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CONSTITUTIONAL REFORM AND THE STRUCTURE OF GOVERNMENT: FISCAL RESIDUALS IN THE WEST - A REASON FOR GETTING TOGETHER

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*This paper represents preliminary thoughts and some background data prepared for a Meeting of Western Economists on the Constitution organized by the Western Centre for Economic Research on May 24 and 25, 1991. Its purpose is to stimulate discussion. Comments are, therefore, most welcome. Please do not quote without permission.

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1. Introduction

First, I want to acknowledge that my thoughts on the economic implications of the restructuring of Canada are still in a formative stage. Second, I am uncomfortable talking about any dismemberment of Canada. Nevertheless, discussions are going on, and it is better to be a participant than a by-stander. It is important that we understand the economic, as well as other, implications of possible changes. Change within a long-standing confederation will be painful to many, but inertia means that opportunities for significant change arise infrequently. An opportunity for change is a chance to improve upon an existing situation. It is in this spirit that this paper proceeds.

2. A Time for Fragmentation or for Regrouping ?

Uncertainty surrounding the future of Canada is resulting in the discussion of a wide array of government structures. This ranges from a number of sovereign nations emerging from the existing turmoil, to one nation with increased regional autonomy. The transfer of wealth from Alberta and to other parts of Canada over the past quarter century, an affinity of interests between Alberta and Quebec, and the rhetoric surrounding the NEP make it natural that some Albertans ponder the question of their own sovereignty when it is at the forefront in Quebec.

This brief paper, however, does not focus on the notion of an independent Alberta. Its focus is on Western Canada, encompassing the four western provinces and possibly the territories. A few, certainly not all, fiscal implications are considered for a sovereign Western Canada. Many of the points made pertain equally to a Western Canada which is one of three or four regions in a new federation, with regional governments assuming some powers from existing provincial governments and from the federal government. No attempt is made to deal with the political difficulties of getting from A to B. Instead the purpose is to consider fiscal information which may or may not help to motivate such considerations.

As revenue and expenditure needs change, fiscal federalism must evolve. A driving force behind the Rowell-Sirois Commission of the 1930s was, to quote one author, "the wild scramble(s) to generate sufficient provincial tax revenue to discharge what were regarded as provincial responsibilities" (Walker, 1978). A "tax jungle" was the perceived result. That Commission argued that Canadians in similar circumstances should be able to enjoy approximately the same net fiscal residual .... irrespective of the province in which they resided" (Thirsk, 1983, p. 241). Subsequent governments have pursued this objective, if with only partial success.

Provinces are now experiencing intense pressures from federal government cutbacks in the areas of health, education, and welfare; they are pushing aggressively for tax room to increase provincial revenues. Elements of fiscal and tax harmonization are disappearing in the face of growing fiscal pressure. Alberta and British Columbia are interested in establishing their own personal income tax system; Ontario has expressed interest in the past. This is part of a continuous effort by provinces to assert autonomy and power relative to the central government. This paper asks whether some of this pressure for increased diversity can be directed in a way to reduce fiscal residuals and be welfare-enhancing in Western Canada. This is possibly a time for regrouping rather than fragmentation.

3. Western Canada: More Taxes for Less Services and Vice Versa

Efficient allocation of resources within a federal system requires equal fiscal residuals.1/ Higher taxes in a province must be accompanied by a higher level of services if resources are not encouraged to migrate to other provinces where they may be less productive.2/ If tax bases and rates are similar, then similar levels of service must be provided to individuals and companies that are in similar circumstances. Again this will avoid distortions. Thus, if one of the objectives of a federation is to permit diversity in levels and types of taxes as well as levels and types of services, this is to be done while keeping tax systems neutral with respect to resource allocation. Thirsk (1980) persuasively argues that source based taxes are least suitable and destination based taxes most suitable for use by provinces in order to achieve diversity with neutrality. Hence, resource taxes and corporate income taxes are the most capable of creating the unwanted distortions and welfare losses. I will return to this point.

What is the degree of tax harmonization in Western Canada? How large are existing fiscal residuals? What contributes to the residuals? How can they be reduced?

By most standards, the degree of tax harmonization in Western Canada would be considered high (see Table 1). Tax bases are similar for all major taxes, and income tax rates are similar. This, however, does not provide for equal fiscal residuals.

