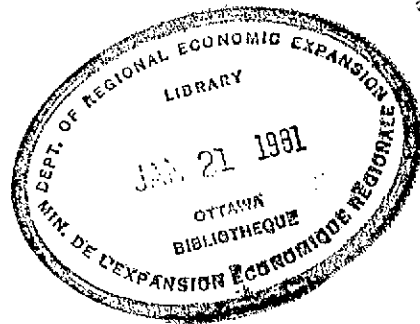


FEDERAL TRANSFER PAYMENTS  
IN THE ATLANTIC REGION  
1962-1977

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C37



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IN THE ATLANTIC REGION  
1962-1977

November 1980

<sup>1</sup>/Canada <sup>2</sup>/DREE - <sup>3</sup>/Atlantic Region

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<sup>4</sup>/Regional Analysis Branch

This occasional research paper was prepared by the Regional Analysis Branch of the Department of Regional Economic Expansion, Atlantic Region Office in Moncton. While prepared on behalf of the department by staff resources, it is not intended to constitute or reflect the views, policies, objectives or opinions of the Government of Canada. Rather, it is meant to contribute to the level of general knowledge and discussion of the particular subject area which it examines.

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## SUMMARY AND MAJOR CONCLUSIONS

In recent years, the rapidly increasing level of federal transfer payments to individuals and provincial governments has raised the issue of the "dependency"<sup>1</sup> syndrome, especially with regard to the "have-not" regions of the country. This study is done for the purpose of determining whether the dependency of the Atlantic Provinces on federal government transfers is increasing, and if so, why.

The study first examines the size, growth and composition of federal transfer payments for Canada as a whole. This clearly established that federal transfer payments, both to individuals and provincial governments have dramatically increased in Canada since the last World War. Moreover, every program has shared in this increase.

Federal transfer payments in the Atlantic Region were then examined. The examination revealed that the level of federal transfers as a whole was higher in the Region, at 175 per cent of Canada's level in 1977. When transfers to persons are established as a percentage of personal income, their Atlantic level, at 14.3 per cent, is nearly twice the Canadian level. Federal transfers to provincial governments represented, in 1977, 49.5 per cent of provincial revenues, almost twice the ten-provinces average.

From 1962 to 1977, total federal transfer payments grew by 650 per cent in the Atlantic Region compared to 610 per cent for Canada. (In constant 1962 dollars, the increase was 129 per cent.) However, during the last half of this period, i.e. from 1969 to 1977, growth of transfers in the Atlantic Region was lower than for Canada, 213 per cent compared to 265 per cent. This slower growth in the Region took place in spite of the stronger growth in UIC payments in the Region for that period.

It may then be concluded that while federal transfer payments are more important in the Atlantic Region than for Canada as a whole, there is no evidence to support the contention that, as a whole, a serious deterioration in the level of dependency has occurred during the 1962 to 1977 period. In fact, the growth for total transfers was slower in the Region from 1969 to 1977. Also, transfers to provincial governments increased at a marginally slower pace than provincially raised revenues. The increase in transfers to persons as a proportion of total personal income is mostly all due to UIC payments; excluding these, the increase was very slow at 0.3 percentage points from 1969 to 1977.

The final part of the examination was to identify the programs which were the major contributors to the high level of "dependency", and to isolate the reasons why the level of per capita dollars and/or their growth rates were higher in the Atlantic Region. Only four programs were identified as major contributors to the high transfers to the Region, namely family and youth allowances, unemployment insurance, old age security and the tax agreements programs. Together, these four programs accounted for 63 per cent of the total transfers to the Region in 1977.

The family and youth allowances program had a slower growth rate in the Atlantic Region than Canada in the 1969 to 1977 period. However, relative to its population, the Atlantic Region receives more payments under this program than the rest of Canada. This is due to differences in the age structure. The Region has proportionally more people in the 0-19 age group than Canada as a whole. Increases in payments for both Canada and the Region were related to program changes.

Relative to its population, the Atlantic Region receives considerably more UIC benefits than Canada as a whole. Moreover, the growth rate during the 1969-1977 period was higher in this Region than for Canada. Rates of growth were heavily influenced by the program changes, especially those which took place in 1971. However, it also reflects a higher proportion of unemployed in the Atlantic Region, whether these people are involuntarily unemployed or not. This high unemployment situation appears contradictory with the improvement which took place in the Region's employment rate (a good indicator of economic performance) at the same time as the unemployment more than doubled. This begs the question as to why is the number of unemployed increasing when the economy is absorbing a larger percentage of its working age population.

The old age security program grew at the same rate in the Region as in Canada between 1969 and 1977. The higher per capita level in the region is associated with the higher proportion of pensioners in the Atlantic Region who benefit from the guaranteed income supplement. This reflects the more depressed economic conditions during the working life of the pensioners rather than present economic circumstances.

Payments under Taxation agreements, of which over 90 per cent is accounted for by equalization payments, grew more slowly in the Atlantic Region than for Canada as a whole during the 1969 to 1977 period. Relative to its population, however, payments are highest in the Atlantic Region. While the formula which establishes the payments is complex, the many changes in the formula, and the increases in the price of oil and gas, two factors external to the performance of the Atlantic economy, are responsible for most of the increases. Nevertheless, part of the payments is associated with less taxable wealth in the Region. For example, in 1979-80, 32 per cent of equalization revenues



related to lower personal incomes in the Region, 12 per cent related to lower business incomes, 11 per cent related to a lower level of taxable sales and 19.4 per cent related to oil and gas revenues in other parts of the country.

## I INTRODUCTION

### A. The Issue

One of the cornerstones of the Canadian federation is that "all regions (and their residents) share in the national dividend by receiving benefits over and above what each would obtain as a single unit"<sup>2</sup>. Over the years, inequalities in the distribution of land (resources), capital and labour have led to uneven economic and social development among the regions of the country and to disparities in the well-being of individuals from one region to the next and among individuals within each region. In order to alleviate these economic and social disparities and enhance national unity, the federal government introduced a number of programs which were meant to redistribute more equitably the benefits accruing from the federation. From these concerns for national unity and social equity has evolved the transfer payment system currently in place.

In recent years, the rapidly increasing level of federal transfer payments to individuals and provincial governments, the large and growing federal budgetary deficits, the resiliency of disparities among regions, the expressed need by some provincial governments for more taxation room to discharge their responsibilities, the oil crisis and its negative effect on economic growth (except for oil producing provinces), and the election of a provincial government whose medium term objective is to destroy the federation, are directing a lot of attention to the costs and benefits of the Canadian federation. A crucial issue is the distribution of revenue between the federal and provincial governments so that each level of government can discharge the responsibilities ascribed to them under the Constitution (BNA Act). Another concern expressed

particularly in the traditionally have-not regions is that the transfer payment system that has evolved has reduced some regions and provinces to a level of "dependency" on the federal government that is inhibiting provincial government initiatives and may have an adverse effect on individual initiative and the traditional work ethic.

B. Purpose of Paper

In this paper, we will attempt to answer the two following questions:

- 1) Is the dependency of the Atlantic Provinces (and its residents) on federal government transfers increasing?
- 2) If yes, is the increased dependency due to program changes, economic circumstances or other factors (e.g., demographic factors)?

C. The Concept of Dependency and the Selection of a Measurement Criteria

Various definitions of "dependency" have been used in the literature dealing with the subject. One common denominator is that the dependency<sup>3</sup> of a province or a region on the federal government is deemed to derive from the federal transfer of funds into that province or region. For the purpose of this paper, we did not adopt a specific definition of "dependency" but rather using several criteria we have attempted to show the relative importance of federal transfer payments in the Atlantic Region and changes in importance over time. More specifically, the following criteria were used:

- transfer payments as a per cent of government expenditures,
- transfer payments as a proportion of gross national product,
- transfer payments to persons as a per cent of total personal income,
- transfer payments as a per cent of provincial government revenues,
- revenues collected in a province or region as a proportion of federal government transfer payments in that province or region.

### Types of Transfers

Federal transfer payments to persons are largely income support schemes of one form or another. The most important programs under this category of transfers are the unemployment insurance, the family and youth allowances and the old age security programs.

The second channel through which federal transfer payments flow to provinces is direct payments to provincial governments. These may further be divided into two major groups: unconditional transfers and conditional transfers.

Unconditional transfers are payments which provinces are free to spend as they please. The most important unconditional transfer payment is the federal-provincial fiscal equalization system. Payments under this system are federal deficiency payments to provinces with lower than average ability to raise revenue from their own resources. Essentially these payments compensate provinces which fall short of the average provincial capacity to raise taxes or other revenues.

The second group of federal transfer payments to provincial governments, the conditional transfers, consist of shared-cost programs. Under these programs, the federal government partially reimburses the provinces for their spending in specified areas. These programs were developed to ensure a given level and standard of social services across the country. The most important shared-cost programs are Medicare, Canada Assistance Plan, Hospital Insurance and Diagnostic Services, and Post Secondary Education Grants.

### Structure of the Report

The second chapter of this paper deals with the size, growth and composition of federal transfer payments in Canada as a whole. The third chapter focuses on the same parameters for the Atlantic provinces. In the fourth chapter, an attempt is made to determine the cause of the growth in transfer payments and explain variations between Canada and the Atlantic Region. The chapter covers in detail only those transfers where differences with Canada have appeared. All the other transfers are discussed in detail in the Appendices.

## II SIZE, GROWTH AND COMPOSITION OF FEDERAL TRANSFER PAYMENTS

### A. Historial Perspective

Federal government transfer payments go a long way back. For instance, statutory grants date from 1867. However, the prominence of federal transfer payments today stems from growth recorded since the last world war. Table I below compares the absolute and relative importance of transfer payments for 1945 and 1977. Total federal government transfers to individuals and provincial governments rose from \$539 million in 1945 to \$23,042 million in 1977. During the same period, total federal government expenditures increased from \$4,284 to \$42,577 million. As a result, federal transfer payments accounted for 54.1 per cent of total government expenditures in 1977 compared to only 12.6 per cent in 1945. Federal transfer payments have also increased appreciably compared to total national output. In 1945, transfer payments as a proportion of gross national product was only 4.5 per cent and by 1977 it was up to 11 per cent, indicating the increasing role of the federal government in the distribution of goods and services.

The major contributing factors accounting for the considerable increase in total federal government transfer payments in the post war period were the introduction of new programs, changes in programs such as levels of benefits and coverage, and changes in demographic circumstances. Some of the major programs, such as old age security, medicare, and hospital insurance did not exist at the end of the war. Inflation has also been a contributing factor, particularly during the seventies when a number of programs were indexed to increases in the cost of living.



