduce this effect, most measures are calculated as annual averages rather than cumulative changes from a premier’s starting date to 2009/10. The overall results do not appear to be affected by the number of years a premier has been in power. The top five premiers, those who had good fiscal performance, consists of those who have been in office for a short period of time, three years or less, and those who have been in office for a longer period of time, six years or more. This is also true for the bottom five performers.

One might also argue that premiers in provinces rich in natural resources are at an advantage because they receive substantial revenue from resource royalties that allow them to reduce tax rates without incurring a deficit. However, while fluctuations in the price of primary commodities may affect fiscal performance, the impact may not necessarily be positive or long lasting.

There are at least two ways that primary commodities can affect fiscal performance as defined in this report. First, a large jump in the price of primary commodities, such as oil in Alberta and Newfoundland & Labrador, potash in Saskatchewan, or gas in British Columbia, can inflate GDP and positively affect some measures. However, given the structure of our index, this impact is limited. Consider, for example, the performance of Premier Brad Wall on the Government Spending component. Under Premier Wall, Saskatchewan had the highest average growth in program spending of all provinces (10.1% in nominal terms) yet Wall managed to rank fifth on the first Government Spending measure because Saskatchewan had the highest average GDP growth of the provinces (6.2% in nominal terms) during his tenure. While such significant growth in spending clearly does not demonstrate

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37 Canadian provinces have enjoyed relatively strong economic growth (of almost 3% per year) for most of the period under consideration, 2000 to 2007. In the later part of 2008 and in 2009, many provinces experienced shrinking economies (Provincial budgets for 2010, listed in Government sources below; Statistics Canada, 2009a).
restraint, the growth in GDP in the province improved Premier Wall’s relative ranking. But the second Government Spending measure, which compares growth in program spending to growth of inflation plus population, offsets to some extent the positive effect of strong GDP growth on the first. In Premier Wall’s case, despite his relatively good performance on the first measure, he ranks 8th overall on the Government Spending component due to his poor performance on the second measure, where his profligate spending is exposed and places him in 10th place.

Primary commodities can also affect performance by producing substantial revenue through royalties, which make it easier for premiers to reduce debt and cut taxes without incurring a revenue shortfall in the short term. However, the prices of primary commodities such as oil, natural gas, and potash fluctuate (i.e., prices can go up or down) and, therefore, a reduction in commodities prices would produce a negative effect on fiscal performance. In addition, high GDP growth fuelled by a jump in commodity prices, while possible in the short term, is unsustainable over the long term.

One way to gauge the effect of non-renewable resource revenues on fiscal performance is to consider the proportion of own-source revenues derived from non-renewable resources for each premier and compare that percentage with their overall score as well as their scores on the three individual components (Government Spending, Taxes, and Debt and Deficits). Indeed, premiers with a higher percentage are more dependent on revenues from non-renewable resources. While a weak positive relationship exists between a premier’s dependence on resource revenue and his overall score (Manitoba and, to a lesser extent, British Columbia are outliers), virtually no relationship exists between a premier’s dependence on resource revenue and his scores on the Taxes or Government Spending components. There is a positive relationship between dependence on resource revenue and scores on the Debt and Deficits component, suggesting that resource revenues may in fact help premiers run surpluses and pay down debt (Manitoba is a clear outlier).

While provinces with substantial revenue from non-renewable resources perform better on the Debt and Deficits component, it would be unfair to penalize them for using these resources to pay down debt. After all, a primary reason these provinces enjoy investment in their natural-resource sectors is that they provide a positive fiscal climate that encourages resource extraction (which leads to increased royalty revenues). For example, Saskatchewan historically had poor fiscal policies (in particular, an extremely burdensome tax penalty on investment) and it was not until the province improved its fiscal (tax) policies that resource investment picked up significantly.

Once a province with significant non-renewable resource revenues has repaid its outstanding debt, it should be penalized for not saving a significant portion of this revenue into an investment fund such as the Heritage Fund in Alberta. An investment fund would provide a permanent stream of
future revenues and allow the province to rely less on other forms of taxation. Premier Ed Stelmach of Alberta is the only premier whose province has completely repaid its debt (after accounting for assets in the province’s Debt Retirement Account). While Premier Stelmach was not penalized directly for failing to divert a significant portion of Alberta’s non-renewable resource revenue to the Heritage fund, he was indirectly penalized through the Government Spending component. If future editions of this report are published, this issue will need to be re-evaluated.

Finally, transfers from the federal government such as Equalization payments may diminish the incentive for a premier to look at spending challenges or address problems with tax levels and tax mixes. Nonetheless, several cases in recent years have arisen where a premier in a have-not province (one which receives Equalization payments) has taken important steps to improve fiscal performance despite the prospect of losing Equalization payments. For instance, Gordon Campbell in British Columbia has dramatically improved the province’s fiscal performance since coming into office in 2001 and as a result British Columbia lost its have-not status in 2006/07 and no longer receives Equalization transfers. A similar story occurred in Saskatchewan as a result of the efforts of former Premier Lorne Calvert who improved Saskatchewan’s fiscal performance. Most recently, New Brunswick introduced a significant tax reform plan that will pay dividends on the province’s fiscal performance. Meanwhile, Manitoba is a have-not province with strong fiscal performance as demonstrated by former Premier Gary Doer’s 2nd-place ranking in this report.
## Appendix 2: Corporate Capital Tax

<table>
<thead>
<tr>
<th>Province/Region</th>
<th>In office</th>
<th>Does the province have a general corporate capital tax rate?</th>
<th>Date of elimination</th>
<th>Does the province have a corporate capital tax rate for financial institutions?</th>
<th>Date of elimination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newfoundland &amp; Labrador</td>
<td>Nov. 6, 2003 – present</td>
<td>No</td>
<td></td>
<td>Yes No plan</td>
<td></td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>June 12, 2007 – present</td>
<td>No</td>
<td></td>
<td>Yes No plan</td>
<td></td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>Feb. 22, 2006 – June 19, 2009</td>
<td>Yes July 1, 2012 (expected)</td>
<td>Yes No plan</td>
<td>Yes No plan</td>
<td></td>
</tr>
<tr>
<td>Quebec</td>
<td>June 6, 2003 – present</td>
<td>Yes January 1, 2011 (expected)</td>
<td>Yes</td>
<td>January 1, 2011 (expected)</td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td>Oct. 5, 1999 – Oct. 19, 2009</td>
<td>Yes after 2010 (expected)</td>
<td>Yes</td>
<td>No plan</td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>Nov. 21, 2007 – present</td>
<td>No July 1, 2008</td>
<td>Yes</td>
<td>No plan</td>
<td></td>
</tr>
<tr>
<td>Alberta</td>
<td>Dec. 14, 2006 – present</td>
<td>No</td>
<td></td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>British Columbia</td>
<td>June 5, 2001 – present</td>
<td>No September 1, 2002</td>
<td>Yes</td>
<td>April 1, 2010</td>
<td></td>
</tr>
</tbody>
</table>

References


Government sources


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