

Demographic Change and Equalization in Canada

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INTRODUCTION

There has been much talk for years about the fiscal imbalance between Ottawa and the provinces. This paper argues that, in addition, there also exists a demographic imbalance. The equalization program was set up in 1957 with the intent of equalizing fiscal capacity. Yet, the country's demographic reality has since changed considerably. Since equalization's inception three demographic trends – age, diversity, and urbanization – have increasingly been converging along provincial lines. On the one hand, provinces that benefit from equalization share one common demographic pattern: Their populations are aging more rapidly than the national average, they are more homogeneous, and they are more rural. On the other hand, provinces whose populations are aging less rapidly, are more heterogeneous, and more urban as gradually being increasingly deprived under the scheme. Based on these two propositions, the paper hypothesizes that the equalization program has inadvertently turned into a scheme whose beneficiaries are provinces with older, homogeneous, rural populations and which works to the detriment of younger, heterogeneous, urban provinces. From this observation one may infer that instead of equalizing fiscal capacity, equalization has turned into a subsidy program that discriminates increasingly against young, non-English, non-French, urban populations. This conclusion is problematic in so far as the evidence shows these populations to be increasingly socio-economically vulnerable. The question the paper raises, then, is whether equalization is a genuinely means to building a just society or whether it is turning into a disingenuous pretext for robbing from Peter to feed Paul.

The first section of this paper provides a brief historical overview of the equalization program in Canada. The second section reviews the debate surrounding the program. Subsequent sections analyze the relationship between equalization and population change as a function of population growth and aging, interprovincial and international migration and urbanization. Each of these variables is analyzed in sequence in order to compare provincial patterns. The paper concludes by contemplating the implication of the analysis for federal and liberal-democratic governance in Canada.

The discussion of equalization is timely. In recent months, there has been a lot of momentum. In October 2004, Equalization and the Territorial Formula Financing were discussed at the First Ministers' Meeting. This meeting was intended to cover issues pertaining to the financial pressures experienced by the provinces and territories. Riding the coattails of the generally positive outcomes of the recent First Ministers' discussions on Health Care, the ministers' reached an agreement on a new equalization framework which included increased funding, a federal commitment to more stable funding to the provinces, and the creation

of an independent expert panel to review the program. Tensions over off-shore resources in Newfoundland and Labrador, and Nova Scotia were diffused in January 2005 when these provinces and the federal government reached an agreement-in-principle¹ on the sharing of these resources.

The Ontario government quickly expressed discontent with the new off-shore resource agreement between Newfoundland and Labrador, Nova Scotia and the federal government. Ontario is the single largest provincial contributor to the equalization program, despite the fact that it is currently running a deficit. The Saskatchewan and the Territorial governments asserted they would seek similar deals and to keep their share of the equalization payments, without having their natural resource revenues clawed back.² The recent off-shore revenue agreement between the two Atlantic Provinces and the federal government may be a sign of change to the equalization program, and subsequently, the inter-governmental relations that have come to characterize the Canadian federation. A new chapter in the equalization saga is being written. That entails (re)consideration of reforms to the transfer program in a way that upholds the governments' constitutional commitment to equalization principle.

The Equalization Program: A Brief History

Equalization is an unconditional annual grant from the federal government to provinces with below-average revenue-generating capacity. It is currently calculated based on a comparison of the average revenue-raising capacity per capita of all the provinces with the revenue-raising capacity per capita for each province. Using a five-province standard of revenue-raising capacity, the federal government calculates the amount of the transfer such that it will elevate those provinces with below-national-average capacity up to the standard.

The federal government has redistributed resources among provinces since Confederation with the aim that provinces could generate the fiscal capacity to retain control over local matters, such as education. An informal arrangement of grants and subsidies was employed until the Depression. In 1937, the Royal Commission on Dominion-Provincial Relations recommended this ad hoc system be replaced with National Adjustment Grants. The Commission asserted that a province would be entitled to the grant "whenever [it is]

¹ This agreement allows Newfoundland and Labrador and Nova Scotia to keep 100 per cent of offshore revenues for all projects for 16 years. It also included a "prepayment of \$830 million for the first eight years. This is the absolute minimum the Province will receive during that period". "The \$830 million will be paid directly on Nova Scotia's debt, resulting in annual interest savings of approximately ...\$50 million." There will also be "guaranteed transition payments if Nova Scotia comes off equalization during the 16 years". The agreement included "a commitment to a legislated review of the agreement before 2020" (Department of Finance, Government of Canada. *Backgrounder on Status of Off-Shore Resource Revenue Discussions with Newfoundland and Labrador*. Last updated: 26 January 2005. Available at: www.fin.gc.ca).

² Canadian Broadcasting Corporation. *Off-Shore Deal Monumental: Williams*. Last updated: 29 January 2005. Available online at www.cbc.ca.

established that it could not supply Canadian average standards of service and balance its budget without taxation (provincial and municipal) appreciably exceeding the national average in relation to income.”³

In 1957, the federal government started separate transfers to provinces below the standard to raise their fiscal capacity to the level of the top two provinces.⁴ At this time, income tax points were ‘fully equalized’ and transfers were calculated based on the revenue of two provinces. The sum of provincial revenue included provincial income taxes, corporate income taxes and succession duties.⁵ In 1962, the revenue base was expanded, and the national average standard was the ten-province standard. Upon equalization being entrenched in the Canadian Constitution in 1982, the program adopted a five-province standard.

Section 36.2 of the Canadian Constitution establishes equalization as a means to ensure equitable public service provisions for all Canadians:

Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Currently, the equalization formula⁶ is based on 33 provincial revenue sources. It measures the “amount of revenue a province could raise if it applied an average tax rate to each provincial or local base (other measures of fiscal capacity are, of course, possible).”⁷ As a result, the calculation is based on provincial per capita fiscal capacity, not on provincial revenues. Provincial fiscal capacities are then compared to the

³ Canada. Royal Commission on Dominion-Provincial Relations. *Report of the Royal Commission on Dominion-Provincial Relations*. Volume 1. (Ottawa: Queen’s Printer, 1940).P. 38.

⁴ Paul A.R. Hobson and France St-Hilaire, “The Evolution of Federal-Provincial Fiscal Arrangements: Putting Humpty Together Again”, *Toward a New Mission Statement for Canadian Fiscal Federalism*, eds. Harvey Lazar (Montreal and Kingston: Institute for Intergovernmental Relations, 2000). P. 162.

⁵ Errol Black and Jim Silver. *Equalization: Financing Canadians’ Commitment to Sharing and Social Solidarity*. (Winnipeg: Canadian Centre for Policy Alternatives, 2004)

⁶ The equalization formula involves a calculation of the total tax base of all provinces based on each revenue source. The amount of revenue raised from the taxes on the sources in each province is summed to attain the total national revenue. The total national revenue is divided by the total national tax base. The resulting number is the national average tax for the particular revenue source. The national average rate of tax for a particular revenue source for each province is then applied to the provincial tax base for the particular revenue source and the sum is divided by the provincial population. The per capita yield based on the national average rate of tax is then compared to the average capita yield using the average rate of the five representative provinces. Provinces are entitled to equalization if the provincial per capita yield for a given revenue source is below the average per capita yield of the 5 province standard. The sums of the excess and deficits determined for each of the 33 revenue sources determines the total equalization payment to the province. There is a separate equalization formula for the territories. (Black and Silver, op cit.; Department of Finance, Government of Canada. *Transfers – An Investment in Canada*. Available at: www.fin.gc.ca).

⁷ Paul Boothe and Derek Hermanutz. “Simply Sharing: An Interprovincial Equalization Scheme for Canada.” *C.D. Howe Institute*. July 1999, No. 128. Transfer Papers. (Toronto: C.D. Howe Institute): 4.

average per capita yield of the five-province standard. In lieu of direct horizontal transfers, the federal government transfers general revenues to the provinces with below-average fiscal capacity.⁸

Old Debates, New Developments and Future of Reform

With the exception of the United States, all federations have a systematic equalization program designed to ameliorate fiscal capacity in relatively deprived sub-states.⁹ By virtue of its decentralized intergovernmental federal arrangements which leave considerable leeway for the federal government to make unilateral moves, Canada's equalization program has always attracted considerable interest.¹⁰ Still, equalization remains controversial

The Old Debates

Equity and efficiency are the classic points of contention. Advocates of equalization argue that the program performs nation-building, citizenship, and inter-jurisdictional functions. It is thought to perform nation-building function because, pursuant to section 36.2 above, it reflects the federal government's commitment to equality of opportunity by providing comparable public goods and services irrespective of geographical location. This also amounts to a citizenship function because equitable treatment means "that persons who are equally well-off in the absence of government should also be equally well-off in its presence...In a federal context, fiscal equity requires that otherwise identical persons should be treated equally by the public sector regardless of where they reside."¹¹

Public-opinion research shows strong support for redistributive justice among Canadians.¹² Polling results reveal that "[s]upport for the equalization programme remains high across the country, even in the have provinces." Equalization payments allow 'have-not' provinces to fulfill this constitutional commitment and to maintain comparable public services in areas and regions, such as the Atlantic Provinces, with below-

⁸Ibid, 3. Germany is the only federation with direct horizontal transfers.

⁹ See Ronald Watts. "Autonomy or Dependence: Intergovernmental Federations in Eleven Countries." Working Paper 2005 (5). (Kingston: Institute for Intergovernmental Relations).

¹⁰ Paul Boothe. "Modest but Meaningful Change: Reforming Equalization." Paper Presented at AIMS/MEI/FCPP Conference on "Equalization: Welfare Trap or Helping Hand?" 25 October 2001, Montreal. Halifax: Atlantic Institute for Market Studies, Frontier Centre for Public Policy, 2002.

¹¹ Robyn Boadway. "The Economics of Equalization: An Overview." In R. Boadway and P. Hobson, eds. *Equalization, Its Contribution to Canada's Economic and Fiscal Progress*. (Kingston, Ontario: School of Policy Studies, Institute of Intergovernmental Relations, Queen's University, 1998): 57-58. Cited in Joe Ruggeri and Jennifer McMullin. *Canada's Fiscal Advantage*. (Fredericton, New Brunswick: Policy Studies Centre, Caledon Institute of Social Policy, 2004).

