COULD DO BETTER 3:
Grading Atlantic Canada's 2006/07 Provincial Finances

DAVID MURRELL
IAN MUNRO

March 2007

The Atlantic Institute for Market Studies (AIMS) is an independent, non-partisan, social and economic policy think tank based in Halifax. The Institute was founded by a group of Atlantic Canadians to broaden the debate about the realistic options available to build our economy.

AIMS was incorporated as a non-profit corporation under Part II of the *Canada Corporations Act* and was granted charitable registration by Revenue Canada as of October 3, 1994; it recently received US charitable recognition under 501(c)(3) effective the same date.

The Institute's chief objectives include:

a) initiating and conducting research identifying current and emerging economic and public policy issues facing Atlantic Canadians and Canadians more generally, including research into the economic and social characteristics and potentials of Atlantic Canada and its four constituent provinces;

b) investigating and analyzing the full range of options for public and private sector responses to the issues identified and acting as a catalyst for informed debate on those options, with a particular focus on strategies for overcoming Atlantic Canada's economic challenges in terms of regional disparities;

c) communicating the conclusions of its research to a regional and national audience in a clear, non-partisan way; and

d) sponsoring or organizing conferences, meetings, seminars, lectures. training programs, and publications, using all media of communication (including, without restriction, the electronic media) for the purpose of achieving these objectives.

Board of Directors
Chair: David McD. Mann; *Vice-Chairs*: Hon. John C. Crosbie, Peter C. Godsoe, John F. Irving
Chairman Emeritus: Purdy Crawford
Directors: George Bishop, Charles Cirtwill, George T.H. Cooper, Jim Dinning, J. Colin Dodds, Doug Hall, Frederick E. Hyndman, Dianne Kelderman, Phillip R. Knoll, Earl Ludlow, Martin MacKinnon, G. Peter Marshall, John T. McLennan, Norman Miller, Don Mills, Andrew Oland, Derrick H. Rowe, Jacquelyn Thayer Scott, Vaughn Sturgeon, Heather Tulk
President (acting): Charles Cirtwill

Advisory Council
John Bragg, Angus A. Bruneau, R.B. Cameron, Purdy Crawford, Brian Lee Crowley, Ivan E.H. Duvar, James Gogan, Bernard Imbeault, Colin Latham, Denis Losier, Hon. Peter Lougheed, James W. Moir Jr., James S. Palmer, Gerald L. Pond, John Risley, Cedric E. Ritchie, Joseph Shannon, Allan C. Shaw, Paul Sobey

Board of Research Advisors
Chair: Professor Robin F. Neill, University of Prince Edward Island
Professor Charles S. Colgan, Edmund S. Muskie School of Public Service, University of Southern Maine; Professor Jim Feehan, Memorial University of Newfoundland; Professor Doug May, Memorial University of Newfoundland; Professor James D. McNiven, Dalhousie University; Professor Robert A. Mundell, Nobel Laureate in Economics, 1999; Professor David Murrell, University of New Brunswick

2000 Barrington Street, Suite 1302, Halifax, Nova Scotia B3J 3K1
Telephone: (902) 429-1143; fax: (902) 425-1393
E-mail: aims@aims.ca; Web site: www.aims.ca

COULD DO BETTER 3:

Grading Atlantic Canada's 2006/07 Provincial Finances

DAVID MURRELL
IAN MUNRO

Atlantic Institute for Market Studies
Halifax, Nova Scotia

March 2007

© 2007 Atlantic Institute for Market Studies

Published by Atlantic Institute for Market Studies
2000 Barrington Street, Suite 1302
Halifax, Nova Scotia B3J 3K1

Telephone: (902) 429-1143
Fax: (902) 425-1393
E-mail: aims@aims.ca
Web site: www.aims.ca

Research assistance provided by Bruce Winchester;
edited and prepared for publication by Barry A. Norris; design by Gwen North.

The authors of this report have worked independently and are solely responsible for the views presented here. The opinions are not necessarily those of the Atlantic Institute for Market Studies, its Directors, or Supporters.

Atlantic Institute for AIMS Market Studies

CONTENTS

ABOUT THE AUTHORS

David Murrell is a Professor in the Department of Economics, University of New Brunswick, where he teaches regional economic development and public finance. He has published widely on economic development in Atlantic Canada, including articles in *Canadian Public Policy* and the *Canadian Journal of Regional Science*. He is a member of the editorial board of the *Canadian Journal of Regional Science* and former editor of the *Atlantic Canada Economics Association Papers and Proceedings*.

Ian Munro is the Director of Research at the Atlantic Institute for Market Studies. Prior to joining AIMS, Ian was a Principal at CRA International, an economics, business, and finance consulting firm. Earlier in his career, Ian worked at Industry Canada, where he focused on the introduction of market-based mechanisms to allocate licences for access to the radiofrequency spectrum. Ian received a BA in economics from Mount Allison University, an MA in public administration from Carleton University, and an MA in economics from Dalhousie University.

Executive Summary

This study evaluates the fiscal year 2006/07 provincial finances for Atlantic Canada using a standardized grading system developed in our previous two studies, *Could Do Better* and *Could Do Better 2*, which covered fiscal years 2004/05 and 2005/06. To determine a single overall grade for each province, we first construct three separate subgrades:

- a measure of the fiscal health of each province just before the tabling of the fiscal year 2006/07 budget in spring 2006;
- a measure of the fiscal accuracy, or transparency, of the 2005/06 budget, which allows us to assess how the province has adhered to its 2005/06 budget forecast according to the revised data in the 2006/07 budget, and how the province's budget data deviate from the more comprehensive statistics published by the Dominion Bond Rating Service; and
- a budget impact grade, which is an assessment of the 2006/07 budget itself.

We then average the three subgrades to derive an overall grade for each of the four Atlantic provinces, with a C+ representing an average grade across all ten provinces.

Collectively, the four provincial governments registered an overall C grade in 2006, which is unchanged from the C recorded in 2005. This grade is slightly below the ten-province average. The grade represents slightly improved results over last year for the fiscal health and budget impact subgrades, but slippage in terms of the fiscal accuracy subgrade.

The continued below-average C grade for the region as a whole masks changes among the four Atlantic provinces. Newfoundland and Labrador raised its mark from a revised D in 2005 to a C/C+ grade in 2006 and Prince Edward Island rose from a revised D+/C– to a C. New Brunswick maintained its C+ grade. Of concern, however, is Nova Scotia's grade, which fell from a C+ in 2005 to a rather low C– in 2006.

Looking at the three subgrades, we note that New Brunswick's fiscal health is at the national average of C+. In contrast, the other provinces' grades for fiscal health are sub-par, with Nova Scotia posting a mark of C and Prince Edward Island and Newfoundland and Labrador scoring very low marks of D/D+ and F/D–, respectively. Clearly, these three provinces — especially Newfoundland and Labrador — must undertake strict fiscal discipline in future budgets in order to ensure their long-term fiscal health.

