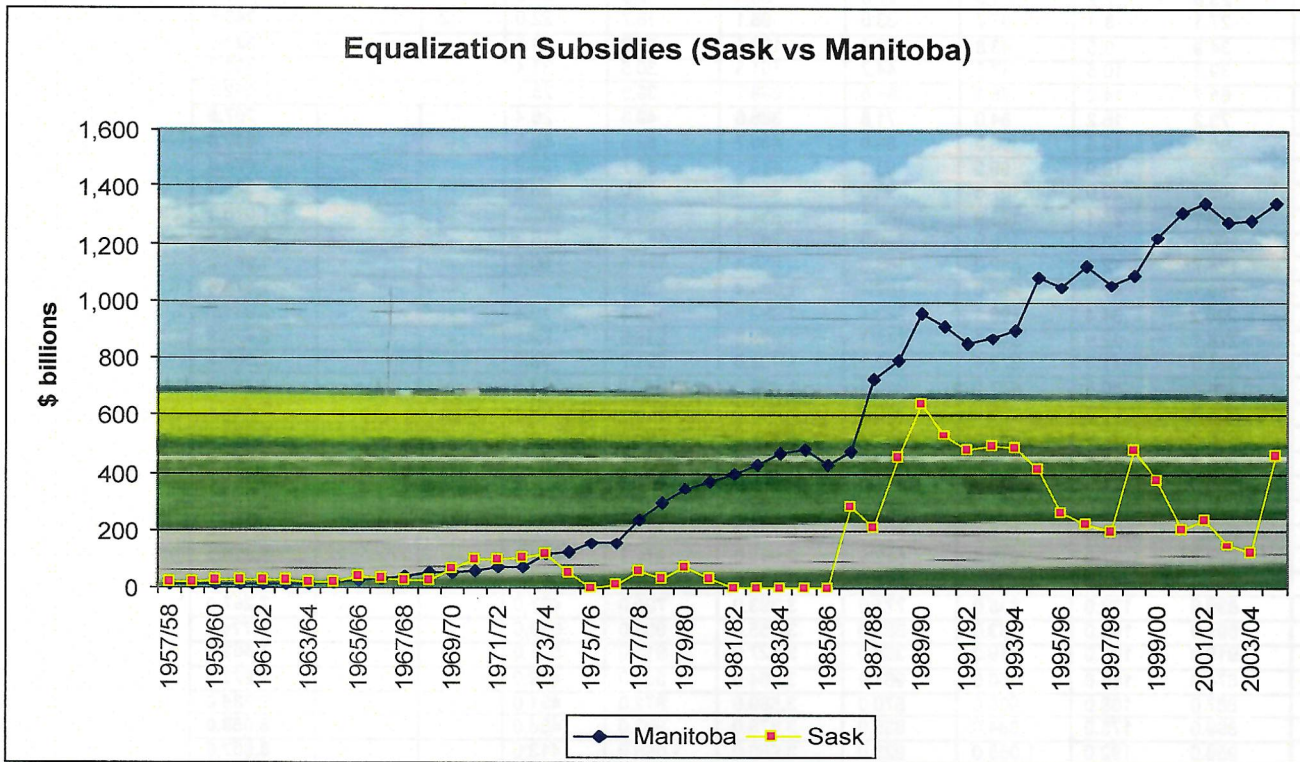




EQUALIZATION AND THE FLYPAPER EFFECT



SUMMARY:

Under the present formula for equalization, Manitoba has received over three times Saskatchewan's entitlement over the program's lifetime. The extra money has allowed more spending in Manitoba and a proportionately larger public sector.

OBSERVATIONS:

- Due to the equalization formula's treatment of resource revenues, Saskatchewan has received less than a third of the equalization transfers sent by the federal government to Manitoba.
- The extra money has allowed Manitoba to spend more per capita on a variety of public services, particularly healthcare.
- In 2001/02, combined provincial and local government spending in Manitoba absorbed 30.9% of GDP, compared to 28.7% in Saskatchewan, according to Statistics Canada. This larger percentage represents over \$1.1 billion in extra spending.
- This is approximately the difference between Manitoba and Saskatchewan's equalization transfer (\$1347 million - 238 million = 1,109 million). The extra money simply expanded the size of the public sector by the amount of the transfer. Some economists describe this phenomenon as the "flypaper effect" where inter-governmental subsidies are simply capitalized into a proportionately larger public sector.
- The following chart shows that about \$215 billion has been spent on equalization since the program began in 1957. Quebec has received almost half the transfer, although in per capita terms its benefits have been less than the Maritimes or Saskatchewan and Manitoba.
- Alberta was an early recipient of equalization. It became a "have" province in 1966.