TABLE I

Federal Government Transfer Payments  
and Other Selected Indicators  
1945 and 1977

	<u>1945</u>	<u>1977</u>
	<u>(million of \$)</u>	
Total Federal Government Transfer Payments	539	23,042
-Transfers to persons	382	13,081
-Transfers to provincial governments (1)	157	9,961
Total Federal Government Expenditures	4,284	42,557
Gross National Product	11,863	209,379
	<u>Percentages</u>	
Federal Transfer Payments as a proportion of total Federal Government Expenditures (%)	12.6	54.1
-Transfers to persons	8.9	30.7
-Transfers to provincial governments (1)	3.7	23.4
Federal Transfer Payments as a proportion of Gross National Product (%)	4.5	11.0

---

(1) Also includes transfers to local governments.

Both major transfer categories, that is to persons and to provincial governments, have contributed to the overall increase in total federal government transfer payments during the post war period.

B. Transfer to Persons

Federal government transfers to persons have increased from \$382 million in 1945 to \$13,081 million in 1977, as shown in Table II. The overall increase is almost entirely attributable to three programs, namely family allowances, unemployment insurance, and old age security. Together, these three programs accounted for over 80 per cent of the total transfer payments to persons in 1977.

Immediately after the war, payments to persons associated with the war effort (veterans' pensions, war service gratuities, and war veterans' allowances) exceeded all other transfer payments to persons combined, despite the adoption of the Family Allowance Act and the Unemployment Insurance Act during the war years. The first payment under the Old Age Security Act was made in 1952. Today this is the most important program under which federal government transfer payments are made to individuals, accounting for over 1/3 of all transfers to persons. Despite considerable increases in the level of benefits paid under the Family Allowance Act and the addition of Youth Allowances, the share of this program of total transfers to individuals has dropped from almost 30 per cent in 1945 to 15.9 per cent in 1977.

Since the end of the war, the increase in federal transfer payments to persons has been more rapid than the increase in total government expenditures as shown in Table III. As a result, transfer payments to persons accounted for 30.7 per cent of total government expenditures in 1977 compared to only 8.9 per cent in 1945. It is the introduction of the Old Age Security Act in 1952 which helped raise transfers to persons as a proportion of federal government expenditures to 22.7 per cent from less than 10 per cent in 1945. It is noteworthy, however,

TABLE II

Federal Government Transfer Payments to Persons,  
by Major Program, Selected Years(1)

	<u>1945</u>	<u>1952</u>	<u>1962</u>	<u>1977</u>
		(million of \$)		
Family and Youth				
Allowances	114	330	529	2,084
Unemployment Insurance				
Benefits	16	119	394	3,933
Old Age Security	-	319	767	4,692
Others	252	209	444	2,372
Total	382	975	2,134	13,081

% Distribution

Family and Youth				
Allowances	29.8	33.8	24.8	15.9
Unemployment Insurance				
Benefits	4.2	12.2	18.5	30.1
Old Age Security	-	32.5	35.9	35.9
Others	66.0	21.4	20.8	18.1
Total	100.0	100.0	100.0	100.0

(1) The period covered is the post-war period; 1977 is the last year for which national and provincial data is provided in the Provincial Economic Accounts; data for 1952 was introduced because it is the first year where the three major transfer programs are present; and data for 1962 is provided because it is the first year for which detailed data is provided by province in the Provincial Economic Accounts.

that it has changed little since 1962 when it was 29.2 per cent of total government expenditures.

TABLE III

Federal Government Transfer Payments to Persons  
As a Proportion of Government Expenditures  
and Total Personal Income(1)  
(%)

	<u>1945</u>	<u>1952</u>	<u>1962</u>	<u>1977</u>
Transfers to Persons as a Proportion of Total Government Expenditures	8.9	22.7	29.2	30.7
Transfers to Persons as a Proportion Personal Income	4.1	5.2	6.4	7.6

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(1) See footnote, Table II.

Another way of measuring the growth in transfer payments to persons is to look at it from the point of view of its contribution to personal income. From this perspective also, the importance of transfer payments to persons has shown a tendency to increase over time. In 1977, the share of total personal income due to transfer payments to persons was 7.6 per cent compared to only 4.1 per cent in 1945.

C. Transfers to Provincial Governments

Although total federal transfer payments to provincial governments are not as large as transfers to persons

(\$9,961 million versus \$13,081 million in 1977) their growth has been no less dramatic. Indeed, from a modest \$157 million in 1945, they reached \$9,961 million in 1977. As shown in Table IV, in 1977 payments under taxation agreements (largely equalization payments) accounted for 36.3 per cent of total federal monies transferred to provincial governments, followed by Hospital Insurance and Diagnostic Services and Medicare. While taxation agreements date from the time of Confederation, most shared cost programs that exist today are of recent origin. Payments under Post Secondary Education Grants and Canada Assistance Plan<sup>4</sup> commenced in 1967 and payments under Medicare only date back to 1968. The other important program for which the federal government makes payments to provincial governments, the Hospital Insurance and Diagnostic Services, goes back to 1958.

The pace of increase in federal transfer payments to provincial governments has been faster than the increase in overall federal government expenditures. Indeed transfers to provincial governments as a proportion of federal government expenditures have risen from 3.7 per cent in 1945 to 23.4 per cent in 1977 as is shown in Table IV.

A different picture emerges, however, if one looks at transfer payments to provincial governments as a proportion of total provincial revenues, as shown in Table V. It is not apparent that provincial governments, together, have become relatively more dependent on the federal government as a source of revenues. Indeed, the ratio has changed little from 1945 to 1977. The table also indicates that provincial own sources of revenues have increased 69 times since 1945, while federal transfers have increased 63 times.

TABLE IV

Federal Government Transfer Payments to Provincial Governments

	<u>1945</u>	<u>1952</u>	<u>1962</u>	<u>1977</u> (1)
		(million of \$)		
Old Age and Blind Pensions	44	44	40	*-
Taxation Agreements	90	244	304	3,617
Post Secondary Education Grants	-	-	-	906
Hospital Insurance and Diagnostic Services	-	-	317	1,888
Canada Assistance Plan	-	-	-	978
Medicare	-	-	-	1,047
Others	23	80	473	1,525
Total	157	368	1,134	9,961
Total as % of Federal Expend.	3.7	8.6	15.7	23.4

% Distribution

Old Age and Blind Pension	28.0	12.0	3.5	-
Taxation Agreements	57.3	66.3	26.8	36.3
Post Secondary Education Grants	-	-	-	9.1
Hospital Insurance and Diagnostic Services	-	-	28.0	19.0
Canada Assistance Plan	-	-	-	9.8
Medicare	-	-	-	10.5
Others	14.6	21.7	41.7	15.3
Total	100.0	100.0	100.0	100.0

1 See footnote, table II.

\*These payments are now included in Canada Assistance Plan.



TABLE V

Sources of Provincial Government Revenues

	<u>Provincial Own Source</u>	<u>Federal Transfers</u>	<u>Federal Transfers As Percentage of Total Provincial Revenues</u>
1945	429	157	26.8
1952	1,054	368	25.9
1962	3,115	1,134	26.7
1977	<u>29,658</u>	<u>9,961</u>	25.1
Increase from 1945 to 1977	X69	X63	

D. Conclusions

The review of the federal transfer payments indicates the following major conclusions.

1. Total federal government transfer payments have increased dramatically since the last world war. Overall growth in transfer payments has been more rapid than the growth in total federal government expenditures and the growth in gross national product, indicating the share of total goods and services being distributed by governments. Both types of transfers, that is to persons and to provincial governments, have shared in the overall growth.

2. Growth in federal transfer payments to persons has exceeded the growth in government expenditures over the post war period, although transfers to persons as a per cent of total federal government expenditures in 1977 was little changed from

1962 (30.7 per cent compared to 29.2 per cent). Growth in federal transfers to persons was also greater than the growth in total personal income. As a result, in general, individuals received more transfer payments in 1977 than in 1945 as expressed as a proportion of their incomes. In 1977, the most important program under which the federal government transfer funds to individuals was the Old Age Security program, followed by Unemployment Insurance and Family and Youth Allowances.

3. Growth in federal government transfer payments to provincial governments also exceeded growth in total federal government expenditures. However, the provincial governments have not grown more dependent on the federal government transfers during the post war period if one looks at transfer payments to provincial government as a proportion of total provincial government revenues. Indeed, this ratio has little changed from 1945 to 1977. In 1977, by far the most important program under which money is transferred from the federal to the provincial governments is the federal-provincial equalization arrangement.

4. A number of factors contributed toward the rapid increase in transfer payments one of which has been the increase in the number of programs. The most important transfer program to persons, i.e., old age security, did not exist at the end of the second world war. Among transfer programs to provincial governments, medicare, hospital insurance, post secondary education grants and Canada assistance plan are all programs which were introduced during the post war period. Equalization payments, as we know them today, were also introduced during the post war period.

### III FEDERAL TRANSFER PAYMENTS IN THE ATLANTIC PROVINCES

Nowhere in Canada are federal transfer payments more important than in the Atlantic Region. This is particularly the case in equalization payments and unemployment insurance benefits. The purpose of this chapter is to examine in greater details the levels and growth of federal transfer payments in the Atlantic Region, as compared to the Canadian situation.

#### A. Level of Transfers

In 1977, the federal government transferred about \$3.6 billion to individuals and provincial governments in the Atlantic Region as shown in Table VI; with about 10 per cent of the Canadian population, the Atlantic Region receives about 16 per cent of total federal government transfers. Among the four Atlantic provinces, Prince Edward Island receives relatively more, at \$1,991 per capita, while Nova Scotia receives the least at \$1,554 per capita. For the Atlantic Region, the relative level of federal transfers is well demonstrated at \$1,734 per capita compared to \$991 for Canada. Moreover, the table indicates that in federal transfers to persons the Atlantic Region is some 40 per cent higher than for Canada, while transfers to provinces are 94 per cent higher.