On the fiscal accuracy, or transparency, of the 2005/06 budgets, Newfoundland and Labrador improved its mark over the previous year and registered the highest mark in the region, a B+. Nova

Scotia dropped from the prior year and scored the lowest mark with a D+. New Brunswick, which had recorded commendable marks in fiscal accuracy in 2004 and 2005, saw its mark fall to a sub-par C. In contrast, Prince Edward Island raised its fiscal transparency mark to a commendable B–. This worthy achievement comes despite the province's having a very small budgetmaking staff.

Finally, in evaluating the spring 2006/07 budgets, we award both New Brunswick and Newfoundland and Labrador — the two provinces that promise fiscal restraint over the 2006/07 fiscal year and project budget surpluses — commendable B grades. Prince Edward Island earns a B– mark for promising some fiscal restraint, albeit with a projected small deficit. Nova Scotia's budget impact mark, however, falls to a C–/C, based on increased spending and a continued small deficit forecast.

INTRODUCTION

This study is the third in an ongoing series from the Atlantic Institute for Market Studies (AIMS) evaluating the spring budgets of the four Atlantic provinces. In making our assessment, we proceed from the assumption that careful, well-planned, cautious budgetmaking has a positive impact on provincial economic growth. Lower taxes and prudently balanced budgets are key to strong provincial economic development. More important, avoiding debt and encouraging growth contribute to long-term solutions for the demographic challenges that will hit the Atlantic provinces harder and sooner than most other provinces. Accordingly, we believe that pointing out deficiencies in the provinces' finances can help the public, opinionmakers, and policymakers in their demands that the four provincial governments take prudent action to secure the region's economic future.

Our grading philosophy remains the same as that used in AIMS' previous report cards on the fiscal health of the Atlantic provinces: *Could Do Better: Grading Atlantic Canada's 2004/05 Provincial Finances* (Murrell 2005) and *Could Do Better 2: Grading Atlantic Canada's 2005/06 Provincial Finances* (Murrell and Winchester 2006).[1]

First, we grade each province's budget relative to the average of all ten provinces. To do so, however, we need to look beyond the merits of the budgets themselves. A budget is simply a statement of how the province intends to collect and spend revenue in the following year. To place these intentions in context, therefore, we must measure the state of a province's public finances before the budget is tabled and compare that state with the national average. For example, a province that cuts government spending might do so not out of a sense of frugality or fiscal conservatism but because it is attempting to deal with a high deficit and debt load. Thus, the context in which the province undertakes a spending cut must be taken into account. Accordingly, we assign a *fiscal health grade*, which is a measure of the state of the province's fiscal finances for fiscal year 2005/06, prior to the tabling of the spring 2006 budget; this component is worth 40 percent of the total grade.

Another complication is that, although a province might promise a spending cut in its budget, it might not deliver on that promise during the fiscal year. Alternatively, the province might forecast a balanced budget but end up with a deficit at the end of the fiscal year. Accordingly, to assess the government's fiscal accountability, we assign a *fiscal accuracy grade*, which we determine in two ways. First, we gauge the believability of the province's budget data using comparable statistics from the Dominion Bond Rating Service (DBRS), which we believe provide the best, most complete picture of a provincial government's fiscal status. We do this for per capita deficits and surpluses, as

1 For a detailed explanation of the grading scheme, see Murrell (2005, 7–11); here, we present only a brief summary of our approach.

Table 1: ***Definitions of the Fiscal Indicators Used to Compile the Three Grades***

Indicator	Definition
Indicator 1	2005/06 per capita debt interest paid
Indicator 2	2005/06 per capita deficit (or surplus)
Indicator 3	2005/06 per capita ordinary expenditures less debt interest
Indicator 4	Number of provincial employees per 1000 population in 2005
Indicator 5	Negative of the absolute value of the 2005/06 per capita deficit error (DBRS vs. budget documents)
Indicator 6	Negative of the absolute value of the 2005/06 per capita spending error (DBRS vs. budget documents)
Indicator 7	2005/06 deficit estimate error (2005/06 vs. 2006/07 estimates)
Indicator 8	2005/06 expenditure estimate error (2005/06 vs. 2006/07 estimates)
Indicator 9	Change in per capita deficit (or surplus) from 2005/06 to 2006/07 (from budget documents)
Indicator 10	Change in per capita debt interest from 2005/06 to 2006/07 (from budget documents)
Indicator 11	Change in per capita dollar expenditures from 2005/06 to 2006/07 (from budget documents)
Indicator 12	Qualitative estimate of tax rate and tax base changes announced in the 2006/07 budget documents

well as for per capita total spending. Second, we measure the forecasting error of the numbers in the fiscal year 2005/06 budget as determined by the revised data for 2005/06 contained in the 2006/07 budget. The fiscal accuracy grade is also worth 40 percent of the total grade.

Finally, we assign a *budget impact grade* for the fiscal year 2006/07 budget, based on the extent to which, in our judgment, it promotes the province's economic growth. We determine that grade according to whether the budget holds spending growth to a modest rate, reduces a deficit or maintains a surplus, and keeps provincial tax rates down. In particular, we look for a provincial government to cut the most pernicious taxes — such as those levied on capital, followed by those on business and corporations — as well as corporate payroll taxes and personal income taxes. This component is worth the final 20 percent of the final grade.

Each of the three subgrades is determined by four indicators — 12 in all (see Table 1). Indicators 1 to 11 are calculated using a statistical measure known as a "z-score," which permits data from all ten provinces to be graded relatively. Indicator 12, on the other hand, is based on a subjective estimate of tax changes offered in each province's budget, since no good correlation model has been developed to determine the effects of tax changes on economic growth (see Table 2).

Finally, the availability of revised and more up-to-date statistics from DBRS allowed us to recalculate the grades we assigned in last year's report card on provincial finances. We present these revised grades in Appendix Table A-4, which shows that Newfoundland and Labrador's and Prince Edward Island's grades have been revised downward, while the grades for Nova Scotia and New Brunswick have remained the same. Atlantic Canada's grade as a whole remains the same, at C. Accordingly, when discussing changes in grades from 2005/06 to 2006/07, we use the revised marks for 2005/06 as our point of reference.

Table 2: ***Announced Tax Changes by Province, fiscal year 2006/07 Budget***

	Business Taxes	Personal Income Taxes	Sales and Excise Taxes	Other Taxes and User Fees	Indicator 12 Grade	Reason for Grade
Newfoundland and Labrador			Tobacco taxes increased by 1 cent per cigarette		C	Net increase in taxes levied when nearly all the other provinces are reducing taxes
Prince Edward Island	Small business corporate tax rate reduced from 6.5% to 5.4%				B–	Continuing cuts in business taxes good, but some other provinces have done more
Nova Scotia	Large and small corporation taxes reduced				B–	Modest reduction in business taxes earns modestly higher-than-average mark
New Brunswick	Large and small corporation taxes reduced				B–	Modest reduction in business taxes earns modestly higher-than-average mark
Quebec	Small corporation tax rate reduced	Tax deductions for workers increased			B–	Modest reductions in corporate and personal incomes taxes
Ontario	Capital tax rates gradually being reduced				C	Only slight business tax reductions; phase-out of capital tax scheduled for 2012
Manitoba	Continued reductions in small business, manufacturing taxes	Continued reductions in middle personal income tax brackets			B–	Continuing effort to reduce broad-based taxes
Saskatchewan	Steep cuts to capital and large and small corporation taxes				A–	Commendable effort to cut broad-based business taxes
Alberta	Small cut in large corporation taxes				C	Minor tax cuts when other provinces are doing more
British Columbia					D+	No tax changes when all provinces except Newfoundland & Labrador are reducing taxes

Sources: DBRS 2006, 54.