¹² See Matthew Mendelsohn. *Canada's Social Contract: Evidence From Public Opinion* (Ottawa: Canadian Policy Research Network, 2002); Canada. *Commission on the Future of Health Care in Canada: Final Report* (Ottawa: 2002); Arthur Schafer. *Waiting for Romanow: Canada's Health Care Values Under Fire* (Ottawa: Canadian Centre for Policy Alternatives, 2001).

average fiscal capacity. These entitlements characterize Canadian citizenship, are widely regarded as part of the Canadian identity and are thought to enhance national solidarity and social cohesion.¹³

By reducing the distortionary effects of fiscally induced migration, equalization is also thought to improve economic efficiency in Canada.¹⁴ In the absence of equalization, citizens in less prosperous provinces may be compelled to leave 'have-not' provinces in search of employment and other benefits in 'have' provinces.¹⁵ The 'have-not' province is thus deprived of individuals of working as well as of childbearing age. It is further deprived of the educational and training investment it has made in its population on which it received no return (immediate) from out-migrants. In a situation where a sub-unit does not provide public services, free mobility would result in "an efficient allocation of labour resources" across the sub-units because – if we assume rational-choice conditions to prevail – economic push-pull factors would induce individuals to "migrate until wages were equalized across [provinces]."¹⁶ In a federation, however, where provinces have differential fiscal capacities, "the net benefit a given worker obtains from the provincial sector also differs across sub-national units".¹⁷ The overall result of this mobility is a "misallocation of resources as workers move across provinces because of the effect of different fiscal capacities".¹⁸

Critics of the redistributive effects of equalization contend that the impact of intergovernmental grants, such as equalization, migration from 'have-not' provinces to more wealthy provinces is marginal.¹⁹ Recently, however, argued that these "results depend on the use of annual flows of migrants" and that migration flows should be accounted for over an extended period of time. Accordingly, "equalization payments are much more justified on efficiency grounds than [previously] thought."²⁰

Fiscally-induced migration is most popular among young skilled workers (Ruggeri, 2003). Out-migration has constrained human-capital growth in Atlantic Canada and has further limited labour-force capacity. According to Ruggeri and Mullen, equalization performs a regional economic stabilization function by

¹³ Black and Silver, op. cit., 6; Joe Ruggeri and F. Strain. *Equalization: Let's Stick to the Principles*. Ottawa: Caledon Institute of Social Policy, December 2001); Ruggeri and McMullin, op cit, 92.

¹⁴ Boadway, op cit.; Frank Flatters, "Efficiency and equalization payments in federal system of government: A synthesis and extension of recent results." *Canadian Journal of Economics* 15 (4): 613 - 633.

¹⁵ Boothe and Hermanutz, op. cit., 5. This essentially reflects the approach to self-actualization in the American federation.

¹⁶ Boadway, op. cit., 39-40. Of course, the underlying rational-choice assumption is flawed because social geography has been shown to outweigh economic determinants of migration.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ W. Watson, "An Estimate of the Welfare Gains from Fiscal Equalization." *Canadian Journal of Economics*, Vol. 19., 1986: Pp. 298-308.

²⁰ L. Wilson. "Equalization, Efficiency and Migration." *Canadian Public Policy*. 2003. Vol. 29, No. 4. Pp. 392.

preventing the progressive aggravation of regional disparities caused by differences in inter-provincial fiscal capacities.²¹ Equalization redistributes the risk caused by these differentials: "If provinces are subject to idiosyncratic shocks, an equalization system that transfers to them when their incomes fall and vice versa will act as an insurance device".²² In effect, equalization is a formal means of dealing with inter-jurisdictional repercussions within a federation.

Defenders of equalization emphasize equity, solidarity and equality of opportunity as key to social justice in Canadian democracy. In contradistinction, critics of equalization point to government intervention in the free market.²³ The federal governments' equity responsibilities are not always compatible with the pursuit for efficiency in Canada's geographically vast and diverse federation. Equalization has thus been criticized for creating perverse incentives and for undermining efficiency and equity.²⁴

First, it is argued that equalization discourages fiscal prudence among recipient provinces, and provides incentives for the development of unnecessary programs or the manipulation of tax systems as a way to increase transfer payments.²⁵ Secondly, fiscally-induced migration caused by transfer payment programs is an impediment to economic growth and efficiency (Courchene 1970; 1978). By encouraging individuals to (continue to) live in relatively deprived areas, equalization creates and, over time, maintains a dependency of individuals in 'have-not' provinces on their wealthier counterparts in more prosperous provinces.²⁶ Finally, equalization addresses differentials in geographic prosperity as a function of economic difference. But in order for the program to meet its objective of providing comparable public services at comparable rates of taxation -- with the ultimate purpose of fostering citizens' self-actualization -- should equalization not be premised on the improvement of personal prosperity instead? In this light, Norrie calling for federal transfers to individuals rather than to provincial governments.²⁷

These disparate views have led to interprovincial, interregional, as well as intergovernmental, tensions over the nature, effects and necessity of the equalization program. Individuals support for equality of access to

²¹ Ruggeri and McMullen, op. cit., 93.

²² Boadway in Lazar, op cit, 68.

²³ Black and Silver, op. cit., 21-22.

²⁴ Boadway in Lazar, op. cit., 67.

²⁵ Boothe and Hermanutz, op. cit., 5.

²⁶ Boadway, Robin W. 1980. *Intergovernmental Transfers in Canada*. Financing Canadian Federation: 2. Toronto: Canadian Tax Foundation: 48, Referring to Courchene, Thomas J. "Avenues of Adjustment: The Transfer System and Regional Disparities." In Michael Walker, ed., *Canadian Confederation at the Crossroads*. (Vancouver: Fraser Institute, 1978). pp. 145-186.

²⁷ Kenneth Norrie. "Social Policy and Equalization: New Ways to Meet an Old Objective", In Keith G. Banting, Douglas M. Brown and Thomas J. Courchene (eds.) *The Future of Fiscal Federalism*. (Kingston, Ontario: School of Policy Studies, Institute of Intergovernmental Relations, Queen's University, 1994): 169. Cited in Black and Silver, op. cit., 21.

public services and to opportunity among Canadians notwithstanding, "...inter-regional tensions and jealousies remain high. Polling results show that many Canadians feel that their province does not get its fair share out of Canadian federalism, does not have enough power within the federation, and is not respected by the federal government."²⁸

Recent Developments

In the recent agreement between Newfoundland and Labrador, the federal government upholds the 1985 Atlantic Accord between the province and the Mulroney Government which recognizes the province as the primary beneficiary of the off-shore resources. How natural resources are best factored into the equalization program is a matter of contention. Alberta oil and gas are not factored into the current formula. In 1993, the 70/30 component of equalization was introduced, whereby "[a]ny province with 70 percent or more of a particular revenue has only 70 percent, not 100 percent, of that revenue stream enter the equalization formula."²⁹ Saskatchewan's energy revenues, however, are not subject to this protection. As a result, in excess of 10 percent of energy revenues are taxed back to this province.³⁰

Natural resource revenues – especially with a view to ever-rising oil prices -- challenge the equalization program's aim of matching provincial fiscal capacities and contributions. The federal government does not have the authority to tax natural resources, which have contributed to Alberta's consistent record as the province with the greatest fiscal capacity. The main cause for concern and interprovincial tension is that, on a per-capita basis, over 40% of the federal government's revenue comes from Ontario – even though it only has about one-third of the country's population.³¹ In other words, for the purposes of this paper it is key to note that not only are some provinces clear winners under the equalization program while others are net losers, the way the fiscal burden is distributed is a political question.

The current equalization program takes into account provincial revenue and expenditure capacities based on the size of the population, and the per-capita distribution of funds. This paper will explore the relationship between the current equalization program and provincial demographic characteristics with the objective of highlighting how the composition of provincial populations may determine expenditures, revenues and fiscal

²⁸ Mendelsohn, *op. cit.*, vi.

²⁹Courchene, Thomas J. "Confiscatory Equalization: The Intriguing Case of Saskatchewan's Vanishing Energy Revenues". *Choices*, March 2004, Vol. 10, No. 2. (Ottawa: Institute for Research on Public Policy). Cited in Black and Silver, *op. cit.*, 21.

³⁰ *Ibid.*

³¹ Boothe and Hermanutz, *op. cit.*, 7.

capacities. It also sheds light on the way a reformed transfer program may best meet the constitutional commitment to the principle of equalization by taking into account demographic changes.³²

Equalization and Population Change

The relationship between equalization and demographic outcomes may be investigated from two angles: how the transfer scheme encourages or bolsters demographic change and how population change affects the way the equalization program assists in the provision of relatively equitable public services across provinces. The program's effectiveness and efficiency, and its impact population mobility are the preoccupations of the aforementioned controversies. Alternatively, the relationship between demographic outcomes and equalization may be examined from the perspective of the impact population change has on

³² Some argue that the federation does not require a formal equalization program. It is expected that wealthier provinces will voluntarily provide payments to their less prosperous counterparts in order to internalize and manage inefficiencies within the federation (Reference to G.M. Meyers by R. Boadway. "Recent Developments in the Economics of Federalism." In Harvey Lazar, ed. *Canada: The State of the Federation 1999/2000 Toward a New Mission Statement for Canadian Fiscal Federalism*. Montreal and Kingston: McGill-Queen's University Press: 68). Other suggestions involve adjustments to the formula and overall approach to equalization in Canada. These recommendations are explored in this section.

Aubut and Vaillancourt propose that the formula use macro-economic variables to attain more accurate and appropriate amounts of interprovincial transfer. They suggest using gross domestic product (GDP) as a primary variable in the equalization formula. The inclusion of GDP will account for all the activities, non-taxable items and other taxable revenues which are not included in GDP (non-reproducible natural resources) that strengthen provincial capacity, but which are not currently accounted for in the equalization calculation. For example, this formula would include the contribution of voluntary and other unpaid work to provincial GDP. Aubut and Vaillancourt demonstrate that when these activities and items are included in measurement of provincial GDP, there are substantial changes in relative interprovincial income: "when household services are taken into account, the index value for [Prince Edward Island] goes from 69 to 80 showing that the value of these activities is very important in this province, and when taken into account, reduces equalization." (Julie Aubut and Francois Vaillancourt. "Using GDP in Equalization Calculations: Are there Meaningful Measurement Issues?" *Working Papers*, 2002 (5). Queen's University, Kingston: Institute of Intergovernmental Relations): 5.

Boothe and Hermanutz suggest that a macro formula for equalization based on direct transfers among provinces, including adjusted personal income, would result in "more stable, predictable transfers for more prudent fiscal planning." (Boothe and Hermanutz, op. cit., 19.) The use of adjusted personal income would replace the 33 tax revenue sources, and other government transfers, such as the Canadian Social Transfer, Canadian Health Transfer and Employment Insurance. Boothe and Hermanutz found that based on this macro-approach, and in comparison to current net transfers, Newfoundland and Labrador, Prince Edward Island, Quebec and Saskatchewan would receive higher net transfers; Nova Scotia, New Brunswick and Manitoba would receive fewer net transfer; Ontario's transfer would remain unchanged (Ibid, 15).