Part I of Table 2 speaks to the fiscal capacity of the western provinces. At similar levels of local and provincial taxes, in 1982 Alberta could have supported a per capita level of expenditure that was 2.8 times that in Manitoba, and double that in Saskatchewan and British Columbia. Fiscal capacity in Saskatchewan and B.C. was 40 percent over that in Manitoba. These disparities fell sharply with the fall in energy prices, but remained substantial. By fiscal 1992, fiscal capacity in Alberta was still nearly 1.7 times that in Manitoba.

Part II of Table 2, which shows the relative tax effort in the western provinces, reflects that the higher fiscal capacity generally is accompanied by lower effort. Although richer provinces use some of their tax capacity to support higher government spending, they also use some to keep taxes lower. Over the past 20 years Alberta's tax effort has ranged from 15 to 35 percent below that of Manitoba.

Table 3 shows the per capita level of provincial and local government spending in Alberta relative to the other three provinces in 1989 (details on provincial revenues and expenditures for

Table 1

Major Provincial Tax Rates, 1991

	Personal Income Tax[a]			Retail Sales Tax	Gasoline Tax	Tobacco Tax	Health Premiums Individual/Family	Corporate Income Tax		Capital Tax[b]	Payroll Tax	Insurance Premiums Tax[c]
	Basic Rate	High Income Surtax	Flat Rate Tax					Small Business Rate	General Rate			
	(%)	(%)	(%)	(%)	(¢/litre)	($/pack of 25)	($/month)	(%)	(%)	(%)	(%)	(%)
British Columbia	51.5	—	—	6.0	11.0	1.59	31/62	9.0	14.0	0/2.0	—	2/3
Alberta	46.5	8.0	0.5	—	9.0	1.75	26/52	6.0	15.5	0/2.0	—	2/3
Saskatchewan	50.0	15.0	2.0	7.0	10.0[e]	1.67[e]	—	10.0	15.0[g]	.5[g]/3.0	—	2/3
Manitoba	52.0	—	2.0/4.0	7.0	9.0	1.75[e]	—	10.0	17.0	.3/3.0	2.25[i]	2/3
Ontario	53.0	10.0	—	8.0	11.3	1.21[e]	—	10.0	15.5[h]	.3/0.8	1.95[i]	2/3
Quebec	—[d]	—	—	8.0	10.0[e]	1.19[e]	—	3.45[f]	6.3[f]	.52/1.04	3.45	2/3
New Brunswick	60.0	—	—	11.0	11.5	1.71[e]	—	9.0	16.0	0/3.0	—	2/3
Nova Scotia	59.5	10.0	—	10.0	13.7	1.70[e]	—	10.0	16.0	0/3.0	—	3/4
Prince Edward Island	57.0	10.0	—	10.0	13.6	1.75	—	10.0	15.0	0/2.5	—	3
Newfoundland	62.0	—	—	12.0	13.7	1.70[e]	—	10.0	17.0	0/3.0	1.50	4

Rates for other provinces known as of March 12, 1991.

[a] The high income surtax is a percentage of basic provincial tax above a specified level except for Saskatchewan where it is on total provincial tax. Alberta's flat rate tax is on taxable income. Saskatchewan's and Manitoba's flat taxes are on net income; in Manitoba, an additional 2% is applied to high income taxpayers. Alberta, Saskatchewan, Manitoba and Ontario provide tax reductions for low income taxpayers.

[b] The first number is the general capital tax rate and the second is the rate for financial institutions. In Manitoba, the general rate is 0.5% on capital over $10 million. In B.C., only financial institutions with capital over $500 million are taxable and tax paid is credited against income tax.

[c] The lower rate applies to premiums for life, sickness and accident insurance.

[d] Quebec's personal tax system is not directly comparable to those in other provinces. Quebec's average tax rate is the highest in Canada.

[e] These provinces apply their retail sales taxes on top of this tax. Saskatchewan intends to follow this practice for tobacco on April 1, 1991 and gasoline on January 1, 1992.

[f] Effective January 1, 1992, Quebec's small business rate will increase to 3.75%; its general rate will increase to 6.9% for active business income, and to 16.25% from 14.95% for inactive business income.

[g] Saskatchewan's general corporate rate will rise to 16% and its general capital tax rate will rise to 0.6% effective January 1, 1992.

[h] Ontario has a 14.5% rate for manufacturing and processing, mining, logging, farming and fishing income.

[i] The payroll tax is applied on a graduated basis to the maximum shown.

Source: The Honourable Dick Johnston, Provincial Treasurer, 1991 Budget Address (Edmonton: Alberta Treasury, April 4, 1991.)