The Recent Economic Background

Atlantic Canada's economy slowed noticeably between 2003 and 2005 after good growth in 2002 (see Table 3). But the regional economy is expected to pick up somewhat in 2006 and 2007, with projected real growth rates of gross domestic product (GDP) per capita of 3.0 percent and 2.7 percent for those years, respectively. This pattern differs from that of the Canadian economy as a whole, which has been expanding at a fairly steady rate of just above or below 2 percent since 2002 and is forecast to drop to 1.8 percent and 1.4 percent for 2006 and 2007, respectively. Note, however, that the superior growth forecasts for the Atlantic provinces in terms of GDP per capita are partly a function of slow population growth or population decline in the region; in terms of growth in GDP itself, Atlantic Canada will lag the country as a whole.

Much of the softness in the Atlantic Canadian economy in 2004 and 2005 can be explained by weakness in the economy (measured as GDP per capita) of Newfoundland and Labrador, which actually shrank by 0.3 percent in 2004, and then grew by only 1.2 percent the following year. This mild recession occurred as a result of a drop in oil production during these two years. As Table 3 shows, the three Maritime provinces also registered sub-par growth rates below 2 percent in 2005, with Prince Edward Island and New Brunswick reporting better 2004 rates at 2.9 and 2.7 percent, respectively, and Nova Scotia posting a weak 1.0 percent for that year.

The soaring price of energy through 2005 and into mid-2006 explains the sluggish performance of the three Maritime provinces, which, unlike Newfoundland and Labrador, are not benefiting from higher worldwide demand for energy. Increasing energy prices work through three negative channels. First, higher energy prices reduce consumers' real incomes. Second, higher prices raise the production costs of businesses, which reduces profits. And third, higher energy prices in Canada raise the Canadian dollar's exchange rate relative to other currencies — and a rising exchange rate reduces export volumes, particularly of non-energy-related items. Consider two key exports of the Maritime provinces, tourism and forestry products. Tourism spending has decreased noticeably in all three Maritime provinces since 2002, particularly as measured by road traffic from the New England states. Pulp and paper mills have been closing due to increased costs (and a structurally lower demand for newsprint products). Lumber output has been healthy over the past few years, but an end to the housing bubble may have a negative impact across the region. Per capita GDP forecasts for 2006 for the Maritime provinces range from a low of 1.8 percent in Prince Edward Island to a high of 2.6 percent in Nova Scotia.

Table 3: ***Estimated and Forecast Growth in Real GDP Per Capita, Atlantic Provinces and Canada, 2002–07***

	Newfoundland and Labrador	Prince Edward Island	Nova Scotia	New Brunswick	Atlantic Provinces	Canada
	(year-over-year percentage change in GDP per capita)					
2002	15.9	4.5	3.8	4.4	6.6	2.0
2003	6.5	0.8	1.0	2.2	2.6	0.8
2004	(0.3)	2.9	1.0	2.7	1.3	2.3
2005	1.2	1.9	1.8	0.6	1.3	1.9
2006	4.4	1.8	2.4	2.7	3.0	1.8
2007	3.4	1.8	2.6	2.4	2.7	1.4

Sources: *Statistics Canada Daily*; economic forecasts from BMO Nesbitt Burns.

Turning to Newfoundland and Labrador, when the data are in for 2006, it is forecast to have broken out of its two-year, slow-growth pattern and expanded by about 4.4 percent. A big part of the province’s turnaround can be attributed to the opening last year of the White Rose offshore oil field.

In 2007 the entire region is expected to register real GDP per capita growth of 2.7 percent, with Newfoundland and Labrador leading the way at 3.4 percent. Nova Scotia and New Brunswick will follow with rates of 2.6 and 2.4 percent, respectively. Prince Edward Island is forecast to lag, at 1.8 percent.

Trends in Provincial Government Revenues

Growth in per capita provincial government revenues for the Atlantic region is expected to decelerate noticeably from 12.3 percent in fiscal year 2005/06 to 2.7 percent in 2006/07, with important implications for provincial budgets (see Table 4). Scarcer revenue dollars will mean that all four provinces will have to spend those dollars carefully in order to balance their budgets. Moreover, long-range spending commitments will have to be set against the reality of diminished forecasts. What was promised in the 2006 budget cycle may well limit the room for promises in this year’s budgets. In particular, Newfoundland and Labrador, which saw a huge increase (33.1 percent) in per capita revenues in 2005/06, will face a much more modest increase (2.1 percent) in per capita revenues in 2006/07. The three Maritime provinces all are expected to experience smaller increases for 2006/07 than 2005/06, with the 2006/07 figures ranging from a low of 0.4 percent for New Brunswick to a high of 5.2 percent in Nova Scotia.

All four provinces experienced strong growth in own-source revenues per capita in 2005/06. In 2006/07, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island all are expected to experience lower growth rates than the prior year — although Newfoundland and Labrador and Nova Scotia are still expected to post significant 2006/07 increases of 7.2 and 6.0 percent, respectively, ahead of Prince Edward Island’s meagre 0.5 percent — while New Brunswick actually will see

Table 4: ***Growth Rates in Components of Provincial Government Revenue Per Capita, Atlantic Provinces and Canada, fiscal years 2003/04 to 2006/07***

Component	Newfoundland and Labrador	Prince Edward Island	Nova Scotia	New Brunswick	Atlantic Provinces	Canada
			(year-over-year percentage change)			
Own-source revenue						
2003/04	8.3	2.8	9.4	7.1	8.0	2.8
2004/05	11.1	5.9	5.1	2.7	5.8	9.8
2005/06	16.9	6.4	7.5	7.0	9.6	8.6
2006/07	7.2	0.5	6.0	(1.8)	3.6	(2.0)
Transfers						
2003/04	(1.9)	14.3	5.9	(1.9)	1.6	7.3
2004/05	(6.0)	11.0	14.9	22.9	11.8	14.5
2005/06	24.3	1.2	6.3	1.0	8.0	5.7
2006/07	(9.0)	5.5	3.7	3.7	0.7	2.4
Total revenue						
2003/04	5.2	7.1	8.2	3.7	5.9	3.5
2004/05	6.4	7.8	8.4	10.0	8.4	10.6
2005/06	33.1	4.3	7.1	4.6	12.3	8.3
2006/07	2.1	2.5	5.2	0.4	2.7	(1.2)

Sources: Dominion Bond Rating Service; Statistics Canada.

a decline of 1.8 percent. As a whole, the Atlantic region drops from an increase in own-source revenue per capita of 9.6 percent in 2005/06 down to 3.6 percent in 2006/07.