Brown advocates a needs-based approach as an alternative to the current revenue-capacity approach to equalization. According to Brown, "the theory of public finance and empirical observation indicate that equalization schemes would be more complete if they met real fiscal needs." (Douglas M Brown. *Equalization on the Basis of Need in Canada*. Reflections Paper No. 15. Kingston: Institute for Intergovernmental Relations, 1996): 22.)

A needs-based formula would include an account of actual expenditures and revenues in each province. Unlike the current program, a needs based equalization scheme would directly and explicitly account for the varying expenditure needs in each province. This approach has been criticized for its technical complexity: "an alternative formula for incorporating an assessment of expenditure needs was rejected as taking too long to devise and implement, and as involving an overly technical and complex process." (Ibid, 23) However, this approach was also rejected because it was seen as fostering the federal governments' intrusion into provincial jurisdiction.

the equalization program's ability to fulfill its objectives. The remainder of this study takes up the latter question.

Population changes affect the amount of tax revenue used in the equalization calculation to determine provincial fiscal capacity: "the size and composition of a provincial population will determine the amount of tax revenue collected on particular goods and services."³³ This is determined, in part, by the ratio of employed persons to dependent persons in each province. Second, the demographic composition of provinces will affect the agendas and priorities of local and provincial governments. This may account for differences in provincial governments' commitments and capacities to meet expenditure needs³⁴. Robson has successfully used patterns of public expenditure, inflation, level of services and population projections to forecast real per capita government expenditures on services for persons in relevant age groups.³⁵ In the same vein, Brown suggests, "[p]rovinces with widely dispersed populations or more difficult geographic terrain (e.g. in northern regions) will certainly have higher costs" resulting in smaller provinces -- especially ones with a lower ratio of employed to dependent -- having to shoulder a greater proportion of government expenditures than a larger province with a larger tax base.³⁶

THE STUDY

The equalization formula already accounts for demographic shifts to determine provincial fiscal capacities and transfers from the federal government. Annual changes in the size of a provincial population are factored into the calculation of average tax revenue raising capacity because it is calculated on a per capita basis. Population growth will be reflected in an increase in tax revenue and gross domestic product; population decline due to lack of opportunity and migration will result in a loss in tax revenue and gross domestic product. A larger population may also translate into greater tax revenue but, depending on the population's socio-demographic structure, it may also result in greater demand for public goods and services, and, therefore, public expenditures.

Methodology and Sources

The relationship between demographic change and equalization raises both normative and empirical questions, depending on the way the independent variables are defined. Arguably, if equalization is to be true to its purpose, it should not redress changes in population needs caused by demographic shifts. If the

³³William B.P. Robson. "Time and Money: The Far-Reaching Fiscal Impact of Demographic Change in Canada." *C.D. Howe Institute Commentary*. July 2003, No. 185. (Toronto: C.D. Howe Institute Commentary).

³⁴*Ibid.*

³⁵ Robson, *op. cit.*, 2.

³⁶ Brown, *op. cit.*, 8.

relationship between fiscal arrangements and demographic shifts turn out to be indeterminate, is that desirable for the citizens of each province? Further, would an equalization formula that accounts more systematically for demographic variables provide for a better distribution of resources and comparable levels of public services across provinces?

Statistics Canada is the source of the demographic data used in this study. The total population, disaggregated by province and by age group, were taken from Cansim Table 051-0001. Youth are defined as individuals between the ages of 0 and 14, inclusive. The proportion of youth was calculated by dividing the number of individuals between the ages of 0 and 14 for years 1971 to 2001 by the total population figures for those same years.

Immigrants are defined as foreign-born individuals who have acquired Canadian citizenship or Canadians holding dual citizenship. These figures are historical and cumulative, and represent the number of immigrants in a province for each of the years. The number of immigrants in each province was divided by the total population of the province to calculate the percentage of immigrants in the province for each census year from 1971 to 2001.

Urban and rural data for each province were also taken from Statistics Canada sources. Data was taken from the National Overview publication and Canada Census results.

Equalization figures were made available by the Ministry of Finance, Government of Canada. These figures were adjusted to 1992 real dollars (CANSIM Label: P100000, Average, Annual, Monthly; CPI, 1996 Class, CDA, 1992=100, Monthly/All-items, Consumer Price indexes for Canada, Monthly, 1996). For example, the Consumer Price Index (CPI) for 1970 was applied to the equalization figure for fiscal year 1970-1971. Per-capita equalization transfers to each province were obtained by dividing these figures by the total of all provinces.

Observations

This study considers the demographic composition of the provinces and provides an analysis of provincial profiles as they relate to trends and changes in equalization transfers across these sub-national units. Of particular interest is the question whether older, rural, more homogenous provinces are advantaged by unconditional equalization transfer in comparison to those provinces with younger, urban and more heterogeneous populations? These observations provide a basis from which to explore the policy

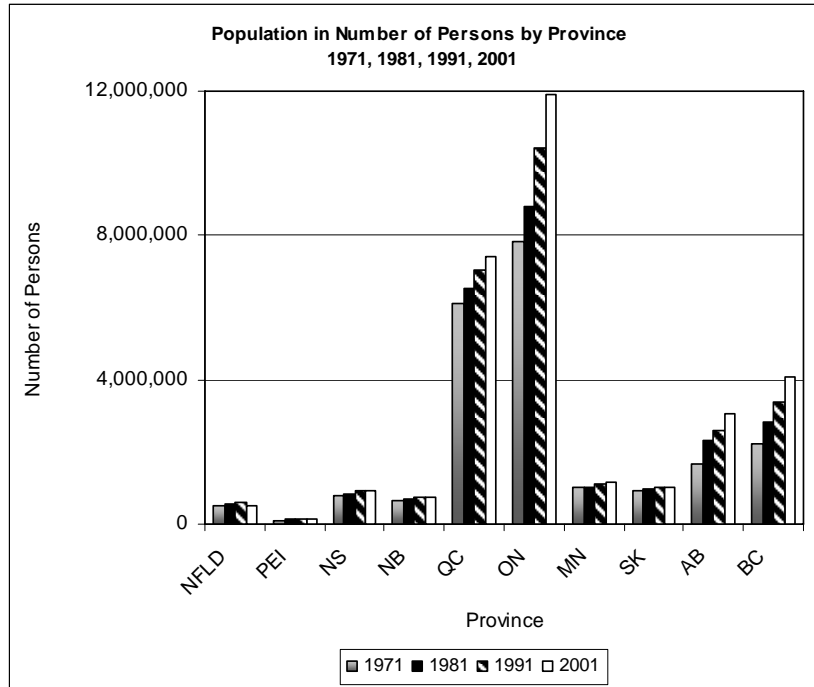
implications of provincial demographics and the adequacy of the equalization program in meeting the changing needs of Canadians.

Equalization Payments, Gross Domestic Product and Population Growth

The Canadian population has changed significantly over the last thirty years. A consideration of population growth across the provinces, provincial gross domestic product (GDP) and patterns of equalization payments set the stage for analysis of specific demographic variables. If general observations show patterns of convergence of these three variables among particular provinces, then further examination of these trends is required to ascertain the nature of the link between demographics and equalization in Canada

Figure 1 shows the number of persons living in each province in 1971, 1981, 1991, and 2001. The provincial populations continued to grow, albeit unevenly, over the three-decade period in question. The Atlantic Provinces – Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick – all show some population growth from 1991 to 2001. The provincial population of Newfoundland appears to have contracted in 2001, while the populations of Nova Scotia and New Brunswick stagnated from 1991 to 2001. Quebec also shows incremental growth since 1971. Ontario registers the greatest population growth. Among the western provinces, Manitoba and Saskatchewan show similar trends of slight population growth since 1971, while Alberta and British Columbia experienced significant growth over the last 30 years.

Figure 1



Statistics Canada. CANSIM II. CANSIM Table No. 051-00011,2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

Although the number of persons living in a province may increase, its proportion of the national population may actually decline. Figure 1, for instance, shows that population growth in Quebec notwithstanding, the province now represents a smaller proportion of the national population than it did 30 years ago (see Table 1).

Table 1 breaks the Canadian population down by province over the last 30 years. From 1971 to 2001, less than five percent of the Canadian population lived in each of the Maritime Provinces, Manitoba and Saskatchewan, respectively. In 1971, over 25 percent of Canadians lived in Quebec; this figure fell to 23.8 percent in 2001. The proportion of Canadians living in Ontario, Alberta and British Columbia, by contrast, has risen consistently. It rose by 1.2 percent and 2.4 percent, respectively, over 30 years. The proportion of Canadians in Ontario rose from 35.7 percent in 1971 to 38.3 percent in 2001.

Table 1

Percentage of Canadian Population By Province, Census Years 1971 to 2001							
Province	1971	1976	1981	1986	1991	1996	2001
NFLD	2.4	2.4	2.3	2.2	2.1	1.9	1.7
PEI	0.5	0.5	0.5	0.5	0.5	0.5	0.4
NS	3.6	3.6	3.4	3.4	3.3	3.1	3.0
NB	2.9	2.9	2.8	2.8	2.7	2.5	2.4
QC	27.9	27.3	26.4	25.7	25.2	24.5	23.8
ON	35.7	35.9	35.5	36.2	37.2	37.5	38.3

MN	4.5	4.4	4.2	4.2	4.0	3.8	3.7
SK	4.2	4.0	3.9	3.9	3.6	3.4	3.2
AB	7.6	8.0	9.2	9.3	9.2	9.4	9.9
BC	10.2	10.8	11.4	11.5	12.0	13.1	13.2
Total Percentage of Canadian Population Living in Provinces	99.7	99.7	99.7	99.7	99.7	99.8	99.8
Total Percentage of Canadian Population Living in Territories	0.3	0.3	0.3	0.3	0.3	0.2	0.2

Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00011.2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

This table establishes a correlation between traditional 'have' and 'have-not' provinces: whereas the proportion of the population of 'have' provinces has increased, that of 'have-not' provinces has not.

Provincial GDP also correlates with population size. Since 1971, the total contribution of the Atlantic Provinces to the national GDP has not surpassed 7 percent. The combined contribution of Manitoba and Saskatchewan is only slightly greater than that of the Atlantic Provinces. Still, it fell from 8 to 6 percent over the past 30 years. Quebec's contribution to Gross National Product has also declined: by 4 percent since 1970/71.