Two other statistics also show the higher level of federal transfer payments to the Atlantic provinces, namely transfer payments as a proportion of personal income and transfers to provincial governments as a proportion of provincial revenues. The first measure shows that in 1977 residents in the Atlantic Region received, on average, 14.3 per cent of their income from federal government transfers to persons compared to only 7.6 per cent for Canada, as shown in Table VII. The table

TABLE VI

FEDERAL TRANSFER PAYMENTS IN THE ATLANTIC REGION AND CANADA, 1977

	<u>CAN.</u>	<u>A.R.</u>	<u>NFLD.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>
	(millions of \$)					
<b>To Persons</b>						
Family & Youth Allowances	2,084	222	64	12	78	68
Unemployment Insurance						
Benefits	3,933	676	219	39	195	223
Old Age Security	4,962	498	105	34	203	107
Others	2,372	346	73	24	142	107
TOTAL	13,081	1,742	461	109	618	554
<b>To Province</b>						
Taxation Agreements	3,617	1,020	285	70	383	282
Post Secondary Education	906	82	19	4	34	25
Hospital Insurance and						
Diagnostic Services	1,888	210	54	10	82	64
Canada Assistance Plan	978	150	40	8	47	55
Medicare	1,047	100	25	5	39	31
Others	1,525	268	73	33	95	67
TOTAL	9,961	1,830	496	130	680	524
<b>GRAND TOTAL</b>	<b>23,042</b>	<b>3,572</b>	<b>957</b>	<b>239</b>	<b>1,298</b>	<b>1,074</b>

- PER CAPITA -

<b>To Persons</b>						
Family & Youth Allowances	90	101	113	100	93	99
Unemployment Insurance						
Benefits	169	306	388	325	234	325
Old Age Security	202	226	186	283	243	227
Others	102	157	129	200	170	156
TOTAL	562	790	817	908	740	806
<b>To Provinces</b>						
Taxation Agreements	156	462	505	583	459	410
Post Secondary Education	39	37	34	33	41	36
Hospital Insurance and						
Diagnostic Services	81	95	96	83	98	93
Canada Assistance Plan	42	68	71	67	56	45
Medicare	45	45	44	42	47	45
Others	66	121	129	275	114	98
TOTAL	428	830	869	1,083	814	763
<b>GRAND TOTAL</b>	<b>991</b>	<b>1,734</b>	<b>1,697</b>	<b>1,991</b>	<b>1,554</b>	<b>1,569</b>

TABLE VII

Transfer Payments to Persons as % of Personal Income

	CANADA			A.R.		
	<u>1962</u>	<u>1969</u>	<u>1977</u>	<u>1962</u>	<u>1969</u>	<u>1977</u>
Family & Youth						
Allowance	1.6	1.0	1.2	2.6	1.6	1.8
UIC	1.3	0.8	2.3	2.8	1.7	5.5
Old Age Security	2.2	2.7	2.7	3.4	4.2	4.1
Other	1.4	1.3	1.4	3.4	2.6	2.8
Total	6.5	5.8	7.6	11.3	10.2	14.3
	NFLD			P.E.I.		
	<u>1962</u>	<u>1969</u>	<u>1977</u>	<u>1962</u>	<u>1969</u>	<u>1977</u>
Family & Youth						
Allowance	3.4	2.1	2.2	2.6	2.1	2.0
UIC	4.2	2.6	7.7	2.6	2.1	6.5
Old Age Security	3.0	3.8	3.7	5.3	6.7	5.7
Other	1.3	1.8	2.6	4.4	4.1	4.0
Total	11.9	10.3	16.2	14.9	14.9	18.3
	N.S.			N.B.		
	<u>1962</u>	<u>1969</u>	<u>1977</u>	<u>1962</u>	<u>1969</u>	<u>1977</u>
Family & Youth						
Allowance	2.2	1.4	1.6	2.7	1.6	1.8
UIC	2.2	1.3	4.0	2.8	1.7	5.9
Old Age Security	3.3	4.1	4.1	3.4	4.3	4.1
Other	2.4	3.0	2.9	2.2	2.5	2.8
Total	10.1	9.8	12.6	11.2	9.9	14.6

also shows that Prince Edward Island and Newfoundland had a higher proportion of their personal income derived from federal transfers to persons, at 18.3 and 16.2 per cent respectively. By program, it is evident that U.I.C. is the major contributor to this situation, accounting for as much as 7.7 per cent of Newfoundland's personal income<sup>5</sup>.

The second measure that is, transfers to provincial governments as a proportion of provincial revenues, reveals that almost 50 per cent of provincial government revenues in the Atlantic Region was derived from federal government transfer payments to provincial governments, while the national average is about 25 per cent. This data is shown in Table VIII, and indicates again clearly the higher level of federal transfers into the Atlantic Region. However, the table also indicates that while the ten-provinces average proportion of provincial revenues derived from federal transfer payments tend to rise over time, the Atlantic Region shows a decrease over the same period, mainly as a result of a 5 percentage point decrease in Newfoundland.

Therefore, there is no question that the level of federal transfer payments into the Atlantic Region is higher than the Canadian average.

#### B. Growth of Federal Transfers

Beside determining the relative levels of federal transfer payments into the Atlantic Region, it is important to examine their growth patterns in order to determine whether the situation is getting better or worse.

Total federal transfer payments to the Atlantic Region grew dramatically from 1962 to 1977, from \$476 million to about \$3.6 billion in current dollars, an increase of about 650 per



TABLE VIII

Federal Transfer Payments to Provincial Governments  
As a Proportion of Provincial Revenues<sup>1</sup>  
(%)

	TEN PROVINCES					
	<u>AVERAGE</u>	<u>A.R.</u>	<u>NFLD.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>
1961	31.2	54.3	63.0	60.0	51.1	50.0
1962	25.7	51.1	61.2	56.0	45.8	46.8
1963	24.4	47.1	58.1	53.6	40.9	43.1
1964	23.1	47.4	56.2	55.6	40.7	45.6
1965	22.3	51.5	60.5	54.3	45.3	49.7
1966	22.0	50.2	56.4	55.6	48.3	45.8
1967	22.5	52.3	59.3	59.1	52.5	45.1
1968	22.9	51.8	57.0	57.1	53.1	45.2
1969	22.7	50.2	57.2	59.4	48.3	45.0
1970	24.5	48.2	56.2	59.4	44.1	43.7
1971	27.1	51.1	58.8	58.9	46.0	48.2
1972	25.6	48.2	55.0	57.8	44.8	44.9
1973	23.4	48.2	53.5	53.8	44.9	46.7
1974	23.8	47.8	53.0	55.4	45.2	44.8
1975	26.0	51.3	52.8	59.9	49.8	49.8
1976	24.9	49.0	48.9	61.9	47.7	47.9
1977	24.2	49.5	48.8	59.2	50.3	47.6
Average						
1961-69	24.1	50.7	58.8	56.7	47.3	46.3
1969-77	24.6	49.3	53.8	58.4	46.8	46.5

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1. Excludes federal transfers to local governments.

cent over the fifteen year period.<sup>6, 7</sup> The overall growth over the fifteen year period was higher in the Atlantic Region than for Canada as a whole. The longer term trend, however, conceals significant changes that have emerged in the more recent past. While overall growth in transfer payments was higher in the Atlantic Region than in Canada from 1962 to 1969, the opposite is evident from 1969 to 1977 as shown in Table IX. Indeed from 1969 to 1977, total federal transfer payments grew by 264.3 per cent in Canada as a whole compared to 253.7 per cent for the Atlantic Region.<sup>8</sup> These figures suggest that while the Atlantic provinces are more dependent on transfer payments than the rest of Canada, the degree of dependency has grown at a slower pace in the Region than in the rest of the country since 1969; in relative terms, the situation has then improved.

The slower growth in total transfers in the Atlantic Region during the 1969 to 1977 period compared to Canada is due to the slower growth in transfers to provincial governments, 213.4 per cent versus 265.4 per cent. In Newfoundland, the growth was 188.4 per cent. Growth in all major programs was weaker in the Region than for Canada as a whole except for grants for post secondary education. On the other hand, growth in transfer payments to persons exceeded that for Canada as a whole, 308.9 per cent compared to 263.6 per cent. The major reason for the greater increase in transfer payments to persons in the Atlantic Region was the increase in payments under the Unemployment Insurance Act which, over the 1969 to 1977 period, increased by 826 per cent in the Region compared to 688 per cent for Canada as a whole.

TABLE IX  
GROWTH IN FEDERAL TRANSFER PAYMENTS, BY PROGRAM  
Atlantic Region and Canada(1)

	Atlantic Region			Canada		
	1962	1969	1977	1962	1969	1977
	(millions of \$)					
To Persons						
Family & Youth Allowances	60	67	222	529	618	2,084
Unemployment Insurance						
Benefits	64	73	676	409	499	3,933
Old Age Security	77	176	498	713	1,659	4,692
Others	51	110	346	459	822	2,372
Sub-Total	252	426	1,742	2,110	3,594	13,081
To Provincial Government						
Taxation Agreements	124	271	1,020	304	890	3,617
Post Secondary Education	-	26	82	-	337	906
Hospital Insurance and						
Diagnostic Services	32	79	210	317	603	1,888
Canada Assistance Plan	-	48	150	-	279	978
Medicare	-	18	100	-	130	1,047
Others	68	142	268	513	487	1,525
Sub-Total	224	584	1,830	1,134	2,716	9,961
GRAND TOTAL	476	1,010	3,572	3,244	6,324	23,042

	% CHANGE					
	1969/62	77/69	77/62	69/62	77/69	77/62
To Persons						
Family & Youth Allowances	11.7	231.3	270.0	16.8	237.2	294.0
Unemployment Insurance						
Benefits	14.1	826.0	956.3	22.0	688.2	861.6
Old Age Security	128.6	183.0	546.8	132.7	182.8	558.1
Others	115.7	214.5	578.4	79.1	188.6	416.8
Sub-Total	69.0	308.9	591.3	70.5	263.6	520.0
To Provincial Government						
Taxation Agreements	118.5	276.4	722.6	192.8	306.4	1,089.8
Post Secondary Education	-	215.4	-	-	168.8	-
Hospital Insurance and						
Diagnostic Services	146.9	165.8	556.3	90.2	213.1	495.6
Canada Assistance Plan	-	212.5	-	-	250.5	-
Medicare	-	455.6	-	-	705.4	-
Others	108.8	88.7	294.1	-5.1	213.1	197.3
Sub-Total	160.7	213.4	717.0	140.4	265.4	778.4
GRAND TOTAL	112.2	253.7	650.4	94.9	264.4	610.3

(1) The period of analysis, from 1962 to 1977, was selected because of data availability; 1962 is the first year for which detailed provincial data by program is provided in the Provincial Economic Accounts and 1977 is the last year; 1969 was added simply because it is the mid-point of the 15-year period.

C. Is Dependency Increasing?

Despite the substantial increase in overall transfer payments to the Atlantic Region from 1962 to 1977, as well as to other parts of the country, evidence to support the contention that there has been a considerable increase in the level of dependency is questionable. It is true that transfers to persons as a proportion of total personal income increased over the fifteen year period, from 11.3 per cent to 14.3 per cent as shown in Table VII. The major reason for this increase was the dramatic increase in unemployment insurance benefits, (the cause of which will be examined in the next chapter). When excluding UIC payments, the increase is marginal, from 8.5 to 8.8 per cent. On the other hand, in the case of transfers to provincial governments, evidence suggests, if anything, a slight reduction in dependency as these transfers grew slower in the Atlantic Region than for Canada as a whole. Indeed, the share of total provincial government revenues accounted for by transfers to provincial governments has declined marginally in the Atlantic Region, 50.7 per cent during the 1961-69 period to 49.3 during the 1969-77 period.

Dependency does not increase by the mere fact that federal transfer payments increase. What needs to be examined are the reasons for these increasing transfers. If the increases in federal transfers are Canada-wide, resulting from new programs or program changes, and are not tied to a weak economic performance, these should be considered as an increasing government distributive role rather than increasing dependency. In Chapter IV, we will compare the growth of transfer payments, by major programs between Canada and the Atlantic Region and attempt to identify the causes for the increasing transfers.

