

## Appendix B

# Economic Health of Canadian Provinces

### Alberta

For a Canadian province, Alberta had high levels of economic freedom at the opening of the 1980s. However, through the 1980s and early 1990s, Alberta's policy mix shifted and the level of economic freedom declined. The province's economy weakened and unemployment rose to a national level, sometimes exceeding the national rate of unemployment. After a dozen years of decline, Alberta's economic freedom began to grow in 1994. At the same time, the gap between per-capita GDP in Alberta and the rest of Canada, which had been shrinking, once again started to grow in Alberta's favour and Alberta's unemployment fell significantly below the national average. In Area 1: Size of Government, which examines government spending, at the all-government level, Alberta typically scores highly because it has a very low level of federal expenditures. Over the last few years, Alberta's score in Area 2 improved drastically making it, in 2003 the third best jurisdiction in North America. This helped propel Alberta into the top five economically free jurisdictions in the all-government index in 2003.

### British Columbia

British Columbia's economic freedom score fell in the early 1990s on both the all-government and subnational indexes. This led to a period of economic weakness for the province that, for the first time, became classified as a "have-not" province and began to receive equalization payments. British Columbia's relative affluence also declined sharply over the period, from 16% above the national average in 1993 to a virtual tie with the national average. Even though migration to British Columbia fell off sharply through the 1990s, the unemployment rate rose relative to the national average. Economic freedom rose in the early years of this new century. In the past few years, employment growth have been much stronger in British Columbia.

### Manitoba

Manitoba significantly reduced its economic freedom in both indexes from 1981 to the early 1990s. Economic freedom recovered somewhat from the early to mid-1990s onward but Manitoba's score in 2003 was below its score in 1981 on both indexes.

Over the period, Manitoba's GDP per capita fell from just above the national average to more than US\$2,500 below. However, Manitoba's unemployment rate remained below the national average throughout the period, though this may be partially due to significant emigration from the middle of the 1980s onward. Manitoba's downward trend in economic freedom is more or less consistently reflected across the subindexes.

### **New Brunswick**

Among the provinces, New Brunswick, along with Nova Scotia, had the strongest gains in economic freedom at an all-government level over the full period. Gains were reflected in both indexes though, between 1989 and 1993, New Brunswick did suffer some declines in economic freedom. After 1993, gains were consistent and large. However, because its score was initially so low, New Brunswick's score at the end of the period remained below the Canadian average in both the all-government subnational indexes. Nonetheless, just as New Brunswick significantly closed the economic-freedom gap with other provinces over the period, it also closed the income gap, rising from less than 70% of average provincial per-capita GDP in 1981 to 83% in 2003.

### **Newfoundland**

Newfoundland began the period close to the bottom of the heap in both indexes and remained there until the late 1990s. Although Newfoundland's score improved over the 1990s, it was only keeping pace with improvements in other provinces. However, between 1998 and 2003, Newfoundland made substantive improvements and its ranking rose somewhat. Newfoundland rapidly gained on the rest of Canada in per-capita GDP at the end of the 1990s. But, Newfoundland's economy is small and undiversified. Thus, if key sectors suffer external shocks, it becomes difficult to disentangle general economic trends from the impact of these shocks. Both the oil and fishing industries are sensitive to exogenous shocks such as wide fluctuations in the price of oil or a depletion of resources, like the collapse of the northern cod stocks.

### **Nova Scotia**

Among the provinces, Nova Scotia, along with New Brunswick, had the largest gains in economic freedom at an all-government level. Nova Scotia's scoring and ranking improved substantially in both indexes. It began the period third last in the subnational index and rose to fourth best among provinces. Nova Scotia's per-capita GDP also climbed significantly relative to the national average as well.

### **Ontario**

Between 1989 and 1993, Ontario's economic freedom dropped dramatically. In 1981, Ontario had higher levels of economic freedom than at least some states in both indexes. Through to 2000, Ontario's score climbed in both indexes but then stagnated in 2003. Ontario's per-capita GDP declined significantly against the Canadian average between 1989 and 1993 but has remained largely stable since.

### **Prince Edward Island**

In 1981, Prince Edward Island had the fourth worst performance at an all government level among the provinces and ended dead last in 2003. At a sub-national , Prince Edward Island was in the middle of the pack among Canadian provinces for most of the period. From 1981 to 2003, Prince Edward Island's per-capita GDP was below the national average, although the gap decreased over time. Furthermore, its unemployment rate was higher than the national average throughout the full period.

### **Quebec**

Over the period, Quebec improved its score slightly in both the all-government and subnational indexes but not at the same pace as other provinces or states. In 1981, Quebec was in the middle of the pack among Canadian provinces at an all-government level but finished second last in 2003. At a subnational level, Quebec was either worst or second worst performer among the Canadian provinces throughout the period (except for 1988 when it was 3<sup>rd</sup> worst performer). Over the same period, Quebec's per-capita GDP increased in the late 1980s to the Canadian average but it declined in early 1990s and was unable to reach the Canadian average by the end of the period under consideration, 2003.

### **Saskatchewan**

Saskatchewan has been consistently in the middle of the Canadian ranks in the all-government index through most of the period under examination and, in 2003, was the fourth-freest province (tied with Newfoundland). At a subnational level, Saskatchewan started in the middle of the pack but ended being the second-worst performer among the Canadian provinces (tied with Prince Edward Island). In 1981, Saskatchewan's per-capita GDP was US\$3,000 above the Canadian average but over time the gap decreased to about US\$900.