With regard to federal transfers per capita, Newfoundland and Labrador posted a large increase of 24.3 percent in 2005/06 followed by a significant expected decrease of 9 percent in 2006/07. Prince Edward Island and New Brunswick parallel each other with small increases in 2005/06 (1.2 and 1.0 percent, respectively) followed by larger increases the next year (5.5 and 3.7 percent). Nova Scotia goes in the opposite direction with an increase of 6.3 percent in 2005/06 followed by a more modest increase of 3.7 percent the next year. Across the Atlantic region, growth in per capita federal transfers drops from 8 percent in 2005/05 to 0.7 percent in 2006/07. Some observers might see this as a cue to put more pressure on Ottawa to increase transfers, but pro-growth economic strategies call for fiscal restraint at home to begin with.

Trends in Provincial Government Expenditures

As Table 5 shows, the growth rate of total provincial government expenditures per capita in Atlantic Canada has bounced up and down from 7 percent in fiscal year 2003/04 to an expected 4.3 percent in 2006/07. The decrease between 2005/06 and 2006/07 is a positive step, but the growth rate of

Table 5: ***Growth Rates in Components of Provincial Government Expenditures Per Capita, Atlantic Provinces and Canada, fiscal years 2003/04 to 2006/07***

Component	Newfoundland and Labrador	Prince Edward Island	Nova Scotia	New Brunswick	Atlantic Provinces	Canada
			(year-over-year percentage change)			
Health						
2003/04	8.4	5.3	9.2	11.6	9.7	7.5
2004/05	2.5	10.8	10.2	2.7	5.4	6.3
2005/06	6.0	2.3	10.2	6.1	7.5	5.2
2006/07	10.0	3.7	5.7	6.2	6.7	4.6
Interest						
2003/04	7.8	5.6	0.8	(14.0)	0.6	(3.1)
2004/05	(2.8)	(0.4)	3.8	(0.4)	0.3	2.8
2005/06	12.3	12.1	(1.8)	2.6	4.7	(2.2)
2006/07	(17.2)	0.8	0.6	(6.0)	(7.6)	2.0
Residual						
2003/04	8.5	13.0	11.0	(0.2)	6.8	2.5
2004/05	(8.7)	(5.7)	3.2	8.9	0.7	5.9
2005/06	26.7	5.0	8.5	7.8	12.9	8.2
2006/07	7.5	3.4	9.0	(0.1)	5.3	1.3
Total						
2003/04	8.3	10.1	8.8	3.2	7.0	3.7
2004/05	(4.7)	(3.3)	5.9	5.7	2.3	5.7
2005/06	18.2	4.8	7.8	6.8	9.9	6.1
2006/07	4.1	3.3	6.6	2.1	4.3	2.6

Sources: Dominion Bond Rating Service; Statistics Canada.

spending exceeds the growth rate of anticipated total revenues, a worrying trend with implications for the recurrence of budget deficits, and particularly in light of Atlantic Canada's aging population and the lack of growth in the numbers of its workers and taxpayers. Such concerns serve to underscore the importance of finding efficiencies in government.

Government spending increases in fiscal years 2005/06 and 2006/07 vary considerably among the four provinces. Spending is increasing faster in Nova Scotia and Newfoundland and Labrador, both energy producers with special equalization accords, than in energy-poor New Brunswick and Prince Edward Island. Both Nova Scotia and Newfoundland and Labrador have attempted to be prudent in allocating one-time funds to deficit and debt elimination, but revving up spending is unwise given the region's recent fluctuations in economic growth. The difference in spending growth among the provinces also has implications for how we grade their budgets, as we explain later in this paper.

The major spending components continue to exhibit patterns similar to those we observed in previous report cards. Growth in health spending continues at a fast pace in all the Atlantic provinces except

Prince Edward Island, spurred by agreements among the First Ministers for more federal funds and by the health needs of Atlantic Canada's aging population. Indeed, the cost of health care is consuming an ever-increasing share of overall government spending, outpacing growth in revenues and the growing need to fund other priorities, with serious implications for the region's overall fiscal health.

One bright spot is interest payments to service Atlantic Canada's provincial government debts, which are forecast to decline in fiscal year 2006/07, mainly thanks to expected decreases in New Brunswick and Newfoundland and Labrador. The decline in Newfoundland and Labrador's interest payments, as stated in its 2006/07 budget, seems particularly steep given the province's modest expected total revenue growth and continued high rate of program spending.

When it comes to "residual" spending — that is, total spending minus health and interest payments on the debt — New Brunswick and Prince Edward Island are expected to show some frugality. Indeed, residual spending in New Brunswick is actually anticipated to decrease slightly. In the other two provinces, however, residual spending is expected to grow significantly.

PRESENTING THE GRADES

In grading the fiscal year 2006/07 spring budgets of the four Atlantic provinces, we assign the region a collective C, signifying no improvement over the C we awarded last year and slightly lower than the C+ that is considered average for all ten provinces in our relative grading scheme (see Table 6). This is not good news for a region still struggling to keep up with the rest of the country in economic growth.

As Table 7 shows, Atlantic Canada as a whole earns a C–/C for its fiscal health grade, with difficulties apparent in all provinces except New Brunswick, which earns a national average mark of C+. As for its fiscal accuracy grade, we give the region as a whole a slightly better C/C+ mark. Both Newfoundland and Labrador and Prince Edward Island improved over last year's marks, earning grades of B+ and B–, respectively. New Brunswick slipped from last year's transparency mark, earning a slightly below average C grade. Nova Scotia's fiscal accuracy mark, however, comes in as a D+, clearly below the national average and a decline in the grades it earned in our first two report cards. As for the budget impact grades, assigned for the 2006/07 budgets themselves, Newfoundland and Labrador and New Brunswick earn B grades for their solid budgets, while Prince Edward Island also posts an above-average mark of B–. Nova Scotia's spendthrifty budget, however, earns it a low C–/C.

As for overall grades, New Brunswick leads the way with a C+, the same mark it earned in our 2005 report card. Newfoundland and Labrador and Prince Edward Island come in second and third with

Table 6: ***The Grading Scheme***

Grade	Z-Score Interval	Grade Interpretation
A+	1.11 and above	outstanding
A	0.91 to 1.1	excellent
A–	0.71 to 0.9	excellent to very good
B+	0.51 to 0.7	very good
B	0.31 to 0.5	good
B–	0.11 to 0.3	slightly above average
C+	–0.1 to 0.1	average
C	–0.11 to –0.3	slightly below average
C–	–0.31 to –0.5	mediocre
D+	–0.51 to –0.7	mediocre to poor
D	–0.71 to –0.9	poor
D–	–0.91 to –1.1	very poor
F	–1.11 and below	failure

grades of C/C+ and C, respectively; these are improvements for both provinces. Nova Scotia's mark declined, however, from a C+ a year earlier to a below-average C– in 2006.

We note that, unlike last year, the two offshore energy revenue accords that Newfoundland and Labrador and Nova Scotia signed with Ottawa (the Atlantic Accord and the Offshore Offset Agreement, respectively) may have led to differing effects on the two provinces' grades. Newfoundland and Labrador's fiscal health grade is F/D–, while Nova Scotia records a C. Having an offshore agreement did appear to benefit Newfoundland and Labrador, but not Nova Scotia. And looking at the two provinces without offshore energy production — and thus without lucrative offshore deals with the federal government — New Brunswick registers higher marks than Prince Edward Island for fiscal health and budget impact, but a lower mark for fiscal accuracy.