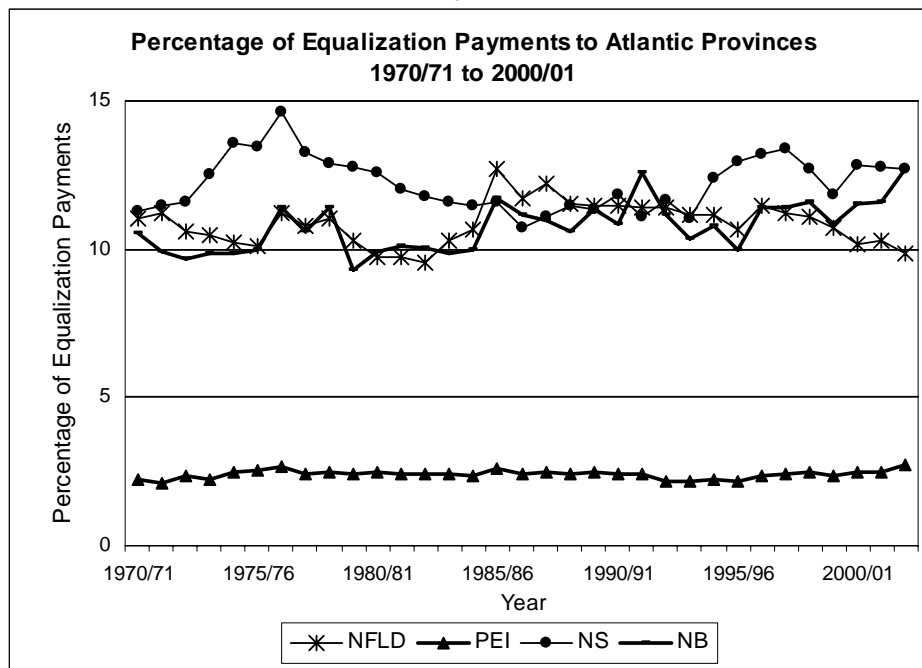
Table 2

Provincial GDP as a Percentage of National GDP, Census Years 1971 to 2001							
Province	1971	1976	1981	1986	1991	1996	2001
NFLD	1.4	1.3	1.4	1.4	1.4	1.2	1.3
PEI	0.3	0.3	0.3	0.3	0.3	0.3	0.3
NS	2.5	2.3	2.2	2.6	2.6	2.3	2.4
NB	1.9	1.8	1.7	2.0	2.0	2.0	1.9
QC	25.2	24.1	22.4	23.1	23.0	21.6	21.0
ON	42.1	39.5	36.4	40.7	41.2	40.4	40.9
MN	4.1	4.0	3.6	3.7	3.4	3.4	3.2
SK	3.6	4.0	4.1	3.4	3.1	3.5	3.0
AB	8.1	10.8	14.6	11.2	10.5	11.8	13.7
BC	10.7	11.6	12.6	11.0	12.0	13.0	11.9

Sources: Researcher's calculations using Statistics Canada, Table 41: Provincial accounts GDP at market prices by province (millions of dollars), *Canadian Economic Observer: Historical Statistical Supplement*, Catalogue No. 11-210 (Ottawa, ON: Ministry of Industry, 2004), p. 1; Statistics Canada. CANSIM II. CANSIM Label P100000. CPI, 1996b Class, CDA, 1992=100, Monthly/All Items: Consumer Price Indexes for Canada, Monthly, 1996 Classification, (1992=100 unless otherwise specified). Annual. CHASS. Last updated 1 June 2002. Last accessed date 14 July 2004; Statistics Canada. CANSIM II. CANSIM Table No. 051-00011.2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005; Equalization figures: Department of Finance Canada, Government of Canada.

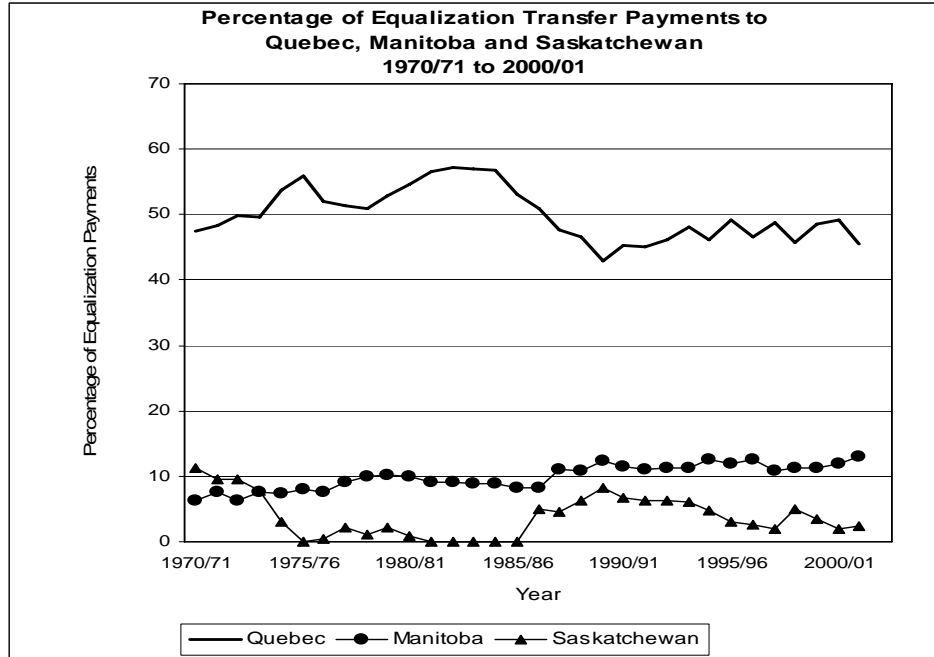
Yet, provinces whose populations declined and whose contribution to the Gross National Product also declined saw their equalization transfers remain fairly constant over the same time period (see Figure 2 and Figure 3). The four Maritime Provinces received almost 40 percent of equalization transfers in 2000/01. The same year, Quebec received over 45 percent of the transfer. Manitoba's transfer has risen gradually over time, from 6 percent in 1970/71 to over 13 percent in 2000/01. Equalization payments to Saskatchewan have been less predictable, with a steep decline in the early 1970s and volatile payments ranging from zero to 10 percent of the total transfer over the last 25 years.

Figure 2



Source: Department of Finance Canada, Government of Canada.

Figure 3



Source: Department of Finance Canada, Government of Canada.

Table 2 shows that per capita GDP and per capita equalization payments (in 1992 dollars) by province have not changed significantly in proportional terms from 1971 to 2001. Canadians in Newfoundland and Labrador, and Prince Edward Island had the lowest per capita GDP and received the largest per capita equalization payments in 1971 and 2001. Likewise, per capita GDP and per capita equalization payments of Nova Scotians and New Brunswickers, and of Saskatchewanians and Manitobans are similar. Provinces with the highest per capita GDP receive no equalization payments – Ontario and Alberta. The exception is British Columbians which received \$40.91 per capita in equalization in 2001.

Table 3

Per Capita GDP and Per Capita Equalization Payments (1992 Dollars) by Province, 1971, 2001				
Province	1971		2001	
	GDP Per Capita (1992 Dollars)	Per Capita Equalization (1992 Dollars)	GDP Per Capita (1992 Dollars)	Per Capita Equalization (1992 Dollars)
NFLD	9880.02	795.85	22846.42	1699.85
PEI	9167.14	713.40	21837.05	1612.31
NS	12018.72	542.00	23753.44	1199.29
NB	11395.65	581.35	23797.12	1363.27
QC	15882.34	296.63	27013.66	544.70
ON	20761.02	0	32712.12	0
MN	15829.21	289.49	26386.39	1007.41
SK	14865.87	382.63	28844.71	204.67
AB	18774.72	0	42487.34	0

BC	18550.83	0	27658.65	40.91
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Sources: Researcher's calculations using Statistics Canada, Table 41: Provincial accounts GDP at market prices by province (millions of dollars), *Canadian Economic Observer: Historical Statistical Supplement*, Catalogue No. 11-210 (Ottawa, ON: Ministry of Industry, 2004), p. 1; Statistics Canada. CANSIM II. CANSIM Label P100000. CPI, 1996b Class, CDA, 1992=100, Monthly/All Items: Consumer Price Indexes for Canada, Monthly, 1996 Classification, (1992=100 unless otherwise specified). Annual. CHASS. Last updated 1 June 2002. Last accessed date 14 July 2004; Statistics Canada. CANSIM II. CANSIM Table No. 051-00011,2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

Provinces that receive equalization payments also have less fiscal capacity. With smaller populations, these provinces generate less per capita GDP and require more transfer payments than more populated and prosperous provinces. These wealthier, larger provinces with higher per capita GDP receive minimal, if any, equalization monies. Equalization payments to smaller provinces with lower GDP are justified if it is assumed that demographic composition and expenditure needs are constant across provinces. This inter-jurisdictional comparison of aggregate population figures across the provinces shows that population growth is greatest among provinces with high gross domestic product and minimal, if any, equalization payments.

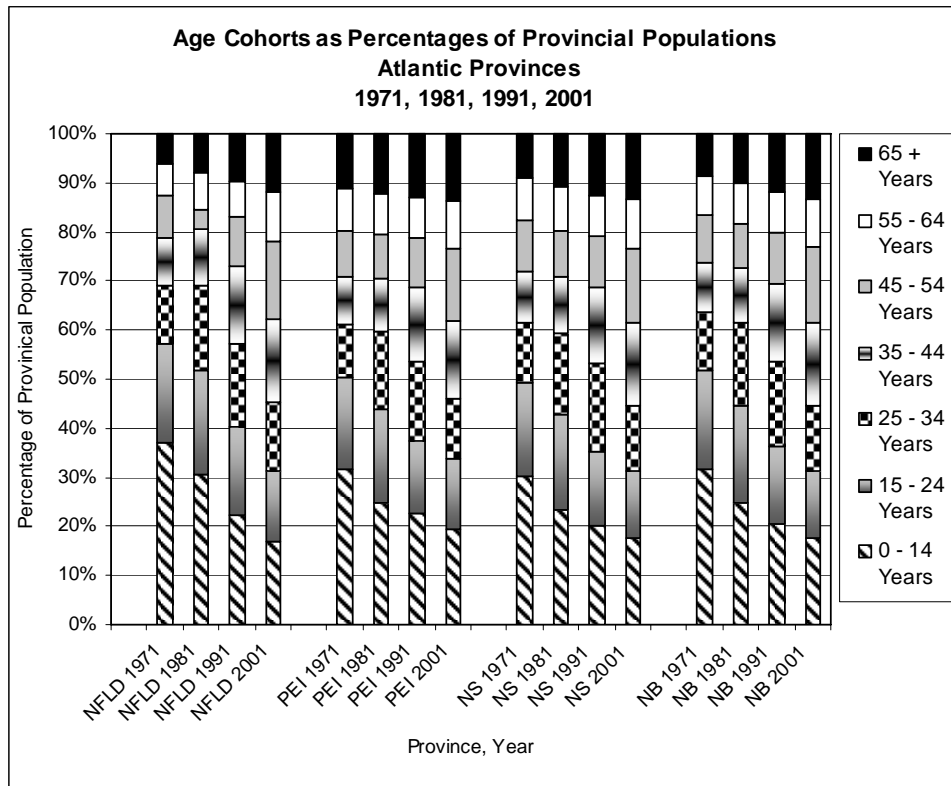
Provincial Population Aging

Over the last thirty years, provinces with higher population growth rates and higher GDP are less likely to receive equalization payments than provinces experiencing minimal, if any, population growth and minimal, if any, increases in provincial GDP. Intuitively, it makes sense that provinces with large populations are likely to have a larger proportion of the population of working age and a larger workforce, thereby making a greater contribution to the GDP. However, larger provinces also have proportionately more people in all age groups, which may result in more and diverse demands for public goods and services. If provinces experiencing growth in all age cohorts are not receiving equalization payments, to what degree is the program meeting its objectives? And to what degree are burgeoning provinces losing out to smaller, older populations?