D. Conclusions

The review of federal transfer payments in the Atlantic Region produces the following conclusions.

1. Federal government transfer payments are more important in the Atlantic Region than for Canada as a whole, and this has been the case throughout the post-war period. With less than 10 per cent of the Canadian population in 1977, the Region received about 16 per cent of total federal government transfer payments.
2. There is no evidence to support the contention that a serious deterioration in the level of dependency has occurred during the fifteen year period from 1962 to 1977. Admittedly, total federal transfers to the Region increased by 650 per cent over the fifteen year period, a growth slightly higher than the growth registered for Canada as a whole (610 per cent).
3. Transfers to persons as a proportion of total personal income increased from 11.3 per cent in 1972 to 14.3 per cent in 1977, but most of the increase was accounted for by one program, the unemployment insurance program. In Canada as a whole, the corresponding increase was from 6.5 to 7.6 per cent.
4. Transfers to provincial governments as a share of total provincial government revenues in the Atlantic Region did not increase. Indeed, the data indicate a marginal decline in the dependency of provincial governments in the Atlantic Region on the federal government when the 1961 to 1969 period is compared to the 1969 to 1977 period. In contrast, for Canada as a whole there was a marginal increase from 24.1 per cent to 24.6 per cent.

5. The longer term trend conceals significant changes that have emerged in the more recent past. From 1969 to 1977, total federal transfer payments grew at a slightly slower pace in the Atlantic Region than in Canada as a whole, 254 per cent compared to 264 per cent respectively. The slower growth in total federal transfer payments in the Region is due to the slower pace of growth in transfers to provincial governments 213 per cent compared to 265 for Canada as a whole.



IV ANALYSIS OF THE MAJOR CONTRIBUTORS TO INCREASED FEDERAL  
TRANSFER PAYMENTS TO THE ATLANTIC REGION

As seen earlier, federal transfer payments in the Atlantic Region have grown dramatically since the early sixties, as elsewhere in Canada. Factors underlying that growth are numerous and varied. For instance, since the early sixties new programs have been introduced, the coverage of some existing programs have been expanded, and in some cases, economic circumstances and economic resources, both within the Region and elsewhere, have affected the level of transfers. Any discussion of the growth of transfer payments would be incomplete, therefore, without a review of the evolution of the major programs and the factors that have affected their growth. This section will be devoted to this review.

A. Identification of Major Contributors

In order to find the major contributors (or programs) which led to increased transfer payments to the Atlantic Region, two criteria are examined. These are the relative level of federal transfer payments to the Region, in per capita terms as compared to Canada as a whole, and secondly, the growth rates of these programs in the Region compared to Canada as a whole. Table X presents the data.

In order to select those programs which make a major contribution to the federal transfer payments in the Atlantic Region, the first criteria was to look at the absolute size of the transfers, by considering only those with over \$100 per capita in the Atlantic Region in 1977. With this criteria, the following programs were selected for further analysis: family and youth

TABLE X  
Federal Transfer Payments - by Major Programs

	Growth in Payments 1969/1977			
	Per Capita, 1977		(in % Change)	
	<u>Cda</u>	<u>A.R.</u>	<u>Cda</u>	<u>A.R.</u>
Transfers to Persons	<u>\$562</u>	<u>\$ 790</u>	<u>263.6</u>	<u>308.9</u>
- Family and Youth Allowances	90	101	237.2	231.3
- Unemployment Insurance	169	306	688.2	826.0
- Old Age Security	202	226	182.8	183.0
- Others	102	157	188.6	214.5
Transfers to Provincial Government	<u>428</u>	<u>830</u>	<u>265.4</u>	<u>213.4</u>
- Tax Agreements Seven Receiving Provinces	156 (375)	462	306.4	276.4
- Hospital Insurance and Diagnostic Services	81	95	213.1	165.8
- Canada Assistance Plan	42	68	250.5	212.5
- Medicare	45	45	705.4	455.6
- Post Secondary Education Grants	39	37	168.8	215.4
- Others	66	121	213.1	88.7
Total Federal Transfer Payments	<u>991</u>	<u>1,734</u>	<u>264.4</u>	<u>253.7</u>

allowances, unemployment insurance, old age security and tax agreements.

The second criteria consisted of selecting those programs with a higher growth in the Region over the 1969-1977 period, than for Canada. On this basis, unemployment insurance, old age security and post secondary education grants programs were selected. However, the latter one was rejected because of its low level of per capita transfer, i.e. \$37 per capita.

#### B. Examination of Major Programs<sup>9</sup>

The following analysis will examine in detail the family and youth allowances, unemployment insurance, old age security and tax agreements programs in order to isolate the reasons for both the high level of transfers and its growth over time. The examination of the other federal transfer programs will be in a summarized fashion.

##### Family and Youth Allowances

This program, first introduced in 1944, provides allowances to children up to a certain age, and by its very nature is non-discriminatory in that all children, independent of their wealth or location benefit to the same extent (at least, until 1977).<sup>10</sup>

The higher level of transfers to the Atlantic Region on a per capita basis (\$101 versus \$90 for Canada) is entirely attributable to differences in age structure, where the Region has proportionately 12% more children in the age group 0-19 than Canada.

Growth in payments under this program is entirely due to changes in the program itself, additions (such as the youth allowances) and population growth. Between 1962 and 1977, payments under the Family and Youth Allowances grew by 270% in the Atlantic Region compared to 294% for Canada. However, the growth for the year 1974, coinciding with the first year the new Act was implemented, was 158.9% in the Region and 148.8% in Canada.

### Unemployment Insurance

The Unemployment Insurance Act became law in August, 1940. The purpose of the act was to provide financial assistance to lower income workers during periods of temporary unemployment. The program remained basically unchanged until 1971 except for changes in benefit levels and the extension of coverage to new categories of workers. In 1971, a new Unemployment Insurance Act considerably altered the old plan. Coverage was raised to 95 per cent of the labour force from about 80 per cent in the old plan. The objective was redefined as to provide insurance against unforeseen loss of income due to unemployment, sickness and maternity. The base period for eligibility was considerably reduced. Duration of benefits became dependent not only on contributions but also on prevailing economic conditions in area of residence. Finally, levels of benefit were considerably increased and indexed to the cost of living.

As a result of these changes, payments under the program rose rapidly in a few years, both in the Region and in Canada. In the Atlantic Region, U.I. benefits rose by 38.7 per cent from 1970 to 1971 and by 102.7 per cent between 1971 and 1972. Corresponding figures for Canada as a whole were 28.2 per cent and 109.8 per cent. The rate of change for UIC payments doesn't appear much higher than for Canada when the periods before the changes in legislation (1962 to 1970) and after the changes (1971

to 1977) are compared: the Atlantic grew by 364.9 per cent and Canada by 362.9 per cent.

If the growth in these payments are only slightly higher than for Canada, and are mainly the results of program changes, there is no denying that the absolute level of payments is substantially higher in the Region than in Canada as a whole. In 1977, UIC payments per capita was \$308 in the Region compared to \$169 for Canada. Several factors account for this difference. The unemployment rates of the Atlantic Region have traditionally been higher than the Canadian average, largely as a result of different economic circumstances. Differences in economic structure is reflected in higher natural rates of unemployment and greater seasonal fluctuation in unemployment. Cyclical variations may also differ among regions. Another factor is voluntary unemployment, partly due to the higher level of UIC benefits available since 1971. These higher levels of benefits permit people to be more selective about the type of employment they will accept (increasing frictional unemployment) and also tends to attract people into the labour market which previously were not in the labour force.

#### Old Age Security

The Old Age Security Act was passed in 1951 and became effective January 1952. It initially provided flat-rate benefits for everyone who met age (70 years of age or over) and residence requirements. In 1966, through an amendment of the Old Age Security Act, the Guaranteed Income Supplement Program was initiated. Together, these two programs guaranteed eligible recipients that their total monthly income will not fall below some specified level. Through the years, the level of benefits has been adjusted, either arbitrarily or in line with the consumer price index.

From 1962 to 1977, payments under the Old Age Security and Guaranteed Income Supplement programs in the Atlantic Region have increased from \$77 million to \$498 million. This represents an increase of 547 per cent. The corresponding increase for Canada as a whole was marginally higher at 558 per cent. The growth in payments under the Old Age Security Act is entirely due to changes in programs (such as levels of benefits and lowering of age of eligibility), additions (such as the Guaranteed Income Supplement and the Spouse Allowance) and demographic changes.

In spite of a marginally lower rate of increase in the Atlantic Region as compared to Canada as a whole, payments per capita in 1977 were higher in the Region at \$226 compared to \$202 for Canada. The difference is largely attributable to poorer pensioners in the Atlantic Region benefiting from the Guaranteed Income Supplement. In 1977, 53.4 per cent of pensioners in Canada received the Guaranteed Income Supplement compared to 66.7 per cent in the Atlantic Region. It should be noted, however, that the reason for the differences in financial well being between pensioners in the Atlantic Region and those in the rest of Canada cannot be attributed to differences in economic performance today but rather to generally more depressed economic circumstances and job opportunities in this Region during the working life of pensioners. It is also noteworthy that there are relatively more people receiving the spouse's allowances in this Region than for all of Canada (5.3 per cent versus 3.4 per cent).

#### Taxation Agreements

The major program under this caption is the federal provincial equalization program, which alone accounted for over 90 per cent of the total payments under taxation agreements in 1977.

Equalization grants are unconditional grants made by the federal government to the provinces with a below average fiscal capacity so as to enable them to provide its residents with a level of services comparable to other provinces without having to resort to levels of taxation which are above the average for all provinces. The present equalization payment program has its roots in the 1957 Tax-Sharing Arrangement Act. The formula has been changed a number of times since its inception, adding more taxes into its formula.

During the 1952 to 1977 period, substantial increases were observed in equalization for Canada and the Atlantic Region: the increase was 1,090 per cent in Canada and 722.6 per cent in the Region. Most of this increase for both Canada and the Region can be traced to changes in the program which occurred in 1965, 1967, 1972 and 1977 where new taxes, notably oil and gas revenues, were added to the formula. The rapid increases in 1974 and 1975 are likely attributable to the increases in the price of oil and gas, which in turn affected the revenues of some Western provinces.

The much higher per capita equalization payments in the Atlantic Region compared to Canada<sup>11</sup> (\$462 versus \$156 in 1977) are due to the lower fiscal capacity of the Region. This, in turn, is caused both by factors external to the Region, and factors related to the economic performance within the Region. The escalation in payments, caused by increasing revenues associated with the higher prices of oil and gas, is related to factors outside the Atlantic Region, and to some extent, outside Canada. Some of the higher equalization payments, however, are associated with a lower level of taxable wealth in the Region, e.g. lower incomes (personal and corporate), less natural resources revenues, etc., and are the result of more depressed economic conditions in the Region over the long term. For example, in 1979-80, 32 per

cent of equalization revenues related to lower personal incomes in the Region, 12 per cent related to lower business incomes, 11 per cent related to a lower level of taxable sales and 19.4 per cent related to oil and gas revenues in other parts of the country.

