



# THE BEACON



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Policy Begins Today*

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## **Part One: The 100 Percent Solution: East proposes and West Endorses a fresh approach to handle non-renewable resource revenue under Equalization.**

In the third installment of its special Equalization Commentary series, AIMS provides an economically-sound proposal for dealing with non-renewable resources under Equalization.

It's an idea endorsed by Todd Hirsch, Chief Economist with the Canada West Foundation, headquartered in Calgary. Hirsch has been a leading voice in Western Canada urging provincial governments there to think more carefully about how to use the revenues being generated by today's natural resource boom.

Non-renewable resources are not ordinary revenue and should not be treated as revenue under Canada's equalization formula.

It is such a basic economic principle when applied to our day to day lives. Only a fool would sell their house to spend more money on groceries and not pay off the mortgage. Yet that basic principle is ignored in one of the most complex economic formulas in the country, Equalization.

As *The 100 Per Cent Solution* explains "when the equalization formula counts non-renewable natural resource revenues as part of the 'fiscal capacity' of the equalization-receiving provinces, it treats that money as income rather than as assets, as new value created rather than as a simple transformation of an existing asset from one form into another. And by treating the resource revenues in this way, and deducting them from the equalization payment, Ottawa in effect forces recipient provinces to act irresponsibly with their assets and to spend them as if they were ordinary income."

To view the first Commentary in the series, *Why Some are More Equal than Others*, [click here](#).

To view the second Commentary in the series, *The Flypaper Effect*, [click here](#).

To view the third Commentary in the series, *The 100 Per Cent Solution*, [click here](#).

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## Part Two: From the Globe and Mail to the Calgary Herald: Opinion leaders embrace AIMS' Special Commentary Series on Equalization.

Long before the topic took centre stage on the national agenda, AIMS was studying equalization. As the topic gained headlines, reporters turned to research conducted by the Atlantic Institute for Market Studies (AIMS).

AIMS' latest Special Commentary Series on Equalization has now moved the topic from the front pages to editorial pages across the country.

Editorials and columns in the Globe and Mail, the National Post, and other major dailies across the country all accepted the research and embraced the AIMS Equalization Commentary Series.

From the Globe and Mail of 4 July 2006, *"Because the equalization formula must be overhauled, many poorer provinces have been advocating solutions that would add even more money to that transfer pot. Based on the [AIMS'] evidence, that unsettling commonsense evidence, current levels are more than sufficient. Enough already."*

From the National Post, *"Mr. Crowley and co-author Bobby O'Keefe calculate that if equalization is looked at on a purchasing-power basis, only Alberta among the "haves" retains more financial power than the "have-nots." . . . it is proof positive that equalization pays the have-nots far, far too much, and it is time to scale the program back to a far more sensible level."*

From the Calgary Herald, *"The equalization formula does well, [AIMS] says, at ensuring all provinces have roughly equivalent per-capita dollars. But it takes no account of the cost of doing government. Albertans should get this in a flash. If you earn \$50,000 here, you're almost working poor. In Summerside, Gimli or Sydney, you'd do nicely. . . . So, once you account for local differences in costs, have-not Manitoba, for instance, effectively spends \$1,800 more per Manitoban on provincial and local government than have-Ontario can spend on Ontarians. You'd think it would be the other way around."*

Follow the links below to read these and other columns and editorials:

- **How have-nots are more equal** - Nigel Hannaford in the Calgary Herald.
- **Some are more equal than others** - Lorne Gunter in the National Post.
- **Some provinces are more equal than others** - Globe and Mail editorial.
- **In the catbird's seat** – Gerald Flood in The Winnipeg Free Press
- **A high price tag for our civil service** – Alan Holman in The Guardian

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## Part Three: Nova Scotia editorials urge Premier to follow AIMS' advice on offshore resource revenues.

A suggestion by Nova Scotia Premier Rodney MacDonald that he would use future oil and gas royalties for general revenue, not debt repayment, did not go down well with the editorial writers at the Halifax Chronicle-Herald.

Editorials in the Herald, the Truro Daily News and the New Glasgow Evening News all tell the Premier the same thing, listen to Brian Lee Crowley and AIMS.