The Atlantic Provinces

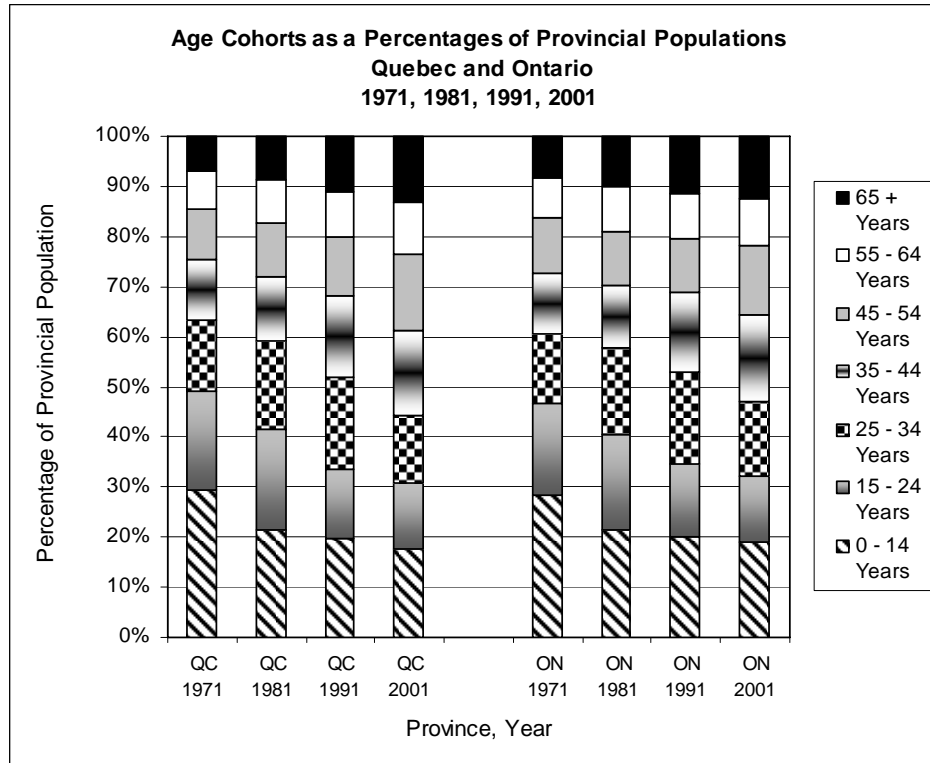
Figures 4, 5 and 6 show each age cohort, as a percentage of total provincial populations. Figure 4 shows the decline in the number of people age 24 and younger from over 50 percent of the Atlantic provincial populations (reaching a provincial high of over 55 percent in Newfoundland and Labrador in 1971) to less than 35 percent of the population across the Atlantic provinces. At the same time, the number of people age 35 and over rose from 30 percent in 1971 to over 50 percent in 2001. There was also a 15-percent increase in the number of people 45 years of age and over, and a nearly 10-percent increase in the population aged 55 and over across the Atlantic Provinces.

Figure 4



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00011,2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

Figure 5



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00011,2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

Quebec and Ontario

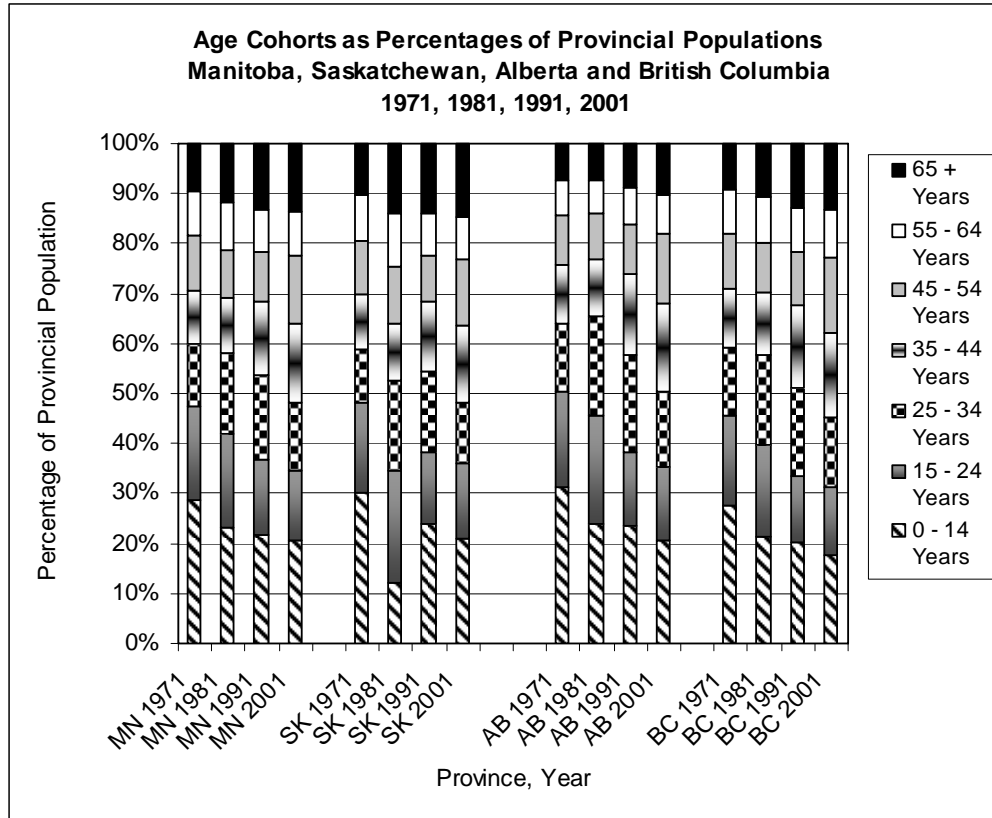
The distribution of Quebec's population by age cohort is similar to that of the Maritime Provinces: Quebecers between the ages of 0 and 24 have declined from roughly 50 percent of the population in 1971 to around 30 percent of the provincial population in 2001. The percentage of Quebecers aged 35 and over have increased by roughly 20 percent, while people aged 45 and over grew by nearly 15 percent. The proportion of Quebecers aged 55 and over increased from 15 percent in 1971 to roughly one quarter of the population in 2001. The distribution of age cohorts in Ontario is comparable to that of other provinces but demonstrates a higher percentage of people under 34 than Quebec and the Atlantic provinces: In 2001, over 45 percent of Ontario's population was 34 years of age or younger.

The Western Provinces

Figure 6 depicts the populations of the western provinces by age cohorts in 1971, 1981, 1991 and 2001. Manitoba and Saskatchewan, which experienced different population fluctuations, especially in 1981, demonstrate roughly equivalent proportions of each age cohort in 2001. Over 45 percent of the populations of Manitoba and Saskatchewan were age 34 and younger. This same cohort accounted for 50 percent of

Alberta's population in 2001. Alberta and Ontario have the youngest populations with nearly 70 percent of the Albertan population 44 years of age or younger, and 65 percent of Ontario's population 44 years or younger. British Columbia is an aberration among the western provinces with less than 20 percent of its population aged 24 and younger and almost 40 percent of its population 45 years of age and older.

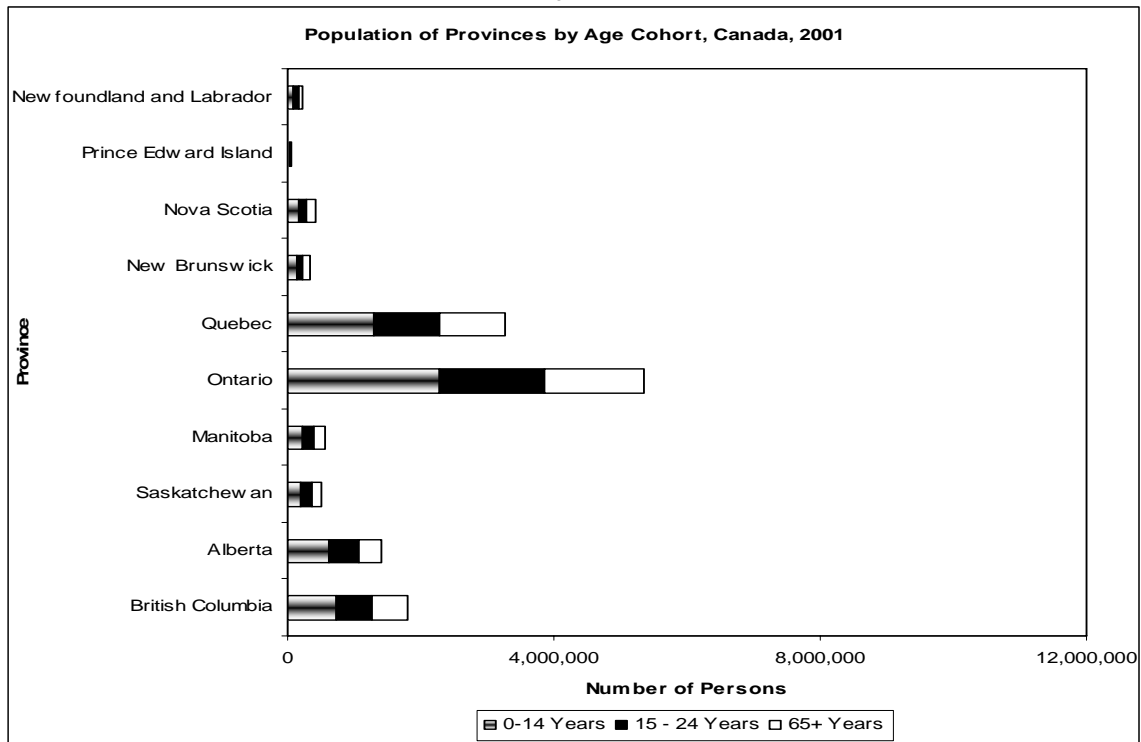
Figure 6



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00011,2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

By virtue of their larger populations, Quebec, Ontario, Alberta and British Columbia have greater proportions of both younger and older people than the provincial median (see Figure 7).