Table 2. Western Canada: Relative Fiscal Capacities and Tax Efforts of Provincial and Local Governments

Part I: Fiscal Capacity

Fiscal year	Man.	Sask.	Alta.	B.C.
1973	100	97.0	147.4	134.9
1977	100	127.6	237.8	134.0
1982	100	139.0	280.6	142.3
1987	100	105.5	169.3	120.8
1988	100	112.6	181.5	129.6
1989	100	108.1	169.1	130.4
1990	100	105.9	165.0	134.6
1991	100	108.2	167.7	132.7
1992	100	109.1	168.1	131.1

Part II: Tax Effort

1973	100	98.3	82.3	88.3
1977	100	95.5	75.7	99.4
1982	100	103.0	85.4	113.7
1987	100	96.5	65.5	90.0
1988	100	90.1	66.5	80.9
1989	100	93.1	64.9	87.9
1990	100	100.1	69.3	86.7
1991	100	101.4	72.8	88.3
1992	100	95.1	72.4	85.9

Source: Calculated from "Provinicial-Local Fiscal Capacity and Tax Effort Indices, 1972-73 to 1991-92 (Ottawa: Department of Finance, April 1991), mimeo.

Table 3. Western Canada: Per Capita Current Expenditures on Goods and Services by Provincial and Local Governments, 1989

Province	Amount	Index
Manitoba	$6930	123.7
Saskatchewan	$6823	121.8
Alberta	$7566	135.1
British Columbia	$5601	100.0

Source: Statistics Canada, <u>Provincial Economic Accounts: Annual Estimates, 1985-1989</u> (Ottawa, March 1991), Catalogue 13-213 Annual.

fiscal 1991 are in Table 4). At a time when Alberta's tax effort was 35 percent below Manitoba's, per capita expenditures were 16 percent higher. Compared to British Columbia, Alberta's tax effort was 16 percent lower, and expenditures were 34 percent higher.3/ These gaps would, of course, be much higher were it not for narrowing of fiscal capacity differences through transfers from the federal government.4/

Transfers are, of course, not the only way that the federal government has attempted to raise incomes in the poorer parts of the country. Table 5 shows the net balance of federal expenditures, including transfers, made in each of the western provinces and the federal revenues, collected from each. As Table 5 illustrates, the excess of federal expenditures in, over federal revenues from, Saskatchewan was $2.72 billion and for Manitoba it was $2.84 billion in calendar 1988. This exceeded $2600 per capita in both Manitoba and Saskatchewan, and was equivalent to about 15 percent of personal income in each of these provinces. Hence, the equalization process goes far beyond the tax and cash transfers.5/ For fiscal 1988/89 the total federal cash and tax transfers to Saskatchewan were $1.28 billion and those to Manitoba $1.86 billion. Thus, the highly visible federal cash and tax transfers may account for less than half of the direct federal impact on the provincial economies. Clearly, as part of any restructuring Saskatchewan and Manitoba would have to see how existing benefits could be maintained within a Western Canada.

In sum, differences in fiscal residuals remain large in Western Canada, particularly between Alberta and each of the other provinces. Moves to reduce transfers from the federal government widen the residual and may create welfare losses. Shifts in taxing room to the provinces, when fiscal capacity is grossly unequal, also contribute to growing fiscal residuals and welfare losses. Regionalization of Canada may help to counter this. While acknowledging the gains to be achieved through tax systems and public goods and services that reflect differing tastes, we must pursue this diversity while minimizing distortions in resource use in a federal system where capital and labour are mobile. A substantial degree of equalization and tax harmonization is likely to be needed.

Table 4. Western Canada: Per Capita Provincial Government Revenues and Current and Capital Expenditures, 1990-91

	Man.	Sask.	Alta.	B.C.
Revenues				
Taxes*	2779	2185	2201	3413
Resource revenues	90	423	1465	407
Other own source revenues	1137	1313	1329	966
Transfers from other governments	1552	1187	871	674
Total	5558	5109	5866	5461
Expenditures				
Health	1482	1374	1543	1549
Education	952	799	1104	1227
Social Services	891	549	776	783
Transp & Comm	216	228	335	295
Debt charges	1229	1323	662	536
Other	991	1325	1701	1069
Total	5761	5599	6142	5459

*Taxes include those on personal and corporate income, tobacco and alcohol taxes, general sales taxes, motive fuel taxes, health insurance premiums, workers compensation, and other taxes

Source: David Perry, "Fiscal Figures: Provincial Government Estimates for 1990-91," Canadian Tax Journal 38, 6 (Nov-Dec 1990).