#### Other Programs

Hospital Insurance and Diagnostic Services - This program, started in 1957, is a shared-cost program to provide insured persons with specified hospital services. When adjustments are made for the fact that Quebec opted out of the program, the Atlantic Region show a growth from 1962 to 1977 of 576.3 per cent against 684 per cent for Canada. With the same adjustment, the per capita payments for the Region in 1977 were \$95 against \$111 for Canada. Both the growth and the level of payments are linked to health care costs, by provinces, and are not affected by economic performance.

Medical Care Act - The Medicare program started in 1966, provides financial contributions to ensure necessary medical services rendered by a physician or surgeon. As the program's formula guarantees that payments on per capita basis are identical throughout Canada, the level and growth of these payments are then equalized and independent of economic circumstances.

Post Secondary Education Grants - Started in 1967, this shared-cost program had federal contributions toward post secondary education expenditures based on either a per capita amount or a percentage of operating expenditures. Moreover, subsequent modifications involved both transfers of tax points and cash payments. Changes in payments are then ascribed either to changes in education costs or to funding arrangements, both unrelated to the economic performance of the Region. While payments under this program have grown faster than for Canada as a



whole, the level of payments per capita in 1977 was lower in the Region than for Canada.

Canada Assistance Plan - This program which provides cost-shared assistance of 50% of shareable costs for persons in need, started payments to the Atlantic provincial governments in 1968. Rates of aid and conditions of eligibility are set by the provinces and municipalities. For the 1968 to 1977 period, payments to Canada as a whole increased slightly faster than payments to the Atlantic Region. However, payments per capita in the Region marginally exceeded those for Canada as a whole. While the growth and level of expenditures under this program is influenced by the state of the economy, it is largely determined by the rates of pay, which are set by the provincial governments and municipalities.

### C. Conclusions

The review of the major contributors to increased federal transfers to the Atlantic Region produces the following major conclusions.

1. Four federal programs were identified as being the major contributors to the federal transfer payments.
2. The Family and Youth Allowances program grew less rapidly than for Canada as a whole in the 1969-1977 period, and its higher level of payments in a per capita basis is entirely due to demographic reasons.
3. A large proportion of the increase in UIC payments is due to program changes. The higher level of payments in the Atlantic Region on a per capita basis is due to a higher level of unemployment. In turn, this higher

unemployment situation is not solely attributable to lower employment opportunities (related to economic performance), but also to other factors such as structural differences in the economy and some unidentified level of "voluntary" unemployment.

4. Payments under the Old Age Security program grew marginally faster for Canada as a whole than for the Region. On the other hand, the slightly higher per capita payments in the Region reflects the higher proportion of poorer pensioners benefiting from the guaranteed income supplement. This latter factor may reflect differences in past economic opportunities.
5. Payments under the equalization program grew faster for Canada as a whole than in the Atlantic Region since 1962. The higher level in the Region for 1977 reflects both external circumstances (revenues from oil and gas) and lower level of taxable wealth in the Region.
6. The four other federal transfer programs together (hospital insurance and diagnostic services, medicare, post secondary education grants and Canada assistance plan) had federal payments per capita at about the same level as the Old Age Security Program. The level of payment was slightly higher in the Region than for Canada but the growth rate has been higher in Canada for the periods under study. Moreover, the growth and levels of payments were generally not affected by economic circumstances.
7. In summary, the tremendous growth in transfer payments experienced in the Atlantic Region from 1962 to 1977 is not unique to this Region. Only two programs, namely

unemployment increase and equalization payments are significantly different in the Atlantic Region than for Canada as a whole. Nevertheless, growth patterns in these during the period under consideration are similar to Canada and in the case of taxation agreements the increase in Canada was much higher. Moreover, it is evident that increases are largely attributable to program changes. Another important factor in the case of equalization payments is the increases in oil prices.

## V CONCLUDING OBSERVATIONS

Total federal government transfer payments to individuals and provincial government have increased substantially for Canada as a whole during the post war period. In absolute terms both transfers to persons and to provincial governments have increased over the period from 1945 to 1977. Moreover, the growth in federal government transfers to persons was more rapid than the overall growth in federal government expenditures and the gross national product. It was also greater than the rise in personal income and, as a result, the share of personal income due to federal government transfer payments rose over the period. On the other hand, while the growth in federal transfer payments to provincial governments also exceeded the growth in total federal government expenditures and gross national product, the share of provincial government revenues accounted for by transfers to provincial government declined slightly over the period.

A major contributing factor to the rapid increase in transfer payments in Canada during the post war period has been the increase in the number of programs. The most important transfer program to persons, i.e., old age security, did not exist at the end of the second world war. Among transfer programs to provincial governments, medicare, hospital insurance, education grants, the federal-provincial fiscal equalization system and the Canada Assistance Plan were programs introduced in the post war period. By 1977, the most important federal government transfer payment in Canada was the old age security program followed by unemployment insurance, taxation agreements and family and youth allowances.

Due to the relatively weaker fiscal and economic circumstances, the Atlantic Region depends to a greater extent than the rest of Canada on federal government transfer payments.

In 1977, with less than 10 per cent of the Canadian population, the Region received about 16 per cent of total federal government transfer payments. And, like elsewhere in Canada, transfer payments have increased considerably over the years. During the last fifteen years, from 1972 to 1977, the overall growth in transfer payments to this Region was slightly higher than the Canada as a whole. However, the longer term trend conceals significant changes that have emerged in the recent past. Indeed, from 1969 to 1977, total federal government transfer payments rose at a slower pace in this Region than for Canada as a whole, due to slower growth in transfer payments to provincial governments.

But even the longer term trend (from 1962 to 1977) does not support the view of a serious deterioration in the level of dependency of the Atlantic Region on the federal government in comparison to the rest of Canada. Total transfers rose only at a slightly faster rate than Canada as a whole. And, while transfers to persons as a proportion of personal income increased from 11.3 per cent in 1962 to 14.3 per cent in 1977, transfers to provincial governments as a proportion of total provincial revenues declined slightly from 50.7 per cent during the period 1961 to 1969 (average) to 49.3 per cent during the period 1969 to 1977 (average). Finally, for every dollar of transfer payments to the Atlantic Region during the period 1969 to 1977, the federal government collected 67.2 cents in taxes compared to 69.5 cents in the period 1962 to 1969. This is hardly a significant change and is largely attributable to the transfer of tax points from the federal government to provincial governments in more recent years.

The major programs which have contributed to growth in transfer payments in the Atlantic Region from 1962 to 1977 are federal-provincial equalization grants, unemployment insurance and old age security. Together, these three programs account for about 62 per cent of the total increase in transfer payments.

While the addition of new programs, such as Medicare have also contributed to the increase in transfer payments, by far the most important factor, even in the case of unemployment insurance, has been changes in existing programs.

In summary, federal government transfer payments warrant constant and close monitoring. While the social and political goals behind most changes to transfer payment programs may be highly laudable, the financial strains that may result from their implementation cannot be ignored. Affordability may change over time. The structure of the Canadian economy, like that of other western nations, has changed substantially during the seventies, in part due to the oil crises. As a result, it is now believed that the rate of economic growth achieved during the post war period to the mid-1970's is no longer possible. Thus increased government revenues associated with increased level of economic activity cannot be expected to endure at levels experienced in the past. Given the ever changing economic climate, a closer monitoring of all federal government transfer programs is necessary if a strain on financial resources is to be averted.

NOTES

1. "Dependency" was simply defined as the level, in relative terms, of the federal payments. See note 3.
2. APEC, The Atlantic Vision - 1990, p. 62.
3. The term "dependency" should not be seen in a derogatory sense, as in many cases, the increasing transfers simply represent an increased government role in the distribution of goods and services, and do not represent an increase reliance on federal government transfers. In fact, dependency would not be altered by a given population paying more taxes to a central government in order to receive more goods and services. A true dependency implies receiving more than what is paid for, implying net transfers. Because of the complexity of the tax system, involving transfer of tax points, hidden taxes, etc, it was impossible to explore this concept in detail. However, Appendix A contains a brief review of these net transfers.
4. Some programs intergrated into CAP, however, predate the last world war.
5. It should be noted that these proportions are somewhat skewed upward by the fact that they are based on average incomes, which are lower than Canada in the Atlantic Region by some 26 per cent.
6. Among the four Atlantic provinces, New Brunswick recorded the highest growth and Nova Scotia the lowest.

7. If expressed in constant 1962 dollars, the growth would have been from \$476 million to \$1,090, an increase of 129 per cent.
8. The growth was lower for all Atlantic provinces except for New Brunswick where growth was about the same as for Canada.
9. The details of this analysis are to be found in Appendix "B".
10. Some provinces, e.g., Quebec, choose to vary payments according to age, but the Federal Government provides a fix amount per child.
11. This comparison is in fact misleading as the Canadian average is influenced by the absence of payments to some large "richer" provinces.



APPENDIX "A"

NET TRANSFERS

Another approach to measure the contribution of the federal government to a particular province or region is to look at the net transfers to that area or region, that is federal transfers payments less federal government tax revenues derived from that area or region. This approach reveals that the Atlantic provinces received huge transfers, net of taxes, from the federal government between 1961 and 1977 and the gap (in current dollars) has been growing over the period. In 1961, the deficit was \$128 million (based on tax collection of \$309 million and transfer payments to persons and governments of \$437 million) and by 1977 it had reached \$1.5 billion (based on revenues of \$2.0 billion and transfer payments of \$3.5 billion).