Figure 7



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00011,2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

At 35, the median age in Alberta is the youngest among the provinces. The Atlantic Provinces and Quebec have older (non-Aboriginal) populations than the Canadian median at 37.6 years of age. The median age of non-Aboriginal people in Ontario and British Columbia was also higher than the Canadian median at 38.8 years and 38.4 years, respectively.

Table 4

Median Age and Change in Median Age, Canada, Provinces, 1996 and 2001			
	1996	2001	Change
Canada	35.3	37.6	2.3
Newfoundland and Labrador	34.2	38.4	4.2
Prince Edward Island	34.7	37.7	3.0

Nova Scotia	35.8	38.8	3.0
New Brunswick	35.5	38.6	3.1
Quebec	36.2	38.8	2.6
Ontario	35.2	37.2	2.0
Manitoba	34.7	36.8	2.1
Saskatchewan	34.4	36.7	2.3
Alberta	33.4	35.0	1.6
British Columbia	35.9	38.4	2.5

Sources: Statistics Canada, "Age and Sex for Population, for Canada, Provinces, Territories, Census Metropolitan Areas and Census Agglomerations," *1996 Census* and *2001 Census*, (Ottawa: Ministry of Industry). Available online: www.statcan.ca. Accessed February 2005.

Manitoba and Saskatchewan both have young median ages of 37 years. This is largely a function of the growth among Aboriginals which, in Manitoba and Saskatchewan, rose from 13 to 19 percent between 1996 and 2001. (See Table 5)

Table 5

Median Age for Population Reporting Aboriginal Identity and Non-Aboriginal Population Canada, Provinces, 2001		
	Median Age (Years)	
Province	Aboriginal	Non-Aboriginal
Canada	24.7	37.7
Newfoundland and Labrador	27.7	38.5
Prince Edward Island	24.6	37.4
Nova Scotia	25.3	38.7
New Brunswick	28.2	38.5
Quebec	27.9	38.5

Ontario	27.9	37.1
Manitoba	22.8	38.5
Saskatchewan	20.1	38.8
Alberta	23.4	35.4
British Columbia	26.8	38.7
Note: Median age is the point at which exactly one-half of the population is older, and the other half is younger.		

Source: Statistics Canada. *Aboriginal Peoples of Canada: A Demographic Profile*. 2001 Census: Analysis Series. Catalogue no. 96F0030XIE2001007. Ottawa: Ministry of Industry, 2003. P. 20. Available online.

Fewer young people live in the Atlantic Provinces than elsewhere in the country and their proportion has been declining steadily (Prince Edward Island constitutes a slight aberration to this trend). The proportion of youth in Manitoba and Saskatchewan also declined slightly over the past 30 years. The differential is greatest in Quebec where the proportion of youth fell 5.6 percent from 1971 to 2001. By contrast, the proportion of youth in Alberta and British Columbia has risen by 2.9 and 3.1 percent, respectively. The greatest cohort of Canadian youth under 24 lives in Ontario. This figure has grown by 3.7 percent since 1971.

Table 6

Percentage of Canadian Youth Ages 0 - 24 by Province, Census Years 1971 to 2001*										
Year	NFLD	PEI	NS	NB	QC	ON	MN	SK	AB	BC
1971	2.9	0.5	3.7	3.2	28.5	34.8	4.5	4.2	7.9	9.7
1976	2.9	0.5	3.7	3.2	27.4	35.0	4.4	4.1	8.5	10.3
1981	2.8	0.5	3.5	3.0	26.2	34.6	4.2	4.1	10.1	10.8
1986	2.6	0.5	3.5	3.0	25.0	35.7	4.3	4.3	10.1	10.9
1991	2.4	0.5	3.3	2.8	24.2	37.0	4.2	3.9	10.2	11.6
1996	2.0	0.5	3.1	2.6	23.6	37.4	4.1	3.8	10.2	12.7
2001	1.7	0.5	2.9	2.3	22.9	38.5	4.0	3.6	10.8	12.8

*Note: The percentages represent distribution of Canadian youth living in provinces. The Canadian youth living in territories are not included above.

Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00011,2. Estimates of Population, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005;

Analysis of Equalization as a function of Provincial Population Aging

Whereas the national population is projected to remain static over the next 25 years, the number of Canadians over 65 will grow rapidly. The data show that provinces with smaller populations, such as the Atlantic Provinces, are aging more rapidly than provinces with larger populations, such as Ontario, Alberta and British Columbia. Continued growth is projected for the cohort of young Canadians in these larger provinces.

As the time-series analysis above demonstrates, smaller and older - 'aging' - provinces have received the bulk, if not all, of the equalization transfers over the last three decades. This maintains particularly for the Atlantic Provinces. Manitoba and Saskatchewan, whose youth cohorts and provincial populations have been on the wane, continue to receive substantial transfer payments. By contrast, provinces whose populations are younger larger – Ontario and Alberta in particular – do not receive any transfer payments. British Columbia, whose older cohorts have grown as its population has increased, is a slight exception. It received per capita equalization transfers of \$28.15 in 1999 and \$40.91 in 2001.

Fiscal redistribution in Canada has profound intergenerational impacts: “the youngest group, singles, incurs a small fiscal loss. As they form families, especially two-income families, they become severely penalized by the fiscal system”.³⁷ As younger Canadians start families, especially two-income families, they end up carrying a greater equalization – i.e. tax -- burden. If these young Canadians are living in larger, 'have' provinces, they cannot recover these losses in the form of equalization transfers and must wait until they retire from the labour force, typically at age 65, to see some of the money they have been paying into the system. Ruggeri and McMullen assert that “[i]f one viewed the fiscal system strictly from an efficiency perspective, one might question the merits of a fiscal structure that penalizes households during their labour-attachment years, when they make labour supply decisions, and rewards them when they no longer have an attachment to the labour force.”³⁸

The nature of interpersonal redistribution in Canada has been shown to be especially perverse for families within the same income categories living in different provinces. On the one hand, by virtue of residing in Ontario, a family within an annual income of \$30,000 to \$40,000 contributes 2.8 percent of this income to the transfer system; a family in the same income range living in Alberta contributes 9.0 percent of this income to the transfer system. On the other hand, a family with an income in the \$30,000 to \$40,000 category living in Manitoba *receives* 2.9 percent of its family income in the form of transfers; in Nova Scotia, this family would receive 10.8 percent of their family income in the form of transfers. As it turns out, families

³⁷ G. Ruggeri, D. Van Wart and R. Howard. *The Government as Robin Hood: Exploring the Myth*. (Kingston, Queen's University: School of Policy Studies, 1997): 39- 40. Cited in Ruggeri and McMullin, op. cit., 129.

³⁸Ruggeri and McMullin, op. cit., 129.

in 'have' provinces are thus relatively disadvantaged compared to families with the same income living in a 'have-not' province.³⁹ The disadvantage is compounded by a higher cost of living in 'have' than 'have-not' provinces.

Equalization, an unconditional grant, may be used by provincial governments to cover some of the costs associated with aging and increased demand on public goods and services. However, aging only effects equalization transfers if there is a change in the patterns of consumption of taxable goods used to calculate provincial fiscal capacity. Although aging may affect patterns of consumption, it does not necessarily change the amount of revenue collected on particular taxable goods and services. In the end, equalization transfers are disproportionately directed towards smaller, older provinces, and away from provinces whose populations are younger and growing exponentially, irrespective of different patterns and costs of consumption. These provinces are thus disadvantaged in terms of total general revenue available to meet the pressures for public good and services associated with a growing population.

Interprovincial and International Migration

Interprovincial and international migration may intervene to accelerate or decelerate provincial population aging. A closer consideration of interprovincial net migration by province further supports the emerging pattern: smaller, older sub-national units experience a net loss of inter-provincial migration; they also have the lowest immigration-settlement rates in the country.

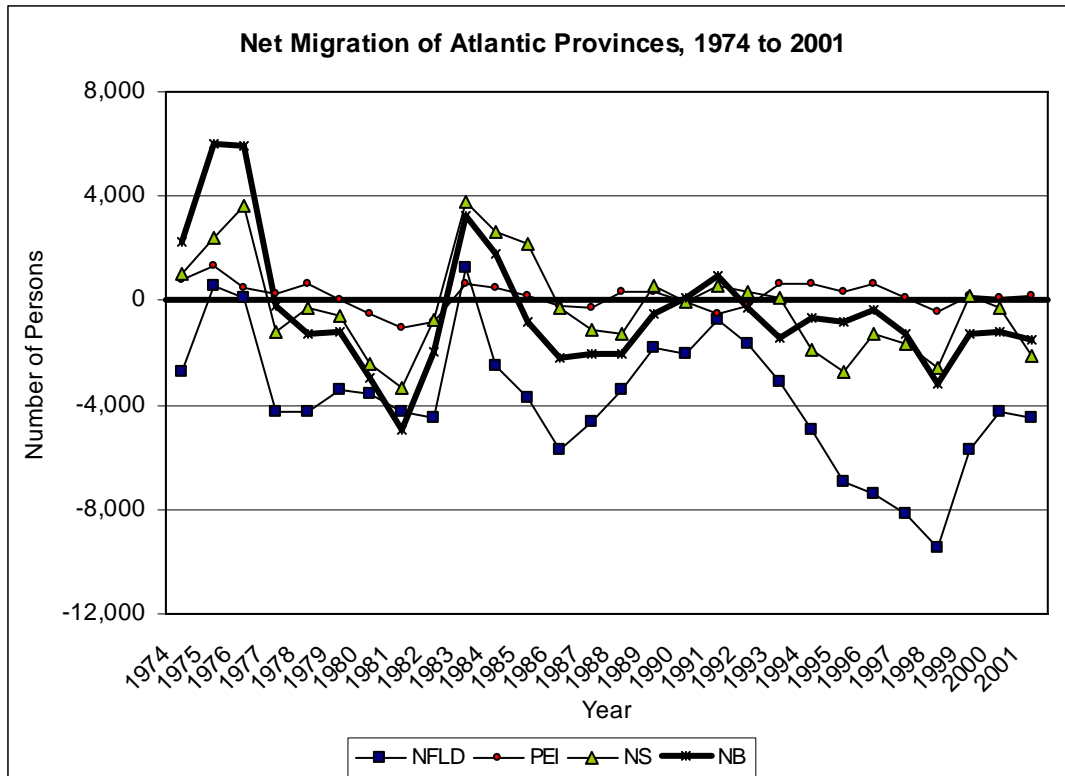
Interprovincial Migration Among the Provinces

Atlantic Provinces

Figure 8 shows net interprovincial migration from 1974 to 2001 and table 7 shows net migrants and net migration rates by age group for the Atlantic Provinces of Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The decline of the population in the Atlantic Provinces is a function of net outmigration. Since 1974, the Atlantic Provinces have experienced only sporadic net gains.