We now discuss the results of the four provinces in turn.

Newfoundland and Labrador

Overall Grade: C/C+

Newfoundland and Labrador's overall 2006 grade of C/C+ represents a noteworthy improvement on its revised 2005 grade of D. With additional federal transfers flowing to the province as a result of the signing of the Atlantic Accord 2005 and the opening of the White Rose oil field, the provincial government expects increased energy-related revenues in fiscal year 2006/07 and beyond. This optimism could allow the province to maintain its respectable mark in the future if it is disciplined and fiscally prudent.

The province receives good B+ and B marks, respectively, for budget accountability and a solid 2006/07 budget, largely thanks to energy revenues. But these grades stand in stark contrast is its fiscal health grade of F/D–, a continuation of the poor marks it received in this area in our previous two budget-review exercises. Clearly, despite an improved 2006/07 budget and the optimism engendered by offshore energy revenues, the provincial government needs to table even better budgets in the future in order to improve its long-term fiscal position, particularly with respect to debt per capita, interest payments on the debt, and government spending per person.

Fiscal Health Grade: F/D–

In his 2006 budget speech, Finance Minister Loyola Sullivan stressed that the recent signing of the Atlantic Accord would put the province "on the right track; we are more confident today than we have ever been; and we are sensing the momentum of progress as our destination comes more clearly into focus with each passing day" (Newfoundland and Labrador 2006, 1).

Table 7: ***Grades for Provincial Government Finances and Budgets, fiscal year 2006/07***

	Fiscal Health Grade	Fiscal Accuracy Grade	Budget Impact Grade	Overall Grade
Atlantic Canada	C–/C	C/C+	C+/B–	C
Newfoundland and Labrador	F/D–	B+	B/B+	C/C+
Prince Edward Island	D/D+	B–	B–	C
Nova Scotia	C	D+	C–/C	C–
New Brunswick	C+	C	B	C+
Quebec	C+	C–	C+	C
Ontario	B+	B–	B–	B
Manitoba	C+	B–	B–	C+/B–
Saskatchewan	C	C	B+	C+
Alberta	A/A+	C+	D–/D	B–
British Columbia	B–/B	B–	C–/C	B–

It is true that the province has succeeded in eliminating its high annual budget deficits. Indeed, in fiscal year 2005/06, it even recorded a budget surplus equivalent to $263 per capita — a sharp turnaround from the $2321 per person deficit registered in the previous fiscal year. Moreover, this per capita surplus is the highest of the eight easternmost provinces and is slightly above the national average of $236 per capita (driven largely by the strong fiscal performance of the four western provinces, particularly Alberta). Consequently, the province's surplus, while commendable, earns it only a C+ for this indicator (see Table A-1). But even with a welcome turnaround in its longstanding provincial deficit, Newfoundland and Labrador still faces high interest payments to service its debt: $1722 per capita in 2005/06, an amount considerably higher than the $668 ten-province average. So, for this indicator, the province receives a failing grade of F (again, see Table A-1).

Given its recent budget surplus, with more on the horizon, the province now has an opportunity to begin to pay down its debt over the medium term, a move that would substantially improve its grades in these areas.

Although Newfoundland and Labrador plans to cut residual spending, it still spends almost $1700 per capita more on government than do the other three provinces in the region. Total ordinary spending per capita hovers at slightly less than $8300, which is considerably higher than the ten-province average of $6125. (Given a cost of living that is significantly lower than that of Canada as a whole, the cost of the province's government seems even more problematic.) The provincial government employs 96 workers per 1000 population, compared with the ten-province average of 81. Together, these per capita debt and spending indicators keep the province's fiscal health grade at a cellar-dwelling F/D–, the lowest of the ten provinces.

Fiscal Accuracy Grade: B+

In its fiscal year 2005/06 budget, unlike in the previous two budgets, Newfoundland and Labrador improved considerably in reconciling its budget numbers with those of DBRS. The province's underestimate of its reported surplus — by about $114 per person — represents a clear improvement on estimates in the two previous budgets. But it fared worse in estimating its ordinary expenditures, underestimating its mark by nearly $440 per person — worse than the ten-province average margin-of-forecast error. Its budget forecasting was outstanding, underestimating the 2005/06 surplus by more than $1100 per capita, which awards the province good marks in our grading model. Even more commendably, its revised per capita spending number came in under 2005/06 projections — again, a welcome development. Those outcomes earn Newfoundland and Labrador an A+ for both Indicators 7 and 8 (see Table A-2).

Budget Impact Grade: B

Under the beneficial Atlantic Accord 2005 that Newfoundland and Labrador negotiated with the federal government, the province keeps 100 percent of royalties it earns from offshore oil without having its level of equalization payments reduced. One would expect to see increased revenues resulting from the Accord to lead to increased surpluses (or reduced deficits) — but, in fact, the province's surplus declined from fiscal year 2005/06 to fiscal year 2006/07 by just under $140 per capita, in contrast to the $1062 per capita increase recorded over the prior two fiscal years. Still, the 2006/07 budget was in surplus, and this allowed the province to reduce per capita interest payments on the debt by a rather large $304 from 2005/06 to 2006/07. However, the province increased its total spending by over $370 per capita, considerably higher than the ten-province average of $230. One other complaint we would have about the 2006/07 budget is that no provincial taxes were reduced and one (on tobacco products) was increased. Given the province's increased revenues, some tax cuts might have been justified. (See Table A-3 for grades on budget impact indicators.)

The new Atlantic Accord allows Newfoundland and Labrador to record budgetary surpluses, a noteworthy and welcome development for the province. Although its fiscal state is still poor, the province has taken a deliberate step to put its fiscal house in order by recording a surplus, albeit one whose size is mainly a result of increased federal transfers, rather than tight spending discipline. For that progress, Newfoundland and Labrador's overall grade is C/C+, a strong improvement over our revised D mark in the previous year.

Prince Edward Island

Overall Grade: C

Last year, Prince Edward Island registered a revised overall grade of D+/C–. This year, the province earns an improved C. Its fiscal health grade is still a poor D/D+, but its fiscal accuracy and budget impact marks both come in at a respectable B–. The latter grades are both improvements on what it earned last year.

In his 2006/07 budget speech, Provincial Treasurer Mitch Murphy stated, "I am pleased...to stand before you to say that we have, for the past two years, met or exceeded our budget expectations" (Prince Edward Island 2006, 2). The budget was, in fact, a continuation of the province's Program Renewal Effort, first announced in 2004/05. This approach is taking the province in the right direction, as our analysis confirms. In our first report card, we awarded PEI an overall grade of D+. Last year the province earned a revised C–, and this year the grade has improved again, to C. We commend the provincial government for this steady progress.