However, if 1961 dollars are used, the 1977 deficit is \$455 million of 1961 dollars. To have a better grasp of the deficit, however, it is useful to measure tax collected as a proportion of transfer payments. This measure shows that portion of federal transfer payments in a province or region which is covered by federal taxes levied in that particular region or province. This measure, as shown in Table I, varied from year to year and it is difficult to interpret the variation from one year to the next. In order to have a better appreciation of the trend, it has been averaged during the periods 1961-69 and 1969-77. These data indicate that tax collected in the Atlantic Region covered less of the transfer payments in the latter period than in the former, suggesting an increase in the level of dependency, although not a significant one (67.2 per cent compared to 69.5 per cent). The pattern is not uniform for all four provinces. Both, Newfoundland and New Brunswick experienced

TABLE I

Federal Tax Collected As a Proportion  
Of Federal Transfer Payments to Persons  
And Provincial Governments, Atlantic Region  
(8)

	<u>A.R.</u>	<u>NFLD.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>
1961	70.7	48.6	44.4	87.2	74.1
1962	66.8	44.2	41.9	83.7	72.5
1963	70.6	47.6	37.5	89.2	76.8
1964	76.5	51.9	39.4	93.8	86.6
1965	69.9	45.1	35.1	90.3	76.4
1966	72.2	47.9	37.5	88.2	81.3
1967	63.3	39.2	34.0	78.9	70.9
1968	64.8	44.2	40.0	78.3	70.6
1969	70.5	44.9	40.3	88.0	78.4
1970	73.9	43.4	40.3	98.4	80.4
1971	68.8	41.5	37.5	93.5	72.9
1972	68.6	43.5	36.8	90.1	72.8
1973	68.4	42.9	38.5	92.6	69.0
1974	70.0	42.5	41.4	94.9	73.5
1975	61.6	36.0	37.0	83.7	65.0
1976	66.2	42.4	39.1	88.5	68.3
1977	57.6	36.4	38.2	75.3	59.5
Average					
1961-69	69.5	47.1	38.9	86.4	77.5
1969-77	67.2	41.5	38.8	89.4	71.1

a deterioration; Prince Edward Island remained virtually unchanged; and Nova Scotia recorded an improvement.

It is noteworthy that there has been a sudden marked deterioration of this statistic between 1976 to 1977. This deterioration is due to both a weak increase in federal revenues, a large increase in transfer payments and some transfer of tax points to provinces. Federal government revenues from personal income tax declined and revenues from corporate tax remained unchanged. Slow economic growth may partly explain the weakness in revenue growth. However, the indexing of the basic exemption of personal income tax and the transfer of tax points for Established Program Financing are also explanatory factors. The increase in federal government transfer payments is largely due to substantial increase in unemployment insurance benefits and federal-provincial fiscal equalization payments. This last factor is largely caused by an external factor, i.e., the large increase in oil revenues accruing to oil producing regions.

The above figures, however, do not tell the whole story. There are hidden taxes which consumers in the Atlantic Region pay which do not appear as revenue collected by the federal government within the Region. One example, is the indirect taxes on manufactured goods. There are many products sold interprovincially whose prices reflect the indirect taxes levied on their production, taxes which in effect have been paid by the consumers of these products, not the producers. Another hidden tax which consumers in the Atlantic Region effectively pay is that due to tariffs on protected goods produced outside the Region. The tariff allows Canadian producers to raise the price which they charge for a product by an amount roughly equivalent to the tariff. This acts as a hidden tax paid by the consumers to the producing industries. Consumers in Regions with little industry protected by the tariff subsidize producers in Regions with a substantial amount of protected industry.

APPENDIX "B"DETAILED ANALYSIS OF PROGRAM CHANGES, ECONOMIC CIRCUMSTANCES, AND  
THEIR EFFECT ON DEPENDENCY

Federal transfer payments in the Atlantic Region have grown dramatically since the early sixties, as elsewhere in Canada. Factors underlying that growth are numerous and varied. For instance, since the early sixties new programs have been introduced, the coverage of some existing programs have been expanded, and in some cases, economic circumstances and economic resources, both within the Region and elsewhere, have affected the level of transfers. This section will be devoted to a review of the evolution of the major transfer payment programs.

As noted earlier, total federal transfer payments in the Atlantic Region have increased from \$476 million in 1962 to \$3,572 million in 1977, an increase of \$3,096 million. Table I shows the distribution of this growth among the major programs. Federal transfer payments to provincial governments accounted for slightly more than half the total growth. By major category of programs, payments under taxation agreements accounted for close to 29 per cent of total transfers to the Region, followed by unemployment insurance (19.8 per cent) and old age security (13.6 per cent). This chapter will examine the evolution of each program shown in Table I separately and the factors affecting their growth.

TABLE I

Distribution of Growth in Federal Transfer Payments  
Among Major Programs, Atlantic Region, 1961-1977

	<u>1977</u>	<u>1962</u>	<u>Difference</u>	
	(millions of \$)		(% Dist)	
Total Federal Transfer Payments	3,572	476	3,096	100.0
Transfers to Persons	1,742	252	1,490	48.1
Family & Youth Allowances	222	60	162	5.2
Unemployment Insurance	676	64	612	19.8
Old Age Security	498	77	421	13.6
Others	346	51	295	9.5
Transfers to Provincial Government	1,830	224	1,606	51.9
Tax Agreements	1,020	124	896	28.9
Hospital Insurance & Diagnostic Services	210	32	178	5.7
Canada Assistance Plan	150	0	150	4.8
Medicare	100	0	100	3.2
Post Secondary Education Grants	82	2	82	2.6
Others	268	68	200	6.5

Family and Youth Allowances

The Family Allowance program was introduced in 1944 and became effective July 1945. Basically, this program provides an allowance for each dependent child to the age of 16. In addition, the Youth Allowance which was established in September 1964 provided an allowance of \$10 per month for each dependent

child 16 and 17 years of age and attending an educational institution on a full-time basis.

A number of changes were made to the Family Allowance program but the most significant were those included in the new Act which became effective January 1974. The major feature of the new Act includes an increase in payments to \$20 per month for every dependent child under the age of 18 from its previous level of \$6 for those under 10 and \$8 for those 10 to 18 years of age; indexation to the cost of living (suspended for the year 1976) and taxation (at prevailing income tax rates) of income derived from the program.

Payments for Family and Youth Allowances in the Atlantic Region has grown by 270 per cent from 1962 to 1977, compared to 294 per cent for Canada as a whole. In 1977, \$222 million was paid in the Region under this program. This amounts to \$101 per capita compared to \$90 for Canada as a whole. The difference is entirely attributable to the differences in age structure. These two programs account for 5.2 per cent of the growth in total federal transfer payments to the Atlantic Region from 1962 to 1977.

Growth in payments to persons under these two programs (Family and Youth Allowances) is entirely due to changes in the program itself (such as that introduced in 1974), additions (such as the Youth Allowances) and demographic changes. Table II below shows the year over year growth in family and youth allowances from 1962 to 1977. The introduction of youth allowances in September 1964 is reflected in the 7.9 per cent increase in payments from 1964 to 1965. But the major increase occurred in 1974 with the first year the new Act was implemented, 158.9 per cent. The decline noted in 1976 coincides with the suspension of indexation for that year.

TABLE II

Growth of Payments for Family and Youth Allowances  
Canada and Atlantic Region  
1962-77

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(millions of \$)		% Change	
1962	529	60		
1963	537	61	1.5	1.7
1964	559	63	4.1	3.3
1965	599	68	7.2	7.9
1966	606	67	1.2	-1.5
1967	611	67	0.8	0.0
1968	615	67	0.7	0.0
1969	618	67	0.5	0.0
1970	618	68	0.0	1.5
1971	619	67	0.2	-1.5
1972	611	67	-1.3	0.0
1973	711	73	16.4	9.0
1974	1,769	189	148.8	158.9
1975	1,961	208	10.9	15.1
1976	1,942	207	-1.0	-0.5
1977	2,084	222	7.3	7.2
1977/1962			294.0	270.0
Per Capita (\$)				
1977	90	101		

### Old Age Security

The Old Age Security Act was passed in 1951 and became effective January 1952. It initially provided flat-rate benefits for everyone who met age (70 years of age or over) and residence requirements. In 1966, through an amendment to the Old Age Security Act, the Guaranteed Income Supplement Program was initiated. Together, these two programs guaranteed eligible recipients that their total monthly income would not fall below some specified level.

Since its inception, a number of changes have been made to the program. The level of benefits was increased arbitrarily until 1968. From 1968 to 1970, benefits were adjusted in line with increases in the Consumer Price Index with an upward limit of 2 per cent per year. Effective January 1971, the pension was raised to \$80 per month and only those receiving the Guaranteed Income Supplement were to have their pension escalated. In 1972, the old indexation feature was reinstated. In 1973, the pension was adjusted annually in accordance to the increase in the Consumer Price Index. Starting with October 1973, pensions were escalated quarterly at the full rate of increase of the Consumer Price Index. The income supplement was escalated on the same basis as the Old Age Security except for the period 1971 to October 1973. Another important change was the lowering of the age of eligibility from 70 years of age prior to 1966 to 65 by 1970. In October 1975, the Spouse's Allowance was introduced. The purpose of this program is to assist married couples on limited income, one of which is an Old Age Security pensioner and the other is in the 60 to 64 age group. Payment to the spouse is exactly the same as the amount paid to the pensioner.



From 1962 to 1977, payments under the Old Age Security and Guaranteed Income Supplement programs in the Atlantic Region have increased from \$77 million to \$498 million. This represents an increase of 547 per cent. The corresponding increase for Canada as a whole was almost the same at 558 per cent. The growth in payments under the Old Age Security Act is entirely due to changes in programs (such as levels of benefits and lowering of age of eligibility), additions (such as the Guaranteed Income Supplement and the Spouse Allowance) and demographic changes. The Old Age Security program accounts for 13.6 per cent of the increase in transfer payments to the Atlantic Region from 1962 to 1977 and ranks third in importance behind Taxation Agreements and Unemployment Insurance.

The pattern of growth has been similar for both the Atlantic Region and Canada as a whole, as shown in Table III. The bulge in 1967 (increase of 36.1 per cent) reflects the introduction of the Guaranteed Income Supplement. In Canada as a whole, the comparable rate of growth for that year was 32.6 per cent. The lower rate for Canada reflects the greater level of earnings of pensioners throughout their working life in the rest of Canada. Over the whole period (1962-1977) payments increased faster for Canada as a whole than in the Atlantic Region. Nevertheless, in 1977 payments per capita were higher in the Atlantic Region than for Canada, \$226 compared to \$202. The difference is largely attributable to poorer pensioners in the Atlantic Region benefiting from the Guaranteed Income Supplement. In 1977, 53.4 per cent of pensioners in Canada received the Guaranteed Income Supplement compared to 66.7 per cent in the Atlantic Region. It should be noted, however, that the reason for the differences in financial well being between pensioners in the Atlantic Region and those in the rest of Canada cannot be attributed to differences in economic performance today but

TABLE III

Growth in Payments for Old Age Security  
Canada and Atlantic Region  
1962-1977

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(millions of \$)		% Change	
1962	713	77	-	-
1963	767	82	7.6	6.5
1964	871	93	13.6	13.4
1965	890	94	2.2	1.1
1966	994	105	11.7	11.7
1967	1,318	144	32.7	36.1
1968	1,478	160	12.1	11.1
1969	1,659	176	12.2	10.0
1970	1,862	197	12.2	11.9
1971	2,114	226	13.5	14.7
1972	2,430	260	14.9	15.0
1973	2,824	298	16.2	14.6
1974	3,303	346	17.0	16.1
1975	3,753	395	13.6	14.2
1976	4,305	458	14.7	14.9
1977	4,692	498	9.0	8.7
1977/1962			558.0	547.0
Per Capita (\$)				
1977	202	226		

rather to generally more depressed economic circumstances and job opportunities in the Region during the working life of

pensioners. It is also noteworthy that there are relatively more people receiving the spouse's allowances in the Region than for all of Canada (5.3 per cent versus 3.4 per cent).