Figure 8

³⁹Finn Poschmann. "Where the Money goes: The distribution of Taxes and benefits in Canada." *C.D. Howe Institute Commentary* 105. April 1998 (Toronto: C.D. Howe Institute): 21.



Note: "Interprovincial Migration is the movement from one province or territory to another involving a permanent change in residence. A person who takes up residence in another province or territory is an out-migrant with reference to the province or territory of origin, and an in-migrant with reference to the province or territory of destination. Net Interprovincial Migration is the difference between number of in-migrants and the number of out-migrants." Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00121,2,3. Interprovincial Migrants, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

Table 7

Net migrants and net migration rates by age group, provinces, 1996-2001 (*)												
Province	Total		5-14		15-29		30-44		45-64		65 +	
	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Newfoundland and Labrador	-31,055	-6.1	-3,365	-5.0	-17,875	-14.8	-7,330	-5.8	-2,250	-1.6	-180	-0.3
Prince Edward Island	135	0.1	95	0.5	-1,110	-4.0	90	0.3	815	2.5	245	1.5
Nova Scotia	-1,275	-0.2	1,025	0.9	-5,125	-3.0	-225	-0.1	2,240	1.0	800	0.7
New Brunswick	-8,425	-1.2	-395	-0.4	-6,840	-4.6	-1,440	-0.8	140	0.1	110	0.1

*Note: These numbers are for internal migration only. They do not include the number of people who were outside Canada in 1996 and entered Canada between the 1996 and 2001 Censuses.

Source: Statistics Canada. Profile of the Canadian Population by Mobility Status: Canada, A Nation on the Move. 2001 Census: Analysis Series. Catalogue no. 96F0030XIE2001006. Ottawa: Ministry of Industry, 2002. P. 21. Available online.

Newfoundland and Labrador are net migration losers (with the exception of slight gains in the late 1970s and the early 1980s). About 15 percent of the people who left Newfoundland and Labrador between 1996 and 2001 were between the ages of 15 and 29; 5.8 percent of emigrants were between 30 and 44. Prince Edward Island's rate of interprovincial migration has been fairly stable. The resulting gains and losses of migrants over the last 30 years are thus negligible. From 1996 to 2001, PEI's rate of migration was 0.1 percent; the greatest gains were in the 45-64 cohort. Four percent of out-migrants were between the ages of 15 and 29.

Nova Scotia experienced a sharp increase in net migration in 1976/77 followed by a steep decline, reaching a record loss of nearly 4000 migrants in 1981/82. Between 1996 and 2001, Nova Scotia's rate of emigration was 0.2 percent.

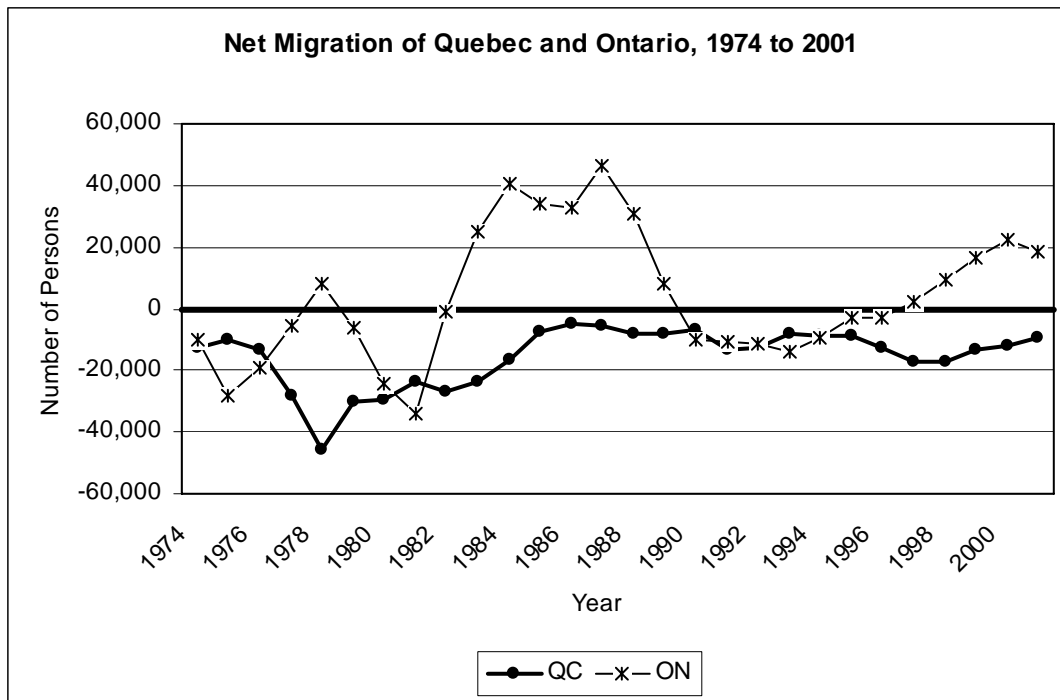
Over the last three decades, more migrants settled in New Brunswick than in any other Atlantic Province. In the mid-1970s nearly 6,000 people migrated to New Brunswick. In concert with the other Maritime Provinces, however, substantial losses were incurred in the early 1980s, and only climbed above zero-net migration in the mid-1980s and early 1992. Between 1996 and 2001, 4.6 percent of out-migrants from New Brunswick were between the ages of 15 and 29. Overall, with the exception of Prince Edward Island's minimal positive migration rate, the remaining three Atlantic Provinces suffered net losses in their population to interprovincial migration between 1996 and 2001.

Quebec and Ontario

From 1974 to 2001, Quebec suffered net migration losses, reaching an all-time low in 1978 (see figure 9). Slight improvements in these figures notwithstanding, Quebec was unable to stem interprovincial out-migration.⁴⁰

⁴⁰ In the last two years, however, Quebec has seen a slight turnaround in its migratory fortunes, registering minuscule migratory gains.

Figure 9



Note: "Interprovincial Migration is the movement from one province or territory to another involving a permanent change in residence. A person who takes up residence in another province or territory is an out-migrant with reference to the province or territory of origin, and an in-migrant with reference to the province or territory of destination. Net Interprovincial Migration is the difference between number of in-migrants and the number of out-migrants." Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00121,2,3. Interprovincial Migrants, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

Table 8 shows out-migration from Quebec at a rate of 0.9 percent between 1996 to 2001. The greatest losses were among in the 5-14 and 30-44 cohorts. This may possibly reflect mobility by young families from Quebec to provinces where they incur a lesser tax burden.

Table 8

Net migrants and net migration rates by age group, provinces, 1996-2001 (*)												
Province	Total		5-14		15-29		30-44		45-64		65 +	
	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Quebec	-57,315	-0.9	-10,330	-1.1	-13,640	-1.0	-17,925	-1.1	-10,085	-0.5	-5,350	-0.6
Ontario	51,905	0.5	10,330	0.7	17,935	0.9	19,215	0.7	3,105	0.1	1,285	0.1

* Note: These numbers are for internal migration only. They do not include the number of people who were outside Canada in 1996 and entered Canada between the 1996 and 2001 Censuses.

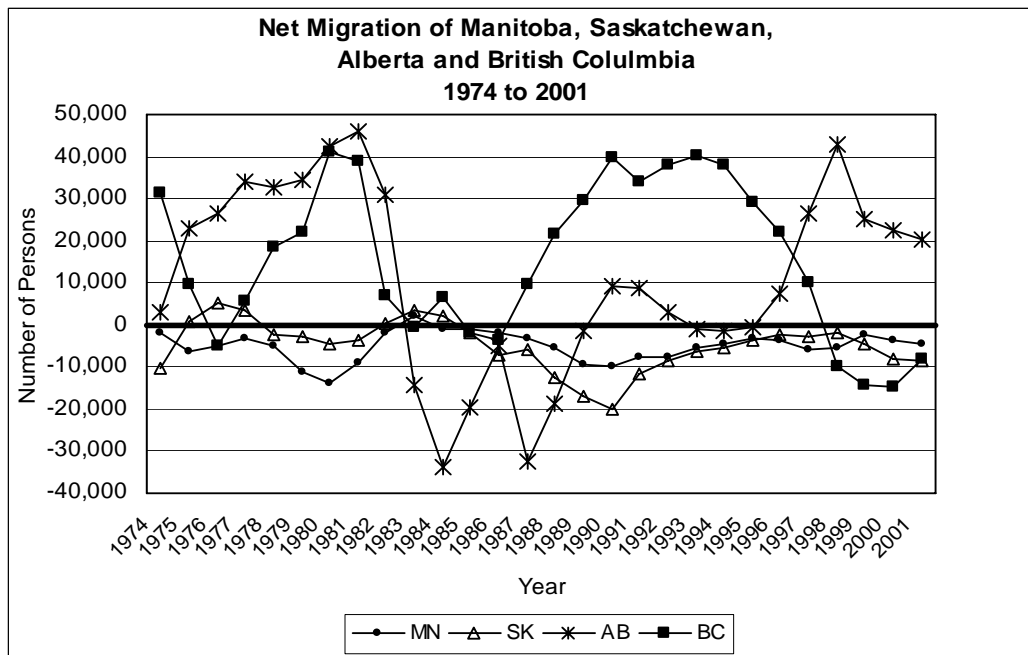
Source: Statistics Canada. *Profile of the Canadian Population by Mobility Status: Canada, A Nation on the Move*. 2001 Census: Analysis Series. Catalogue no. 96F0030XIE2001006. Ottawa: Ministry of Industry, 2002. P. 21.