Fiscal Health Grade: D/D+

While the province has improved its fiscal accuracy and budget impact marks, its fiscal health grade of D/D+ is poor (see Table A-1). The province's DBRS-adjusted deficit of $58 per capita is still high — this at a time when most provinces report surpluses. The province's interest charges on its debt come in at about $725 per capita, slightly above the national average, earning the province a C+ for Indicator 1.

The province earns a below-average C– for the $7091 per capita it spent (Indicator 3), but its very high number of provincial government employees per 1000 population (Indicator 4) gives it a failing F on this measure. In his budget address, however, the provincial treasurer stated that PEI had reduced government size by 500 full-time-equivalent jobs (Prince Edward Island 2006, 6), which bodes well for next year's grading exercise.

Fiscal Accuracy Grade: B–

As we emphasized in our previous two reports, despite the small size of Prince Edward Island's Treasury staff, the province gets good grades for fiscal accuracy — this year earning a commendable B– (see Table A-2). PEI's deficit and expenditure data also compare well with comparable DBRS statistics, for which it earns B+ marks for Indicators 5 and 6. These are the best marks of the Atlantic provinces in these categories.

The province's record on its fiscal year 2005/06 budget forecasts, however, is mixed. It undershot its deficit forecast by only $29 per capita, but since other provinces such as Alberta, Saskatchewan, and Newfoundland and Labrador posted extremely strong marks for this item, PEI registers a low D+ for Indicator 7.[2] As for the accuracy of its planned 2005/06 expenditures, the province revised its spending upward by about $11.5 million (or $83 a person), but this is a small error in relation to those in other provincial budgets, and earns PEI a B– for Indicator 8.

Budget Impact Grade: B–

In its 2006/07 budget, PEI provided $27 million for what the provincial treasurer called "new initiatives." These measures, plus other spending increases within continuing programs, translate into an increase of about $40 million (or 2.6 percent) in total expenditures. This is good budgeting relative to the performance of other provinces, and earns PEI a B– for Indicator 11. On the tax side, the province is reducing its small business rate on corporations from 6.5 percent to 1 percent over five years, an initiative for which it earns a B– for Indicator 12 (see Table A-3).

The province's numbers on the deficit and debt-interest payments are mixed. On the positive side, its consolidated deficit is forecast to decline from $18 million in fiscal year 2005/06 to $12 million in 2006/07. Given that the other provinces are posting declining surpluses (or rising deficits), PEI's improved showing earns it an A– for Indicator 9. On the negative side, interest charges on the debt are projected to rise from $113 million in 2005/06 to more than $118 million in 2006/07, for which we award the provincial government a lowly D+ for Indicator 10.

To summarize, Prince Edward Island earns some positive marks for limiting expenditure growth, reducing the small business tax, and reducing its deficit. It also does remarkably well on fiscal accountability. But, unlike most other provinces, the Island government still posts budget deficits and spends increasing amounts on servicing its debt. These last two problems must be addressed for the province to improve on its overall C grade.

Nova Scotia

Overall Grade: C–

Nova Scotia earns an overall grade of C– in this year's report card, down considerably from the revised C+ it earned last year. Its fiscal health grade is slightly below average at a C and is the second highest among the four Atlantic provinces, but its grades for fiscal accuracy and budget impact are the lowest in the region. In particular, Nova Scotia continues to spend at too high a rate, and its interest payments on the debt continue to rise.

2 On January 31, 2007, Provincial Treasurer Mitch Murphy announced that the province would post a surplus of $678,000 for fiscal year 2005/06, rather than a deficit of $22 million, as had been forecast originally.

Fiscal Health Grade: C

Nova Scotia's fiscal health rates a C, slightly below the ten-province average of C+, but the second highest of the four Atlantic provinces (see Table A-1). It does well for one indicator of the size of government: government spending. Expenditures per person amounted to $6317, the lowest in the Atlantic region, which earns it a B+ for Indicator 3. Nova Scotia's ratio of 97 government employees per 1000 population, though, is considerably above the ten-province average, earning it only a C–/C for Indicator 4.

Nova Scotia is still having difficulties with its deficit and debt and it earns only a C– for its poor performance on Indicator 2. DBRS also reports that Nova Scotia paid $872.9 million in debt-servicing costs — in per capita terms, only Quebec and Newfoundland and Labrador were higher. According to DBRS data, in 2005/06 Nova Scotia owed $11.6 billion, or $12,344 per Nova Scotian. Clearly, the province still has a considerable debt problem on its hands.

Fiscal Accuracy Grade: D+

Nova Scotia's grade of D+ for fiscal accuracy is the worst of the ten provinces. The accuracy mark was pulled down by differences with DBRS numbers, along with some errors in forecasting. The province did not fare too badly in measuring its deficit (Indicator 5), earning it a C. It underestimated true spending per capita (Indicator 6) by $605, an amount considerably higher than the ten-province average, for which it earns an F (see Table A-2).

As for indicators of the accuracy of Nova Scotia's fiscal year 2005/06 budget forecasts compared with the revised figures in its 2006/07 budget, the huge upward revisions of surpluses in oil-rich Alberta and Newfoundland and Labrador dwarf the results for the other eight provinces, including Nova Scotia, who earns a low relative grade of D+/C– for Indicator 7. It scores better on its spending forecast, however, having had to revise its 2005/06 number only from $6418.1 million to $6498.8 million, which earns it a B– relative to the ten-province average for Indicator 8.[3]

Budget Impact Grade: C–/C

As we emphasized last year, Nova Scotia now has a good opportunity through its Offshore Offset Agreement with Ottawa to make solid reductions in its long-term debt and debt-interest problem.

3 As researchers faced with the task of making interprovincial budget comparisons, we should say a word about the manner in which Nova Scotia presents its budget numbers. For example, its "Budget Summary" — the income statement that ostensibly summarizes the state of the province's finances — is buried well inside a document called *Nova Scotia Budget: Assumptions and Schedules for the fiscal year 2006-2007* (Nova Scotia 2006). All the other nine provinces include a summary table with the budget speech itself, for ease of reference. Moreover, Nova Scotia's budget summary includes data on ordinary expenditures, revenues, and surpluses, but not on capital spending, as do the other provinces in their yearly budget speeches. These drawbacks make it more difficult than necessary to compile the relevant income statement statistics from Nova Scotia's budget information.

But although the province has made modest gains, they pale in comparison to the much stronger advances made by Newfoundland and Labrador, which is also benefiting from an offshore accord. Essentially, in contrast to Newfoundland and Labrador, Nova Scotia is just marking time.

In some respects, Nova Scotia earns good marks. Given the very large decreases in surpluses that some other provinces are experiencing from 2005/06 to 2006/07, Nova Scotia earns a commendable B for Indicator 9 (see Table A-3). In its 2006/07 budget the province did lower taxes in a number of areas. It raised its small business threshold to $500,000, effectively lowering its small business corporate income tax rate, it lowered its capital tax rate on large corporations, and it also gave households a rebate on the harmonized sales tax paid on home heating and basic electricity. (With regard to this last item, we support tax reductions in general; however, this type of rebate is inferior to many alternative tax reductions that could have been implemented. The rebate on the harmonized sales tax paid on home heating and basic electricity is distortionary and reduces the incentives to conserve energy.) Because of these measures, the province earns a B– for Indicator 12.