EQUALIZATION ENTITLEMENTS BY PROVINCE FOR PERIOD 1957 TO 2005 (MILLIONS OF DOLLARS)

YEAR	Nfld	PEI	NS	NB	Que	Mb	Sask	Alta	BC	Total
1957/58	11.3	3.1	17.2	8.6	46.3	14.2	20.3	12.0	5.5	138.5
1958/59	20.1	5.6	26.3	22.6	63.3	13.5	20.4	13.4	6.7	191.9
1959/60	32.1	6.0	27.9	24.6	78.1	14.5	23.5	16.4	5.9	229.0
1960/61	20.3	5.6	25.9	24.0	69.9	13.3	27.9	15.4	6.1	208.4
1961/62	21.0	5.4	26.3	24.1	72.7	13.4	23.3	14.3	5.6	206.1
1962/63	24.0	609.0	29.1	25.5	68.8	13.7	22.9	12.3	-	805.3
1963/64	23.8	7.2	31.3	27.0	65.3	12.9	21.9	7.1	-	196.5
1964/65	27.1	8.1	37.7	33.0	96.1	18.7	22.0	1.2	-	243.9
1965/66	34.9	9.5	43.8	39.9	133.1	27.2	39.2	-	-	327.6
1966/67	39.2	10.5	47.9	44.2	151.3	30.5	31.4	-	-	355.0
1967/68	65.7	14.2	75.1	63.6	268.7	39.9	25.1	-	-	552.3
1968/69	73.2	16.2	84.0	71.8	386.6	49.3	26.4	-	-	707.5
1969/70	95.7	19.5	96.8	88.0	430.7	52.6	66.1	-	-	849.4
1970/71	97.3	19.9	99.5	93.1	420.1	54.7	99.0	-	-	883.6
1971/72	105.2	20.0	107.6	93.0	453.3	72.0	98.8	-	-	949.9
1972/73	113.7	25.1	123.9	103.2	534.3	68.1	102.0	-	-	1,070.3
1973/74	190.0	33.3	186.0	146.3	737.1	112.6	116.2	-	-	1,521.5
1974/75	174.7	12.5	232.0	168.5	918.4	124.5	50.6	-	-	1,681.2
1975/76	189.1	47.7	252.0	187.4	1,049.4	150.8	-	-	-	1,876.4
1976/77	220.2	54.4	298.1	232.4	1,062.9	153.3	10.4	-	-	2,031.7
1977/78	278.1	62.9	342.1	273.1	1,322.0	236.5	58.2	-	-	2,572.9
1978/79	321.3	71.6	375.4	331.1	1,482.8	291.7	32.7	-	-	2,906.6
1979/80	344.2	80.8	427.5	310.3	1,766.2	343.5	73.5	-	-	3,346.0
1980/81	363.8	91.9	468.7	370.4	2,034.9	368.1	29.6	-	-	3,727.4
1981/82	426.8	107.0	527.6	445.2	2,489.9	398.6	-	-	-	4,395.1
1982/83	464.0	118.0	574.0	488.2	2,781.9	430.1	-	-	-	4,856.2
1983/84	539.5	125.3	605.0	516.8	2,976.6	466.1	-	-	-	5,229.3
1984/85	578.4	129.0	620.4	540.5	3,074.0	479.6	-	-	-	5,421.9
1985/86	653.2	134.0	596.1	603.8	2,727.9	427.3	-	-	-	5,142.3
1986/87	677.7	37.9	619.5	642.6	2,941.6	471.1	284.7	-	-	5,675.1
1987/88	807.0	163.0	734.0	723.0	3,152.0	727.0	209.0	-	-	6,515.0
1988/89	839.0	177.0	835.0	771.0	3,393.0	795.0	457.0	-	-	7,267.0
1989/90	895.0	192.0	853.0	884.0	3,355.0	958.0	639.0	-	-	7,776.0
1990/91	919.0	194.0	949.0	368.0	3,627.0	915.0	531.0	-	-	7,503.0
1991/92	874.0	186.0	850.0	967.0	3,464.0	853.0	479.0	-	-	7,673.0
1992/93	887.0	168.0	908.0	870.0	3,589.0	872.0	491.0	-	-	7,785.0
1993/94	899.0	175.0	884.0	835.0	3,878.0	901.0	486.0	-	-	8,058.0
1994/95	958.0	192.0	1,065.0	928.0	3,966.0	1,085.0	413.0	-	-	8,607.0
1995/96	932.0	192.0	1,137.0	876.0	4,307.0	1,051.0	264.0	-	-	8,759.0
1996/97	1,030.0	208.0	1,182.0	1,019.0	4,169.0	1,126.0	224.0	-	-	8,958.0
1997/98	1,093.0	238.0	1,302.0	1,112.0	4,746.0	1,053.0	196.0	-	-	9,740.0
1998/99	1,068.0	238.0	1,221.0	1,112.0	4,394.0	1,092.0	477.0	-	-	9,602.0
1999/00	1,169.0	255.0	1,290.0	1,183.0	5,280.0	1,220.0	379.0	-	125.0	10,901.0
2000/01	1,112.0	269.0	1,404.0	1,260.0	5,380.0	1,314.0	208.0	-	-	10,947.0
2001/02	1,056.0	256.0	1,316.0	1,190.0	4,690.0	1,347.0	238.0	-	195.0	10,288.0
2002/03	862.0	236.0	1,111.0	1,111.0	3,985.0	1,283.0	145.0	-	-	8,733.0
2003/04	753.0	235.0	1,120.0	1,125.0	3,802.0	1,289.0	122.0	-	332.0	8,778.0
2004/05	726.0	246.0	1,146.0	1,155.0	3,761.0	1,341.0	462.0	-	824.0	9,661.0
TOTALS	23,104.6	5,711.2	26,331.7	23,531.8	103,642.2	24,184.3	7,746.1	92.1	1,505.8	215,849.8
	10.70%	2.65%	12.20%	10.90%	48.02%	11.20%	3.59%	0.04%	0.70%	100.00%

Source: Federal Department of Finance, Government of Canada

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