Addendum to Table 4. Per Capita Local Government Own Source Revenue, 1988

Man.	Sask.	Alta.	B.C.
$953	$1027	$1483	$903

Source: calculated from David Perry, "Fiscal Figures: Local Government Finance in the 1980s," Canadian Tax Journal 38, 3 (May-June 1990).

Table 5. Federal Expenditures in Less Federal Revenues from Western Provinces - Per Capita and Relative to Personal Income, 1987 and 1988.

Prov	As a Percent of Personal Income			Per Capita			Total Net Expenditure (millions)		
	1987	1988	1989	1987	1988	1989	1987	1988	1989
Man.	15.7	15.2	14.4	$2527	$2617	$2644	$2727	$2837	$2869
Sask.	20.6	17.2	15.7	3111	2705	2685	3160	2742	2704
Alta.	-0.3	-1.3	-1.6	-64	-266	-335	-154	-636	-812
B. C.	2.3	1.3	1.3	416	247	269	1217	735	822

Source: Statistics Canada, Provincial Economic Accounts: Annual Estimates. 1984-1988 (Ottawa, March 1990), and Provincial Economic Accounts: Annual Estimates 1985-1989 (Ottawa, March 1991), Catalogue 13-213 Annual.

4. Increased Efficiency in a Unitary Western Canada

Could Western Canada be restructured as a sovereign nation, or as one of three or four relatively autonomous regions? 6/ First, the fiscal capacity of Western Canada relative to Canada as a whole is above the national average. The above-average capacity of Alberta and British Columbia more than offsets the below average capacity of Manitoba and Saskatchewan.

Transfers from the federal government play several roles in Canada. By reducing differences in fiscal capacity they ensure a minimum level of service at reasonable cost. Second, they recognize "spillovers" in the human capital investments when labour is mobile. Third, they reflect a sense of empathy across the federal state, and enable the wealthy provinces to invest in "the nation". With the reduced role of EPF transfers and with provinces free to use the funds as they please, the need to maintain minimal services and to recognize spillovers seems to be of lesser importance. The increased focus on regional issues may also have detracted from any empathy which encourages the transfer of resources among regions. The focus in Canada is now on regional, or provincial, thinking rather than national thinking. Are there healthy aspects to this?

Western Canada has a population of 7.5 million. The people of the west move freely and frequently within the west. Of 138,000 people moving into Alberta in 1979, 73,000 were from the west. And of the 92,000 leaving Alberta, 65,000 went to western provinces. In 1989, of the 70,000 moving into Alberta, 44,000 came from the west; and of the 70,000 leaving Alberta, 47,000 went to other western locations. Spillovers from investment in human capital by western provinces are captured to a signficant degree within Western Canada. This is an argument for fiscal power at the regional level. If mobility to and from Quebec is less than that within the western provinces and between the west and other parts of Canada, Quebec initiatives to reduce the role of federal transfers may be quite inappropriate for other parts of Canada, and the West in particular.

Empathy for those in other provinces is one reason that Canadians support large transfers to provinces by the federal government. We first want our family and neighbors to be provided with adequate goods and services. Next we concern ourselves with our community and our province. We are then likely to be concerned with those who share our closely held values, and finally we are concerned with those of whom we know less. Thus empathy, and the case for income redistribution through equalization, weakens with geographical and cultural distances and differences. The case for equalization, including resource revenues, may therefore strike a more responsive note in Western Canada than in Canada as currently structured. Because of mobility within a region, fiscal residuals between provinces of the same region may be particularly distorting. And because of empathy within a region, the power of a regional government to reduce fiscal residuals may go beyond what could be achieved at the national level. Hence, there may be an opportunity to achieve reduced fiscal residuals within Western Canada that goes beyond that which would be possible within Canada as a whole.

The West's tenacious hold on its resource revenues may stem in part from the historical reluctance of Ottawa to transfer control over resources to the western provinces. A western region as a unit may feel more secure in that ownership, and that may contribute to increased sharing as a regional unit. Historical evidence and pragmatism suggest that any province is unlikely to make significant direct transfers to another (Breton and Scott, 1978). However, richer provinces are likely to be more supportive of equalization initiatives when there is increased empathy with the recipients, and when the richer provinces have more say in determining the degree of equalization. Alberta and British Columbia have over 70 percent of the West's population, and would play a major role in determining the policies of a Western Canada. And a Western Canada, with a regional government collecting resource revenues, would be a major step toward equal fiscal capacities in the West.