Nova Scotia is, however, forecasting a small increase in per capita interest payments in fiscal year 2006/07, so it earns only a modest C for Indicator 10. Furthermore, total spending rose from $6.5 billion in 2005/06 to $6.9 billion in 2006/07, a 6.3 percent increase that one could describe as spendthrifty, earning the province a well-deserved F for Indicator 11.

To summarize, Nova Scotia, like Newfoundland and Labrador, has benefited from its offshore agreement with the federal government. And like Newfoundland and Labrador, Nova Scotia went into its spring budget suffering from a high per capita provincial debt load. Unlike Newfoundland and Labrador, however, Nova Scotia continues to increase government spending too quickly — a worrying tend if it were to continue.

New Brunswick

Overall Grade: C+

New Brunswick's overall grade of C+ is the highest among the four Atlantic provinces, and the state of its fiscal health before the tabling of the 2006/07 budget is also a C+, again the highest in the region. Unlike the previous two years, New Brunswick's fiscal accuracy is sub-par, coming in at a C. The province's budget impact grade has improved to an above-average B, the highest mark it has posted in the three years of our grading exercise.

Fiscal Health Grade: C+

Jeannot Volpé, then New Brunswick's minister of finance, in presenting his 2006/07 budget, stated that it "continued the government's dedication to prudent fiscal discipline" (New Brunswick 2006, 8).

Indeed, we give high marks for the budget itself (see our remarks below). For the state of the province's fiscal health before the budget was tabled, we award an average C+ (see Table A-1). This mark is a distinct improvement over the C– mark we awarded last year.

New Brunswick posted a budget surplus of $17 per capita in fiscal year 2005/06, according to DBRS, a decline from the $175 per capita surplus the province recorded the previous year. As for interest payments on the provincial debt (Indicator 1), the amount of $490 per person in 2005/06 was the lowest of any Atlantic Canadian province and the fourth lowest of the ten provinces. Low interest payments reflect the New Brunswick government's long-standing commitment to balanced or surplus budgets, as well as its strong fiscal foundation. These statistics garnered New Brunswick marks of B and C– for Indicators 1 and 2, respectively.

In the past two report cards, we stressed the challenges posed by the relatively large size of New Brunswick's government. Again in 2005/06, spending per capita, at $6922, was slightly higher than the national average, while the province's employment of 88 workers per 1000 population was near the ten-province average. These results earn the province grades of C and B–/B for Indicators 3 and 4, respectively.

Fiscal Accuracy Grade: C

As we noted in our two previous report cards, New Brunswick does credible work when it comes to fiscal transparency, particularly considering the relatively small size of its staff of number crunchers. Indeed, as we have remarked in the past, its Department of Finance publishes budget estimates that are the clearest and easiest to comprehend of those of any of the ten provinces. But having said that, the province's 2006 fiscal accuracy grade slipped to a C from a B– recorded a year earlier.

The provincial government's 2005/06 estimate of its surplus differed by $138 per person from the corresponding DBRS estimate, which earns it a B– for Indicator 5 (see Table A-2). Total spending per capita (Indicator 6) differed by nearly $340 from the DBRS estimate, for which we award a C–. The result for Indicator 7 also is sub-par. Like many provinces, New Brunswick forecast its 2005/06 surplus quite closely, underestimating by just $24 per capita, but the unexpectedly high surpluses recorded by Alberta and Newfoundland and Labrador make New Brunswick's performance look relatively anemic, and we award only a D+ for Indicator 7. Its expenditure forecast underestimated the actual amount by $175 per capita, a relatively poor performance that earns the province a C for Indicator 8.

Budget Impact Grade: B

Former finance minister Volpé's characterization of the fiscal year 2006/07 budget as one of continuing "prudent discipline" is supported by much of the data in the budget documents. On the positive side of the ledger, New Brunswick has forecast another decline (of about $20 million) in the amount of interest it will pay on its debt. Equally commendably, the former government increased total expenditures at a prudent rate of only 1.7 percent. As for tax changes, the 2006/07 budget promised to reduce the tax rate on large corporations by 1 percent and the rate on small corporations down to 1.5 percent; it also raised the small business threshold to $500,000. (Note that this report card focuses on the 2006/07 budget introduced in the spring of 2006. The recently unveiled 2007/08 budget which rescinds these tax reductions is not reflected in this report card. These tax increases likely will cause New Brunswick's grades to suffer in next year's report card.) For these achievements, the province earns an A– and a B– for Indicators 11 and 12. New Brunswick's surplus is expected to decline from $116.8 million in 2006/06 to about $22 million in 2006/07, which earns the province a B– for Indicator 9.

SUMMARY AND CONCLUSIONS

The signing of energy royalty accords with the federal government does not necessarily translate into better fiscal grades for either Nova Scotia or Newfoundland and Labrador. Of much more importance is how a province uses the money in a fiscal mix — for instance, to what extent does it cut taxes, deficits, and the debt, or increase expenditures? Newfoundland and Labrador, for the coming year, has chosen to rein in spending, build up its fiscal surplus, and cut its large debt. Moreover, it has made clear improvements in its fiscal accuracy and budget impact marks. Together, these moves earn it a higher grade than it received last year.

In Nova Scotia, in contrast, expenditures continue to grow at a worrisome rate, while its budget balance is still in the red. Combined with its low mark for fiscal accuracy and a modest decline in its 2006/07 budget mark, this performance leaves Nova Scotia with a lower overall grade than we awarded last year.

At the same time, energy-poor New Brunswick and Prince Edward Island — neither of which has the benefit of an accord with Ottawa — managed to improve their grades this year, with New Brunswick's being higher across the board than PEI's. Both provinces achieved good results on fiscal accuracy and improved their spring budget marks. We encourage both provinces to keep to meeting their budget targets.

Finally, we should stress the importance of measures of provincial fiscal health — debt, debt servicing, and government size — where backsliding can have serious consequences later on. On this vital evaluation, Atlantic Canada posts a rather mediocre collective grade of C–/C, and only New Brunswick manages an average C+. Clearly, therefore, all four Atlantic provinces should design prudent fiscal targets and tax policies, as well as set spending and deficit goals, to improve their fiscal health.

REFERENCES

DBRS (Dominion Bond Rating Service). 2006. *The 2006 Canadian Federal and Provincial Governments Overview: Hitting a Peak?* Toronto.

Murrell, David. 2005. *Could Do Better: Grading Atlantic Canada's 2004/05 Provincial Finances*. Halifax: Atlantic Institute for Market Studies.

Murrell, David, and Bruce Winchester. 2006. *Could Do Better 2: Grading Atlantic Canada's 2005/06 Provincial Finances.* Halifax: Atlantic Institute for Market Studies.

New Brunswick. 2006. *Budget 2006-2007: New Investments for People*. Presented by the Hon. Jeannot Volpé. Fredericton. March 28.

Newfoundland and Labrador. 2006. *The Right Choices: Momentum for Growth and Prosperity*. Budget speech presented by the Hon. Loyola Sullivan. St. John's. March 30.