### Unemployment Insurance

Unemployment insurance accounts for approximately 20 per cent of the total increase in the federal government transfer payments in the Atlantic provinces from 1962 to 1977 and is the second most important source of federal transfers to the Region. In 1977, \$679 million dollars were paid in UIC benefits in the Region. On a per capita basis, this represents \$308 compared to \$169 for Canada as a whole. This difference stems from the lower level of job opportunities in the Atlantic Region and the greater degree of seasonality of employment.

The Unemployment Insurance Act became law in August, 1940. The purpose of the Act was to provide financial assistance to lower income workers during periods of temporary unemployment. The program remained basically unchanged until 1971 except for changes in benefit levels and the extension of coverage to new categories of workers. In 1971, a new Unemployment Insurance Act considerably altered the old plan. Coverage was raised to 95 per cent of the labour force from about 80 per cent in the old plan. The objective was redefined as to provide insurance against unforeseen loss of income due to unemployment, sickness and maternity. The base period for eligibility was considerably reduced. Duration of benefits became dependent not only on contributions but also on prevailing economic conditions in area of residence. Finally, levels of benefit were considerably increased and indexed to the cost of living.

As a result of these changes, transfer payments under this program rose dramatically over just a few years. Table IV

TABLE IV

Growth in Payments for Unemployment Insurance  
Canada and Atlantic Region

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(millions of \$)		% Change	
1962	409	64	-	-
1963	394	63	-3.7	-1.6
1964	344	56	-12.7	-11.1
1965	312	55	-9.3	-1.8
1966	295	53	-5.5	-3.6
1967	353	59	19.7	11.3
1968	438	64	24.1	8.5
1969	499	73	13.9	14.1
1970	695	80	39.3	9.6
1971	891	111	28.2	38.9
1972	1,869	225	109.8	102.7
1973	2,008	276	7.4	22.7
1974	2,121	330	5.6	19.6
1975	3,155	468	48.8	41.8
1976	3,332	548	5.6	17.1
1977	3,933	679	18.0	23.7
1962-70	3,739	567	-	-
1971-77	17,309	2,636	362.9	364.9
Per Capita (\$)				
1977	169	308		

shows a comparison between growth performance of unemployment insurance payments in the Atlantic Region and Canada from 1962 to 1977. Overall growth during the period from 1962 to 1977, was higher in the Atlantic Region than in Canada. However, using only two years to determine the growth, namely the base year (1962) and the last year (1977) may be misleading. A better measure may be to compare growth between the two areas (Canada and Atlantic Region) by looking at growth between total payments before the changes in legislation (from 1962 to 1970) and total payments after the changes (1971 to 1977). Using this measure there was no significant difference in the growth of payments under UIC between Canada and the Atlantic Region, namely 362.9 per cent compared to 364.9 per cent, respectively. Nevertheless, payments on a per capita basis remain higher in this Region than for Canada as a whole.

The effect of the new legislation on payments is highly visible. Unemployment insurance benefits rose by 38.9 per cent from 1970 to 1971 and by 102.7 per cent between 1971 and 1972 in the Atlantic Region. Corresponding figures for Canada as a whole were 28.2 per cent and 109.8 per cent respectively. Significant increases were also observed in 1975 (41.8 per cent in the Atlantic Region and 48.8 per cent in Canada), partly due to the introduction of indexation to the cost of living and also partly due to a deterioration in economic circumstances in both the country as a whole as well as the Region.

While part of the increase in unemployment insurance may be attributed to deterioration in economic circumstances, particularly in 1975, 1976 and 1977, by far the most important factor affecting increases in payment is undoubtedly the changes in legislation. Table V below shows the performance of two important labour market indicators from 1966 to 1978, the unemployment rate and the employment ratio. The first shows the

number of persons unemployed and seeking work as a proportion of labour force. The second shows the degree to which the economy absorbs its population of working age (15 years of age and over) in productive employment, i.e., employment as a proportion of the population 15 years of age and over. Thus, for example, if the

TABLE V

Selective Labour Force Statistics  
Atlantic Region

	<u>Unemployment</u> <u>Rate</u>	<u>Employment</u> <u>Rate</u>
1966	5.2	47.7
1967	5.3	47.7
1968	5.8	47.1
1969	6.2	46.8
1970	6.0	46.3
1971	7.0	46.3
1972	7.6	46.6
1973	7.7	48.3
1974	8.3	49.0
1975	9.8	48.2
1976	10.8	47.5
1977	12.7	47.0
1978	12.5	48.0

employment ratio is 47.7, this means that there were 477 persons employed for every 1,000 persons 15 years of age and over. There was an increase in the rate of unemployment between 1970 to 1971, that is the years before and after the new unemployment insurance

legislation was enacted. While this might suggest a deterioration in economic conditions, it in fact remains to be seen. Indeed, the employment ratio remained unchanged, indicating that the economy was still proportionally generating the same level of employment as it was before. The unemployment rate continued to rise in 1972, 1973, and 1974. The employment ratio did the same, indicating that the economy was absorbing relatively more persons into productive employment than before. How can a growing unemployment rate be reconciled with a growing employment ratio, the latter indicating an improvement in economic performance and the former suggesting a deterioration in economic circumstances? The increase in unemployment and the rate of unemployment reflects the fact that more people than before were seeking employment. Therefore, even if there was an improvement in the performance of the economy, the rate of unemployment was rising. More women and younger people were entering the labour force than ever before. Several factors may be responsible for this phenomenon: increased productivity in household operations due to numerous household facilities, enabling women to seek employment outside their home; greater availability of jobs suitable for women; the drop in fertility rate, etc... A more generous unemployment insurance scheme itself, no doubt, also favoured the growth of the labour force.

This is not to say that increases in unemployment insurance benefits have not increased the level of transfers to the Atlantic Region. Indeed, benefits have become an important source of revenue for an important part of the labour force. The increase in benefits appears to have favoured in-migration and a fall in out-migration; they have resulted in an increase in aggregate demand in the Region, thereby leading to increased production and employment. However, the increased dependency on unemployment insurance benefits is largely due to changes in the legislation and not to deteriorating economic circumstances.

Some evidence suggests that the increased benefits and easier eligibility had the effect of inflating the unemployment roles, mainly in the younger age groups. Some people would appear to be taking advantage of the UIC "cushion" while looking for a better job, while others appear to be simply using the system to their advantage. To the extent that this is the case, it would then represent voluntary unemployment.

### Hospital Insurance and Diagnostic Services

Federal government transfer payments in the Atlantic Region under the Hospital Insurance and Diagnostic Services program accounts for 5.7 per cent of the total increase in transfer payments in the Region from 1962 to 1977. The Hospital Insurance and Diagnostic Act was passed by Parliament in 1957. Under the Act, the federal government shares with the province the cost of providing insured persons with specified hospital services. The federal and provincial governments each pay about half the shareable costs, but the federal contribution formula was devised so that a higher percentage of assistance is given to provinces where the per capita cost of hospital care is lower than the national average and vice versa.

Effective April 1977, a new federal-provincial arrangement for funding hospital insurance, medical care and post secondary education was introduced. The new arrangement provides for transfer of tax room, with associated equalization and also a cash payment. Money available to provinces as a result of transfer of tax room does not appear as a transfer payments. Contributions from the Government of Canada are no longer related directly to provincial expenditures but instead rise with the growth of the economy (escalated by a moving average of growth rates for per capita Gross National Product).



Table VI below shows the evolution in payments to both the Atlantic Region and Canada under the Act. Increases in payments under the Act to the Atlantic Region and Canada have been regular over the years except for a decline in 1977. This decline is due to changes in the funding arrangement, i.e., money available through tax room no longer appears as a transfer. A decrease is also noted for Canada in 1965. This, of course, is due to the fact that Quebec opted out in that year in favour of tax abatement. Because of this abatement, the overall increases in payment between Canada and the Atlantic Region is not comparable for the whole period. Thus, while the overall increase from 1962 to 1977 shown in Table XVI is 576 per cent for the Atlantic Region and 495 per cent for Canada, if adjustment is made for the fact that Quebec has opted out the overall increase for Canada would be about 684 per cent, i.e., a growth substantially higher than in the Atlantic Region. The difference in per capita contribution, \$95 for the Atlantic Region and 81 for Canada, is also due to this fact. If appropriate adjustment is made, the per capita contribution for Canada as a whole is \$111.

Growth in transfer payments under this program is affected by increase in costs of providing the hospital and diagnostic services, increases in the population using these services, additional services to be shared under the Act or changes in the funding arrangements. A deterioration in economic circumstances could not have a direct impact on program costs. Due to the new fiscal arrangement of 1977 however, in the future the cash contributions will depend on the growth of the economy. These payments will increase and decrease with increases and decreases in economic activity.

TABLE VI

Growth in the Payments Under  
The Hospital Insurance and Diagnostic Act  
Canada and Atlantic Region  
1962-1977

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(millions of \$)		% Change	
1962	317	32	-	-
1963	376	37	18.6	15.6
1964	415	39	10.4	5.4
1965	346	46	-16.6	17.9
1966	383	52	10.7	13.0
1967	445	60	16.2	15.4
1968	533	70	19.8	16.7
1969	603	79	13.1	12.9
1970	709	91	17.6	15.2
1971	806	105	13.7	15.4
1972	924	120	14.6	14.3
1973	1,028	133	11.3	10.8
1974	1,212	152	17.9	14.3
1975	1,576	194	30.0	27.6
1976	1,928	244	22.3	25.8
1977	1,888	210	-2.1	-13.9
1962-77			495.6	576.3
Adjustment for Quebec Opting out			684.0	576.3
Per Capita (\$)				
1977	81	95		

## Medicare

The Medical Care Act, which received Royal Assent at the end of 1966, empowers the federal government to make financial contributions to provinces that run medical care insurance plans meeting certain criteria. Basically, Medicare insures necessary medical services rendered by a physician or surgeon. Provincial entry into the agreement varied from province to province. The first provinces to enter the program were Saskatchewan and British Columbia in 1968. Newfoundland and Nova Scotia joined in 1969, Prince Edward Island in 1970 and New Brunswick in 1971. Medicare accounts for 3.2 per cent of total increase in transfer payments from 1962 to 1977.

The annual federal contribution to provinces is, for Canada as a whole, one half of the total shareable cost. The formula, however, guarantees that payment on a per capita basis are identical throughout Canada, although the proportion of shareable costs covered by the federal government can vary substantially from province to province.

Table VII above shows payments under this Act for Canada as a whole and the Atlantic Region. Overall increases during the period from 1971 to 1977 are about the same as Canada and the Atlantic Region and as mentioned earlier the per capita payments are the same.