A second step toward equalizing the fiscal capacity of western provinces would be to transfer the corporate income tax to a regional government in Western Canada. Corporate income taxes and resource revenues accounted for $7.4 billion in revenues, or 21 percent of total own-source revenues for the four provinces in 1990-91. A per capita allocation of resource and CIT revenues in the West in fiscal 1991 would have been $956, contrasting with the amounts of $260, $566, $1833, and $631 from Manitoba west to British Columbia.

A third, and perhaps final, step toward regionalization of taxing power would be to transfer provincial personal income taxes to a regional government.7/ This, too, could counter the fragmentation that seems in progress. Alberta continues to indicate an interest in establishing a system of personal income taxation independent of that of the central government. Alberta and British Columbia are reportedly exploring a personal income that is administered jointly. This could extend to the other two western provinces were they interested. Within regions where labour is mobile, there is a strong case for limited disparities in tax rates, particularly where levels of service do not vary with differences in tax bills. Table 6 provides estimates of the difference in taxes (all taxes) paid by three different income levels in the western provinces in 1988. The differences are sizable, although the impact of location decisions may still be limited. A single individual with $24,000 of income paid $1,000 more in taxes in Manitoba than in Alberta. At an income level of $50,000 the differential rises to $2,500, and at $100,000 it rises to $$5,400. For a married couple with two children the differences are reduced to $120, $1,550, and $4,400 in these three cases. We then may add to the tax differential a per capita provincial expenditure difference of about $1,000 more in Alberta than in Manitoba for 1988 , or $4,000 for a family of four. Costs may be higher in Alberta, with fiscal residuals capitalized into property values, but it still seems that differences of this magnitude may contribute to inefficient location decisions.

Resource revenues, corporate income taxes, and personal income taxes, if centralized at the regional level, would do much to reduce fiscal residuals within Western Canada. These three revenue sources accounted for 44.4 percent of provincial own-source revenues in Western Canada

Table 6. Western Canada: Total Taxes Paid by a Representative Taxpayer Expressed as a Percentage of Annual Income

Case 1: Single person without children

Annual income	Man.	Sask.	Alta.	B.C.
$ 24,000	35.4	33.3	31.5	33.6
50,000	40.7	38.6	35.7	37.4
100,000	46.2	44.3	40.8	41.9

Case 2: Two wage earners with two children, 60/40 split

$ 24,000	19.2	18.4	18.7	21.9
50,000	31.3	30.4	28.2	30.1
100,000	37.8	36.2	33.4	35.0

Source: David Perry, " Fiscal Figures: 1988 Provincial Tax Comparisons - Part 3," Canadian Tax Journal 37, 2 (March-April 1989).

Table 7. Western Canada: Distribution of Income Tax Returns by Income Class, 1988

Income Class (000's)	Man.	Sask.	Alta.	B.C.
<$25	59.3	59.7	53.1	54.5
25 < 50	26.0	25.4	27.3	27.0
50 and >	14.7	14.9	19.6	18.5

Source: Revenue Canada, Taxation Statistics 1988 (Ottawa: Minister of Supplies and Services, 1990).

in 1990-91. Sales taxes, excise taxes, and all other forms of provincial own-source revenues in Western Canada accounted for 55.6 percent of provincial own source revenue in fiscal 1991, and could be left to the provinces.

Whether this remainder is enough to satisfy those who argue for tax diversity in response to different social preferences (Bird, 1990; Cnossen 1990) is uncertain. The opportunity for considerable diversity would remain, and the demand for diversity within Western Canada may be less if Quebec has been satisfied by a new federalism. Whereas Western Canadians were not willing to look to Ottawa for solutions, and accordingly were not willing to centralize fiscal powers, they may be willing to transfer powers to a Western Canada regional government sensitive to western social preferences. Nevertheless, there are inevitable costs associated with tax harmonization and a shift of fiscal power to a regional level. Those with a social conscience may, in the past, have taken comfort in their ability to move to Manitoba where the preference for public goods seems to differ from that in Alberta and British Columbia. If such is the case, centralization of power on a regional basis in a Western Canada reduces the choice in the type of community in which one can choose to live. Diversity is reduced, and there is less incentive to move.