Nova Scotia. 2006. *Nova Scotia Budget: Assumptions and Schedules for the fiscal year 2006-2007*. Halifax.

Prince Edward Island. 2006. *On Course. On Target.* Budget address presented by the Hon. Mitch Murphy. Charlottetown. March 30.

APPENDIX TABLES

Table A-1: ***Scores for Indicator Components of Fiscal Health Grade***

	Indicator 1	Indicator 2	Indicator 3	Indicator 4	Grade
Atlantic Canada	D+	C–/C	C	C	C–/C
Newfoundland and Labrador	F	C+	F	C	F/D–
Prince Edward Island	C+	C–	C–	F	D/D+
Nova Scotia	C–	C–	B+	C	C
New Brunswick	B	C–	C	B–/B	C+
Quebec	D–	D/D+	A	A–	C+
Ontario	C+/B–	D+/C–	A+	A+	B+
Manitoba	A–	C	B–	D	C+
Saskatchewan	B–/B	C	C/C+	D	C
Alberta	A+	A+	D+	A	A/A+
British Columbia	B+	C+	C+	A–	B–/B

Table A-2: ***Scores for Indicator Components of Fiscal Accuracy Grade***

	Indicator 5	Indicator 6	Indicator 7	Indicator 8	Grade
Atlantic Canada	C+	D–	C	B	C/C+
Newfoundland and Labrador	B	D–	A+	A+	B+
Prince Edward Island	B+	B+	D+	B–	B–
Nova Scotia	C	F	D+	B–	D+
New Brunswick	B–	C–	D+	C	C
Quebec	D+	D+	D+	B+	C–
Ontario	A–	A–	C–	C+	B–
Manitoba	A–	A–	D+	C–	B–
Saskatchewan	B–	B	B–	F	C
Alberta	F	A+	A+	F	C+
British Columbia	B+	B–	C	B	B–

Table A-3: ***Scores for Indicator Components of Budget Impact Grade***

	Indicator 9	Indicator 10	Indicator 11	Indicator 12	Grade
Atlantic Canada	B	B+	D+	C+/B–	C+/B–
Newfoundland and Labrador	B–	A+	D–	C	B/B+
Prince Edward Island	A–	D+	B–	B–	B–
Nova Scotia	B	C	F	B–	C–/C
New Brunswick	B–	C+	A–	B–	B
Quebec	B+	D+	C–	B–	C+
Ontario	B	C–	A–	C	B–
Manitoba	B	C	C+	B	B–
Saskatchewan	C–	C	A+	A–	B+
Alberta	F	C	D+	C	D–/D
British Columbia	C+	C–	C	C–	C–/C

Table A-4: ***Change to Total Grades, fiscal years 2005/06 to 2006/07***

	Total Grade 2005/06	Revised Total Grade, 2005/06	Total Grade 2006/07	Direction of Change
Atlantic Canada	C	C	C	no change
Newfoundland and Labrador	D+/C–	D	C/C+	strong increase
Prince Edward Island	C	C–	C	increase
Nova Scotia	C+	C+	C–	decrease
New Brunswick	C+	C+	C+	no change
Quebec	C	C+	C	decrease
Ontario	B–/B	B	B	no change
Manitoba	C+	B–	C+/B–	slight decrease
Saskatchewan	C+	C+/B–	C+	slight increase
Alberta	B–	B	B–	decrease
British Columbia	B–	B–	B–	no change

Selected Publications from the AIMS Library

Publications on Provincial Finances

Could Do Better2: Grading Atlantic Canada's 2005/06 Provincial Finances, by David Murrell and Bruce Winchester

Could Do Better: Grading Atlantic Canada's 2004/05 Provincial Finances, by David Murrell

Rags to Riches: How "The Regions" Can and Should Be Leading Canada's Productivity Push, by Brian Lee Crowley

Debtors' Prison II: Shortening the Sentence, by Roland T. Martin

Debtors' Prison: Public Sector Debt and What It Means to You, by Tom Riley

Books

Retreat from Growth: Atlantic Canada and the Negative-Sum Economy, by Fred McMahon

Road to Growth: How Lagging Economies Become Prosperous, by Fred McMahon

Looking the Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada, by Fred McMahon (photocopies only)

Commentary Series

Alice in Borderland: Why Canadians Cannot Afford to Be Complacent about US Drug Re-importation, by Brian Ferguson

Locking Up the Pork Barrel: Reasoned Economic Development Takes a Back Seat to Politics at ACOA, by Brian Lee Crowley and Bruce Winchester

Following the Money Trail: Figuring Out Just How Large Subsidies to Business Are in Atlantic Canada, by David Murrell

First, Do No Harm: What Role for ACOA in Atlantic Canada? by Brian Lee Crowley

Jobs! Jobs! Jobs! The Numbers Game, ACOA Watch 1

Research Reports

Shipping Out: the Development of a Gateway Hub at the Port of Halifax, by James Frost

It Is FARMING, not Fishing: Why Bureaucrats and Environmentalists Miss the Point of Canadian Aquaculture, by Robin Neill

AIMS' Fourth Annual Report Card on Atlantic Canadian High Schools, by Rick Audas and Charles Cirtwill, with Lisa Savoie

Casting a Cold Eye on LNG: The Real Possibilities and Pitfalls for Atlantic Canada, by Angela Tu Weissenberger

Characteristics of Tomorrow's Successful Port, by Michael Ircha

From Public U to Private U: An Atlantic Canadian Opportunity, by Kelvin Ogilvie

Fencing the Fishery: A Primer on Ending the Race for Fish (Canadian edition), by Donald R. Leal; adapted for Canadian readers by Peter Fenwick and Laura Jones

A Finger on the Pulse:Comparative Models for Reporting the Quality of Health Care, by Julia Witt

Contestability: The Uncontested Champion of High-Performance Government, by Andrea Mrozek and Don McIver

Doing Business with the Devil: Land, Sovereignty, and Corporate Partnerships in Membertou Inc., by Jacquelyn Thayer Scott

You Can *Get There from Here: How Ottawa Can Put Atlantic Canada on the Road to Prosperity*, by Brian Lee Crowley and Don McIver

Definitely Not the Romanow Report, by Brian Lee Crowley, Brian Ferguson, David Zitner, and Brett J. Skinner

Taxing Incentives: How Equalization Distorts Tax Policy in Recipient Provinces, by Kenneth J. Boessenkool

Fiscal Equalization Revisited, by Professor James M. Buchanan, Nobel Laureate

Taking Off the Shackles: Equalization and the Development of Nonrenewable Resources in Atlantic Canada, by Kenneth J. Boessenkool

These publications are available at AIMS, 2000 Barrington St., Suite 1302, Halifax NS B3J 3K1
Telephone: (902) 429-1143 Facsimile: (902) 425-1393 E-mail: aims@aims.ca
They can also be found on our web site: www.aims.ca

Atlantic Institute for
AIMS
Market Studies

2000 Barrington St., Suite 1302
Halifax NS B3J 3K1

Telephone: (902) 429-1143
Facsimile: (902) 425-1393
E-mail: aims@aims.ca
Web site: www.aims.ca