Increases in payments under this program are due to increases in population and increased shareable costs. Of course, changes in funding arrangements will also affect the growth of transfer payments under this Act. As mentioned earlier, a new federal-provincial arrangement for funding hospital insurance, medical care and education was introduced in 1977. The effect of this arrangement will become more visible in the future.

TABLE VII

Growth in Payments Under Medicare Act  
Canada and Atlantic Region  
1971-1977

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(million of \$)		(% Change)	
1971	558	53	-	-
1972	620	58	11.1	9.4
1973	677	65	9.2	12.1
1974	735	70	8.6	7.7
1975	783	74	6.5	5.7
1976	928	88	18.5	18.9
1977	1,047	100	12.8	13.6
1971-77			87.6	88.7
Per Capita (\$)				
1977	45	45		

Post Secondary Education Grants

Like health care, education falls under provincial jurisdiction. While the federal government involvement in health was justified on the basis of "national standard of service", in the case of education "it was the perceived need to push supply beyond the point that the provinces could themselves afford"<sup>3</sup>. The mean chosen for federal participation was cost sharing. The Federal-Provincial Fiscal Arrangements Act of 1967

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3. Ontario Budget, Toronto, April 19, 1977

provided for this participation. For fiscal year 1967-68, federal contribution to provinces under this act was equal to the greater of \$15 per capita of provincial population or 50 per cent for eligible operating expenditures for post secondary education. For subsequent years, the provinces to which the 50 per cent formula applied continued to receive payments on that basis, while the provinces initially on a per capita basis received yearly increases based on the national average rate of increase of post secondary education spending. In 1972, a yearly maximum of 15 per cent on the rate of increase in the total federal contribution was set. Federal contribution under the act has two components: a tax transfer of 4 points of personal income tax (converted in 1972 to 4.327 points of reformed tax) and one point of corporate tax plus a cash payment to bridge the difference between the value of the tax transfer and full entitlement under the act. In 1977, the new financing arrangement with respect to established programs (hospital insurance, medical care and education) became effective. This program accounts for 2.6 per cent of the total increase in transfer payments from 1962 to 1977.

As mentioned previously, federal contribution to financing of any program through tax transfer do not appear anywhere as transfer payments. Hence, figures appearing in Table VIII only show that part of total federal contribution which is a cash payment. Therefore, analysis of these figures does not reflect the complete picture. Nevertheless, it is noteworthy that there was a dramatic increase in cash payments in 1977 when a new financing arrangement became effective. Other anomalies are the declines observed in 1972 and 1974. These could be due to increases in contribution associated with the tax transfer. Cash payments are only required when contribution under the tax abatement are insufficient to meet the entitlement under the basic formula.

TABLE VIII

Growth in Payments Under Post Secondary Education Grants  
Canada and Atlantic Region  
1967-1977

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(millions of \$)		% Change	
1967	91	8	-	-
1968	194	15	113.2	87.5
1969	337	26	73.7	73.3
1970	362	27	7.4	3.8
1971	463	33	27.9	22.2
1972	462	32	-0.2	-3.0
1973	486	35	5.2	9.4
1974	484	31	-0.4	-11.4
1975	509	36	5.2	16.1
1976	638	40	25.3	11.1
1977	706	82	42.0	105.0
1967-77			675.8	925.0
Per Capita (\$)				
1977	30	37		

Despite the lack of detail necessary for a thorough analysis of payments under this program it should be obvious that variation in payments cannot be directly attributed to the state of the economy. Changes in payments should be ascribed rather to increases in education costs and changes in funding arrangements.

Canada Assistance Plan

Under the BNA Act, provision of social assistance to the general public is a provincial responsibility. Federal government involvement in this area is thus restricted to providing consultative services and cost-sharing of provincially administered programs. The major federal program dealing with social assistance in existence today is the Canada Assistance Plan. This plan started in 1966 and payments under this plan to the Atlantic provincial governments started in 1968. This program provides financial assistance to persons in need. Other programs providing for special needs such as Assistance to Blind Persons, Unemployment Assistance (i.e., general welfare) and Assistance to Disabled Persons have been or are being gradually absorbed into this broader program. The federal government contributes 50 per cent of shareable costs. Rates of aid and conditions of eligibility are set by the provinces and municipalities. Most of the municipal welfare funds are derived from the Canada Assistance Plan.

Payments under this program accounted for 4.8 per cent of the total increase in federal transfer payments to the Region from 1962 to 1977. The federal contribution per capita is only slightly higher in the Atlantic Region than for Canada as a whole. In 1977, federal payments averaged \$68 per person in the Atlantic Region compared to \$66 for the rest of Canada (excluding Quebec which does not participate in the plan.) Moreover, federal contribution in the rest of Canada (excluding Quebec) has grown slightly faster than in the Atlantic Region, both in the case of total payments and in the case of payments per capita.

Payments under this program are in part influenced by the state of the economy, but also to program changes and rates of pay which are largely determined by the provincial government and municipalities.

TABLE IX

Growth in Payments Under the Canada Assistance Plan  
Canada and Atlantic Region  
1968-1977

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(millions of \$)		% Change	
1968	254	44	-	-
1969	279	48	9.8	9.1
1970	361	55	29.4	14.6
1971	466	72	29.0	30.9
1972	476	75	2.1	4.2
1973	490	84	2.9	12.0
1974	605	99	23.5	17.9
1975	822	128	35.9	29.3
1976	970	158	18.0	29.4
1977	978	150	0.8	-5.1
1968-1977			385.0	340.9
Per Capita (\$)				
1977	66	68		

Taxation Agreements

Federal government transfer payments to the Atlantic Region under taxation agreements amounted to over \$1 billion in 1977, accounting for 28.6 per cent of total federal transfers in the Region. It also accounted for a similar share of the total increase in transfer payments to the Region from 1962 to 1977. Payments under taxation agreements are general purpose transfers. The major program under this caption is the federal-provincial fiscal equalization program, which alone accounted for over



90 per cent of total payments under taxation agreements in 1977. Given the relative insignificance of other programs, attention will be focussed on equalization payments in this section.

Equalization grants are unconditional grants made by the federal government to the provinces with a below average fiscal capacity so as to enable them to provide their residents with a level of services comparable to other provinces without having to resort to levels of taxation which are above the average for all provinces. The present equalization payment program has its roots in the 1957 Tax-Sharing Arrangement Act which covered the 1957 to 1962 period. The formula provided that a province's per capita yield from the three standard taxes (personal income tax, corporation profit tax and succession duty) be raised to the average per capita yield of such taxes in the two provinces with the highest per capita yields. Under the Federal-Provincial Fiscal Arrangements Act of 1962, which applied to the tax years 1962 to 1966 inclusive, the base on which the equalization payments was calculated was modified by the addition to the standard taxes of 50 per cent of a three-year moving average of natural resource revenues, equalized to the national average (modified to the average of the top two provinces as of April 1, 1964). Significant changes in the structure of federal payments to the provinces were incorporated into the Federal-Provincial Arrangement Act of 1967. Among the most significant changes was the modification in the equalization formula. This formula which previously took into account only the three standard taxes and natural resource revenue was altered to take sixteen provincial revenue sources into consideration.

The Federal-Provincial Fiscal Arrangements Act of 1972, covering the period 1972 to 1976 inclusive, extended the 1967 equalization system. Although basically unchanged, three revenue sources were added to the formula. A 1973 amendment added

municipal taxes imposed for local school purposes. In 1975, the Act was modified to redefine oil and natural gas revenues and to distinguish between "basic" and "additional" revenues from those sources. Basic revenue was defined as the actual revenues of 1973-74, adjusted for volume increases; these revenues were to be equalized in full. Additional revenues, the difference between actual and "basic" revenues, were to be equalized only to the extent of one-third. With the Federal-Provincial Fiscal Arrangements Act of 1977, an additional nine revenue sources were added to the equalization formula for a total of twenty-nine. Another significant change was that only half of all non-renewable resource revenues are subject to equalization and equalization in respect of natural resource revenues may not exceed one-third of total equalization payments.

As indicated earlier, increased payments under tax agreements accounted for almost 30 per cent of the total increase in transfer payments from the federal government to the Atlantic Region during the period 1962 to 1977. Table X shows the evolution of payments under tax agreements in the Atlantic Region compared to Canada as a whole. Despite the substantial increase observed in the Atlantic Region from 1962 to 1977 (722.6 per cent), growth was significantly less than that for Canada as a whole. Nevertheless, due to lower fiscal capacity, the Atlantic Provinces received relatively more than the rest of Canada. Indeed, on a per capita basis the federal government contributed \$462 per person in the Atlantic Region compared to only \$156 per person for Canada as a whole.

As seen from Table X below, the growth from year to year has varied dramatically over the whole period. While it is not possible to associate all increases to program changes the following are worth noting:

TABLE X

Growth in Payments Under Taxation Agreements  
Canada and Atlantic Region  
1962-1977

	<u>Canada</u>	<u>Atlantic Region</u>	<u>Canada</u>	<u>Atlantic Region</u>
	(millions of \$)		% Change	
1962	304	124	-	-
1963	215	95	-29.4	-23.4
1964	283	105	31.6	10.5
1965	436	147	54.1	40.0
1966	498	164	14.2	11.6
1967	668	213	34.1	29.9
1968	756	233	13.2	9.4
1969	890	271	17.7	16.3
1970	1,089	284	22.4	4.8
1971	1,288	319	18.3	12.3
1972	1,451	399	12.7	25.1
1973	1,542	468	6.3	17.3
1974	2,348	592	52.3	26.5
1975	2,878	801	22.7	35.3
1976	2,844	758	-1.2	-5.4
1977	3,617	1,020	27.9	34.6
1962-69	4,050	1,352		
1970-77	17,057	4,641	321.2	243.3
1962-77	-	-	1,090.0	722.6
Per Capita (\$)				
1977	156	462		

- 1) In 1965, total payments grew by 40 per cent in the Atlantic Region. This follows a change in the equalization formula in 1964 which provided that natural resource revenues be equalized to the average of the top two provinces rather than the national average.
- 2) In 1967, an increase in payments of 29.9 per cent in the Atlantic Region coincides with the new Federal-Provincial Arrangement Act of 1967 which took into consideration sixteen provincial revenue sources compared to only four previously.
- 3) Again in 1972, a new Federal-Provincial Fiscal Arrangement Act was paralleled by an increase of 25.1 per cent in payments under taxation agreements. Three new revenue sources were added to the formula.
- 4) The rapid increase of transfer payments in 1974 and 1975 is likely attributable to the dramatic increases in the price of oil and gas and hence oil and gas revenues. Following a modification in the definition of oil and natural gas revenues to distinguish between basic and additional revenues in 1975, transfer payments under taxation agreements declined in 1976.
- 5) Finally, the considerable increase observed in 1977 (34.6 per cent) coincides with yet another new Federal-Provincial Fiscal Arrangements Act.

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