It may also be that parts of the west would wish a substantially different rate structure or base than other parts. As shown in Table 7, 20 percent of personal income tax filers in Alberta had incomes over $50,000 in 1988. This compares with 15 percent in Manitoba and Saskatchewan. And 60 percent of Saskatchewan tax filers had incomes below $25,000, versus 53 percent in Alberta. Lower income groups, which account for a larger share of income tax payers in Manitoba and Saskatchewan, may desire a more progressive rate structure than that favoured by Alberta and British Columbia. On the other hand, higher income taxpayers in Alberta and British Columbia may willingly contribute more to a regional income tax if empathy with low income westerners is great.

5. Conclusions

The foregoing remarks bear on issues related to fiscal harmonization and reducing differences in fiscal residuals. This is achieved through regional centralization of resource revenues, the corporate income tax, and possibly the personal income tax. This could do much to equalize the fiscal capacity of the four western provinces. It could provide for effective equalization payments within Western Canada, and also provide adequate funds for matching grant programs where spillovers are significant. The end result is a more efficient allocation of resources within the region.

Costs as well as benefits will accompany any move to three or four regions, or to a sovereign Western Canada. Differences in fiscal residuals between the West and the Maritimes or Quebec may be increased, and resource use may be distorted if labour and capital are mobile. Thus the question becomes the gains from more efficient resource use within the West relative to losses created by increased fiscal residuals or barriers between regions. Both the costs and potential gains from a new structure require careful examination.

Harmonization of regulations, as well as of taxes and fiscal residuals, may also prove easier within a Western Canada than within Canada as currently structured. Large gains may be derived from harmonization of regulations affecting both individuals and firms. This covers an enormous range of welfare reducing activities including the well-known agricultural marketing boards and the brewing industry. Dismantling interprovincial barriers may prove easier if there is greater empathy of gains going to other westerns instead of outside the region.

The Meech Lake Accord was seen as a shift toward a more "provincialist conception" (Simeon, 1988) of the country. Existing fiscal pressures plus the political climate created by Meech have created an environment where provincial governments, in aggressive pursuit of their own interests, seek to extend their taxing and spending powers. In a country where 27 million people live in 10 provinces, the risks of inefficiencies and welfare losses created by the fragmention of governmental programs, structures, and institutions are very real. This paper argues that the greater sense of provincialism, and responsiveness to regional needs and aspirations might be best met in the West by creating a strong Western Canada as one of three or four regions in a newly structured Canada, or as a sovereign nation. Benefits of a unitary state may be gained through strong autonomous regions, while the benefits of diversity are realized through a federation of regions and the residual powers of provincial and local governments.

Endnotes

1/ For a discussion of the role of resource rents/revenues in the creation of fiscal residuals and the likely distortion of location decisions within a federal system see Scott (1978) and McLure (1980).

2/ Tax differentials may also be efficiency enhancing if they reflect higher costs of providing a given level of service in some provinces relative to others.

3/ In this case tax effort is for fiscal 1989 and actual expenditures by provincial and local governments are for calendar 1988. Expenditure levels do not fully reflect the level of service since they include debt servicing which accounts for a much larger share of spending in Manitoba and Saskatchewan than in Alberta or British Columbia. See Smith (1990).

4/ Large differences in provincial fiscal capacities and tax effort inevitably lead to significant fiscal residuals. These residuals are reduced, but far from eliminated, by equalization, EPF transfers for health, advanced education and welfare, and other transfers. For example, in 1989 the fiscal capacity of Alberta was 169 percent of Manitoba's before federal transfers and 133 percent after the transfers. British Columbia which had 128 percent of Manitoba's capacity before the transfers had 105 percent after the transfers; and Saskatchewan, at 110 percent before the transfers was 101 percent after. Thus, even after the important equalization role played by the federal government, Alberta is still in a position to provide services 30 percent higher than other provinces for the same tax rates.

5/ The excess of federal expenditures over federal revenues in Western Canada was $5.7 billion in 1988, or about 20 percent of the federal deficit of that year. This is less than the 29 percent of the population accounted for by the west. In a balanced budget situation, federal total revenues from the west less total expenditures in the west is likely to be negative. But the number may not be large.

6/ This paper makes no attempt to address the problems faced by the Maritimes as an independent region. In 1988 per capita federal expenditures in the Maritimes were $6503 and federal per capita revenues were $2883, for a per capita net inflow from the federal government of $3620. If four relatively autonomous regions result in a large decrease in such inflows, it may be necessary to avoid barriers to the movement of labour from the Maritimes to the other regions.

7/ Differences in personal income taxes among the western provinces are relatively small. Thus a change to a regional income tax would have little effect on income distribution. Administration could be centralized regionally with resulting economies.

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