*"Mr. MacDonald should be listening to critics, like Brian Lee Crowley of the Atlantic Institute for Market Studies, who want annual royalties from Panuke used to accelerate the repayment of debt rather than tapped for current spending.*

*This is a prudent plan since the sustainability of Nova Scotia's offshore is a question mark. We have one producing project and one maybe. If Panuke goes forward, it may simply offset faster-than-expected depletion of Sable. Until we see a more certain future for this industry, we should not be spending the royalties as if they were the sort of reliable long-term cash flow you need to sustain increases in spending on services."*

To read the complete editorial, [click here](#).

Follow the links below to view some of AIMS' material on this topic:

- [The Meaning of Ralph](#)
- [The Mixed Blessing of Natural Resources](#)
- [Good on you, John Hamm](#)
- [Resource Revenues: What to do with them once you have them.](#)

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#### **Part Four: Taking a page from AIMS: Prestigious OECD Policy Brief mirrors AIMS' work in equalization, EI, federal-provincial relations & more.**

The latest Economic Survey of Canada by the internationally renowned Organisation for Economic Co-operation and Development (OECD) echoes much of the work previously published by the Atlantic Institute for Market Studies (AIMS).

"The OECD is singing our song," saying AIMS president Brian Lee Crowley. "If you think of this as a second opinion on what to do to promote Canada's economic health, this international specialist confirms our original diagnosis and treatment exactly."

The OECD's [Policy Brief](#) delivers a prescription for Canada's enduring economic health. It recommends diminishing the incentive for employers to rely on employment insurance to tide over their seasonal workers. It calls for the dismantling of agriculture marketing boards. It suggests equalization needs to be revamped and has become a disincentive to receiving provinces to boost economic performance. All of these measures have been promoted by AIMS in its substantial depth of public policy work.

To read more about the OECD report and access links to the survey and AIMS-related work, [click here](#).

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#### **Part Five: Fuel for Thought: AIMS Breakfast Briefing shines new light on the topic of energy prices.**

It's been the hottest topic of the summer of 2006. The rising cost of fuel at the pump. Consumers are keen to place the blame and it usually rests at the door step of the gasoline industry.

The AIMS Breakfast Briefing on 20 July, gave the Canadian Petroleum Products Institute (CPPI) an opportunity to reply and provide a little advice. CPPI vice president Carol Montreuil told the AIMS event that if people want to pay less for gas, they'd better start using less.

In a detailed presentation on supply, demand, prices and production, Montreuil provided insight into what is really happening to drive oil prices higher. He explained that the political instability of oil producing nations like Iran, Iraq, Nigeria and Venezuela, along with the rapidly expanding Indian and Chinese economies, and the continued popularity of sport utility vehicles in the United States, are just a few of the factors driving both demand and prices upwards.

He said, "Industry and government need to help people consume energy more wisely," explained Carol Montreuil, VP - Canadian Petroleum Product Institute. He told the AIMS Breakfast Briefing on 20 July that over the next 25 years the industry will have to invest \$3-trillion in exploration and refining in order to catch up with demand."

To read more about this event, and view Mr. Montreuil's presentation, [click here](#).

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### Part Six: AIMS' latest Equalization paper headlines *Canada Watch* published by the Canadian Embassy in Washington.

Equalization and fiscal imbalance have not only moved from the back pages, to front page headlines across the country, but also south of the border.

Under the headline Economy and Trade, editors of *Canada Watch* took a closer look at ***Too Many Cooks: National Purpose and Equalization*** AIMS' latest Equalization paper. *Canada Watch* is an electronic newsletter distributed by the Canadian Embassy in Washington to an elite list of industry and political leaders across the US and Canada.

***Too Many Cooks*** argues that the efficient way to achieve the goal of equalization is by using a system of provincially differentiated taxes rather than one of provincially differentiated transfers.

Author Robin Neil argues that equalization by way of transfers is inefficient for a number of reasons, but three stand out. First, it entails a fiscal imbalance, which occurs when one government taxes and another government spends the revenue generated by the tax. Second, insofar as the transfer of revenue damages the fiscal capacity of the receiving province, such payments are inefficient because they worsen the situation they were intended to ameliorate. And third, transfers discourage the internal migration of resources, particularly labour, from economically lagging regions to more productive areas, and frustrate the natural process of adjustment that would bring about convergence in the level of productivity and fiscal capacity in different regions.

[Click here](#) to link to an electronic copy of *Too Many Cooks*.

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