



# TD Economics

## Topic Paper

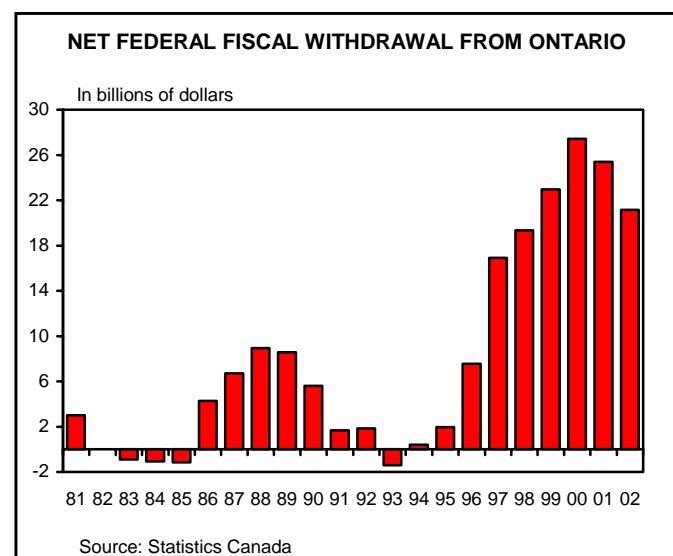
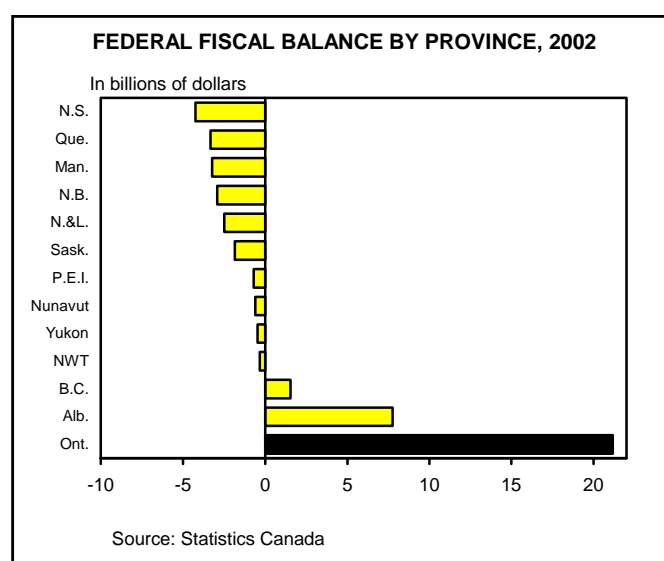
March 3, 2005

### HOW MUCH DOES ONTARIO CONTRIBUTE TO FEDERAL COFFERS?

Since the federal budget was brought down last week, a debate has emerged regarding Ontario's net contribution to federal revenues. Notably, the Ontario government has argued that \$23 billion more flows into federal coffers each year than is spent in the province. And, while recognizing the importance of Canada's largest jurisdiction as a key national economic driver, Canada's Finance Minister Ralph Goodale has responded that the province may be overstating its net contribution by failing to take into account all federal spending in the province. This brief topic paper is aimed at setting the record straight so that a well-informed debate can take place.

#### What is the measure?

The most credible measure of federal revenues and spending by province is found in Statistic Canada's Provincial Economic Accounts (PEA). In particular, table 7 of



the PEA compiles the total federal take and the offsetting federal outlays in each respective province and territory, although the lags in data collection mean that figures are only currently available to 2002. *Note that these statistics are indeed all encompassing.* Revenues build in all direct taxes from persons and business enterprises, indirect taxes, contributions to social insurance plans and investment income. At the same time, federal expenditures are made up of net expenditure on goods and services, interest on public debt (divvied up on a per-capita basis), as well as transfers to persons, businesses, provincial and local government.

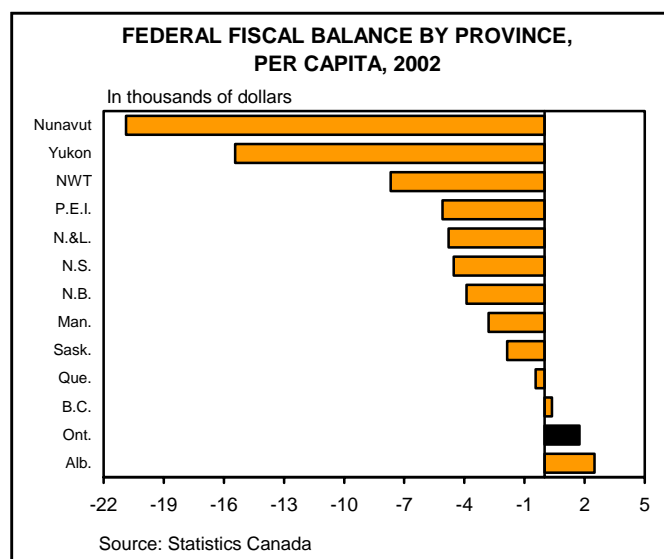
#### What does the measure say about Ontario's net contribution to the federal take?

The PEA numbers show that the federal government withdrew \$21.2 billion from the province of Ontario in 2002,

as it raised \$81.2 billion in revenues and spent \$59.9 billion. As the chart shows, Ontario's net contribution has grown steadily since 1993, when the province briefly fell into a net deficit position (i.e., it received more in federal spending than it contributed to federal revenues) following the end of the early 1990s recession. Note that the \$21.2-billion tally is slightly smaller than the \$23-billion estimate of the Ontario government. This difference appears to be due to the fact that Ontario has attempted to project the figure for 2003, since the actual results won't be released until the spring.

#### What do this measure say about other provinces?

The accompanying chart shows that apart from Ontario, only Alberta (+\$7.8 billion) and British Columbia (+\$1.6 billion) were net contributors to the federal government in 2002. In dollar terms, Nova Scotia, Quebec, Manitoba and Newfoundland & Labrador recorded the largest federal fiscal *deficits*. On a per-capita basis, the picture changes immensely. Alberta (+ \$2,500) leaps over Ontario (+ \$1,700) as the largest net per-person contributor to



federal revenues. On the flip side, the residents of the territories were the largest winners, followed by the provinces of the Atlantic region.

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