Footnotes

1. Savoie, 1992, page 3.

2. Boone 1994a lists four countries that have consistently received aid in excess of 20 per cent of their GDP.

3. The sum would be larger if it were based on the returns from 3-month Canadian treasury bills, but, since this sum would be twice the size of Canada's national debt, there would have been no treasury bills to buy.

4. Recall calculation of regional subsidies here does not include Atlantic Canada's share of federal debt servicing.

5. The net financial flow must closely match the net flow of goods and services, though the balance does not have to be exact. For example, people can stuff money in their mattresses or regional inflation can absorb part of the flow. Regional subsidies are not the sole source of the financial flow — borrowed money, interest payments, dividends, etc. are also part of the flow. Nonetheless, the magnitude of regional subsidies dwarfs other sources of the net flow.

6.In the case of Canada now, exports are at least keeping the economy afloat in the face of sluggish domestic demand. Without the export sector, the Canadian economy would be in much deeper trouble.

7.This does not imply that Ottawa should maintain current levels of transfers to the provinces. Courchene (1994), for example, argues that current formulas over-equalize.

8. Actually, expectations led to an appreciation of the guilder even before natural gas was produced in significant quantities.

9. Economic development can result from petrochemical dollars if the money, rather than being siphoned off in consumption, is invested in building an industrial base in the emerging area of comparative advantage. This happened in Alberta, Texas, and parts of Norway and Scotland. Something similar happened in Atlantic Canada; we built industries with special expertise in harvesting government money. The impact of the flow of government money on hard investment will be examined later in this chapter.

10. In fact, it has become a broadly accepted fact of economic development that "resource abundant economies [tend] to lag behind ... resource scarce ones." Jeffrey Sachs, The Economist, 29 June 1996, pg. 20.

12. See DRM Advisory Group, 1994.

13. For instance, the stress on job creation is often at odds with the need for efficient

production. Announcements do not trumpet how few jobs are created, but how many.

14. This is a first cousin to Olson’s insight (1982) that an economy wrought with special interests will funnel otherwise productive resources into protecting those interests and working the government and regulations to further them. Under such circumstances, he shows how groups, firms and individuals acting rationally in their own interest can hobble economic growth.

15. O’Farrell here does not seem to be referring to the government economic development programs he so roundly criticizes but to market-driven economic development. He urges government to clear away "ad hoc" distortionary programs. However, he does strongly support government intervention in at least one area, training or "human capital" development.

16. However, it is likely the same policy orientation, job creation, also contributed to the environmental crisis. See Brubaker, 1995.

17. I am grateful to Edwin G. West, a member of AIM’s Board of Research Advisors, for pointing out that the emphasis on “landing” government support instead of the fish being harvested has a long history and that Adam Smith commented on it way back in 1776 (Wealth of Nations, Book IV, Chapter 5). “... the bounty [subsidy] to the white herring fishery is a tonnage bounty; and ... it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty.”

18. Of course, human nature being what it is, efforts were made to slow the reduction of agricultural employment through, for example, marketing boards. Fortunately, Ontario did not have a rich neighbour willing to underwrite the more expensive proposition of halting and then reversing the decline in agricultural employment. Had that occurred, the neighbour would now have an under-industrialized market for its products.

19. On these three points: as noted elsewhere in the paper, government investment spending did increase as subsidies rose, but much of it would not have been directed to productive projects, and government investment increased less than private investment declined; Atlantic Canadian tax rates are comparable with those elsewhere in Canada (Perry) 1995; Atlantic Canada is fully integrated into the Canadian financial system and would not face the sort of imperfections Boone discusses in the context of developing nations. In any event, he finds little evidence of financial market imperfections: e.g., a project in New York and Gambia with equal levels of return, one risk is discounted, will attract equivalent amounts of capital. (Higher returns are needed to compensate for higher risk, but this is rational behaviour, not a market imperfection.)

20. Boone’s results do not apply to a small handful of very poor nations which receive aid equal to more than 15 per cent of their GDP. He argues that in such instances aid is almost always tied to one or two large dedicated projects and thus the money is forced into investment.

21. It would be interesting to examine the income distribution of net transfers to Atlantic Canada. One approach would be through Census data on income dispersion. The striking evidence of inequitable distribution for UI, which presumably should benefit the less well-off, is highly disturbing. (See May and Hollet, 1995.)

22. Alesina and Perotti have a narrow criteria for determining “successful” adjustments: that the debt to GDP ratio is five percentage points lower three years after the policy was implemented.

23. Admittedly, for a number of reasons which need not be discussed here, a reduction in expenditures is likely to produce a relatively greater decline in real interest rates.