Migration to Ontario fluctuates (see Figure 9). Gains in the early 1980s were followed by losses in the early 1990s (which coincided with a national economic recession). By 1994, Ontario's migration was on the mend, reaching an influx of 20,000 in 2000. Between 1996 and 2001, Ontario experienced a 0.5 percent positive migration rate. The greatest gains were in the 0-14, 15-29, and 30-44 cohorts, at 0.7, 0.9 and 0.7 percent respectively.

Western Provinces

Figure 10 graphs net migration to the western provinces of Manitoba, Saskatchewan, Alberta and British Columbia.

Figure 10



Note: "Interprovincial Migration is the movement from one province or territory to another involving a permanent change in residence. A person who takes up residence in another province or territory is an out-migrant with reference to the province or territory of origin, and an in-migrant with reference to the province or territory of destination. Net Interprovincial Migration is the difference between number of in-migrants and the number of out-migrants." Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00121,2,3. Interprovincial Migrants, by Age Group and Sex, Canada, Provinces and Territories, Annual (Persons). E-Stat. Last updated 5 November 2003. Last accessed February 2005.

Table 9 breaks down net migrants and net migration rates by cohort for Manitoba and Saskatchewan from 1996 to 2001.

Table 9

Net migrants and net migration rates by age group, provinces, 1996-2001 ^(*)												
Province	Total		5-14		15-29		30-44		45-64		65 +	
	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Manitoba	-18,560	-1.8	-1,960	-1.2	-6,675	-3.0	-4,610	-1.9	-3,855	-1.5	-1,495	-1.0
Saskatchewan	-24,940	-2.7	-2,425	-1.6	-12,255	-5.9	-5,400	-2.6	-3,030	-1.4	-1,860	-1.3

* Note: These numbers are for internal migration only. They do not include the number of people who were outside Canada in 1996 and entered Canada between the 1996 and 2001 Censuses.

Source: Statistics Canada. Profile of the Canadian Population by Mobility Status: Canada, A Nation on the Move. 2001 Census: Analysis Series. Catalogue no. 96F0030XIE2001006. Ottawa: Ministry of Industry, 2002. P. 21. Available online.

Manitoba's losses have persisted since 1974. The province lost over 10,000 people in 1980/81, and almost as many people again in 1990/91. From 1996 to 2001, the rate of out-migration was 1.8 percent. Most immigrants were between 15 and 29.

Saskatchewan's losses are comparable to Manitoba's, with the exception of gains between 1975/76 and 1977/78 and in the early 1980s. The nadir was reached in 1990/91 when 20,000 people left the province. Saskatchewan's rate of out-migration from 1996 to 2001 was 2.7 percent. Most migrants were between 15 and 29 years of age; 1.6 percent of out-migrants were between the ages of 0 and 14, and 2.6 percent of out migrants were between the ages of 30 and 44.

Migrants have been flooding into Alberta since 1974, reaching over 40,000 people in 1981/82 and again in 1998/1999. In 1984/85 and in 1987/88, however, Alberta lost over 30,000 people to out-migration. Since the late 1990s, migration decelerated but remained at nearly 20,000 people in 2001. Between 1996 and 2001, migrants arrived in Alberta at a rate of 4.7 percent. More migrants were in the 15-29 cohort (9.1 percent -- see Table 10) than in any other cohort. Five percent of migrants were between the ages of 30 and 44 and 4.1 percent of migrants were between the ages of 5 and 14.

Table 10

Net migrants and net migration rates by age group, provinces and territories, 1996-2001 ^(*)												
Province or territory	Total		5-14		15-29		30-44		45-64		65 +	
	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Alberta	119,420	4.7	16,400	4.1	51,955	9.1	33,790	5.0	13,610	2.1	3,685	1.3
British Columbia	-23,630	-0.7	-7,745	-1.6	-6,050	-0.9	-13,695	-1.6	960	0.1	2,915	0.6

*Note: These numbers are for internal migration only. They do not include the number of people who were outside Canada in 1996 and entered Canada between the 1996 and 2001 Censuses.

Source: Statistics Canada. *Profile of the Canadian Population by Mobility Status: Canada, A Nation on the Move*. 2001 Census: Analysis Series. Catalogue no. 96F0030XIE2001006. Ottawa: Ministry of Industry, 2002. P. 21. Available online.

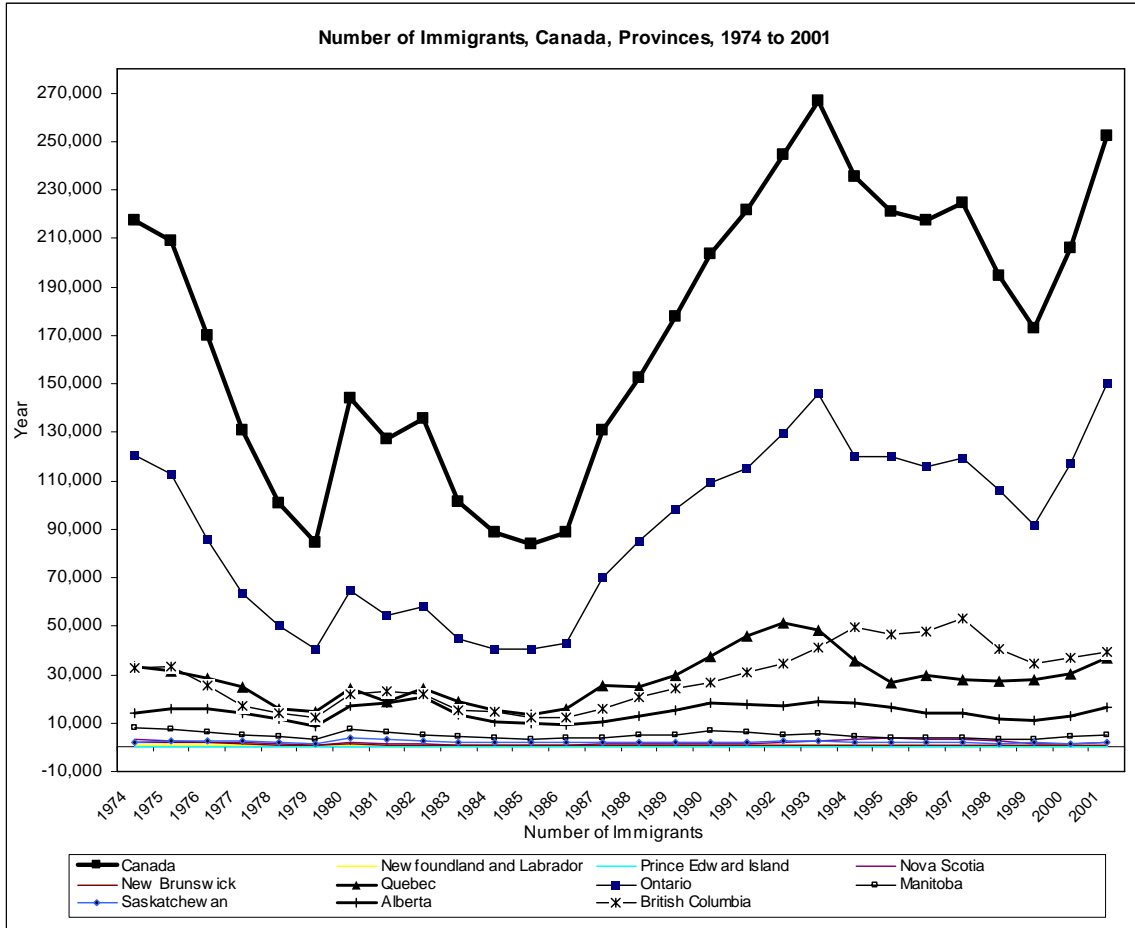
British Columbia's migratory trends are similar Alberta's. Migration to British Columbia peaked at 40,000 in the early 1980s, and again in the early to mid 1990s. Since 1998, British Columbia has been subject to net migratory losses. Fifteen thousand people left the province between 1996 and 2001 at a rate of 0.7 percent. Individuals leaving British Columbia were between the ages of 0 and 14, and 35 and 44. Together, they accounted for 1.6 percent of out-migrants. Yet, British Columbia's losses appear to be easing.

Only Prince Edward Island, Ontario and Alberta experienced positive net interprovincial migration rates at 0.1, 0.5 and 4.7 percent, respectively. Ontario and Alberta experienced the highest positive net interprovincial migration of individuals between the ages of 15 and 29. Of the provinces hit by out-migration rates, the Atlantic as well as Manitoba and Saskatchewan experienced the greatest losses in the 15-29 cohort. Quebec and British Columbia, where net migration was also negative, were hardest hit in the 5-14 and 35-44 cohorts. These figures probably reflect the mobility of young families with children.

Immigration to the Provinces

Figure 12 shows the number of immigrants to Canada and to the provinces from 1974 to 2001. Ontario was the favourite destination of immigrants. A record high of 150,000 foreign immigrants settled there in 2001.

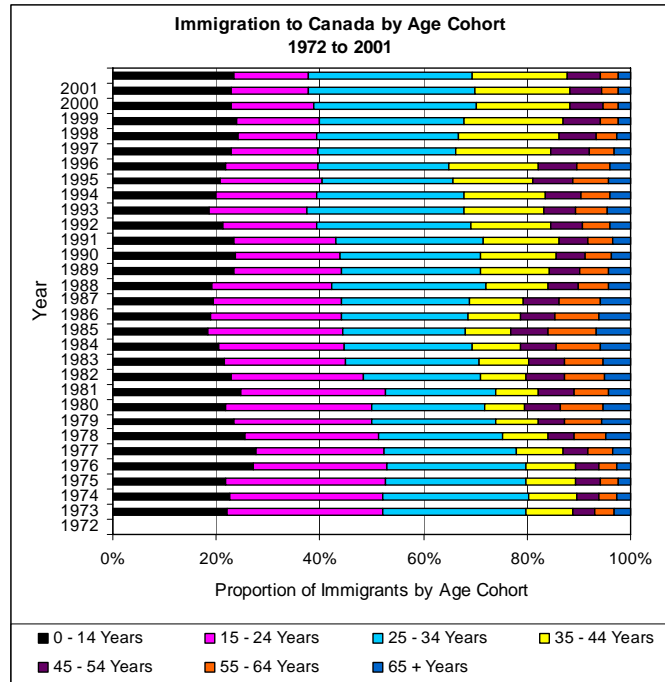
Figure 11



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

The remainder of foreign migrants settled largely in British Columbia and Quebec. Immigration to Quebec peaked at 50,000 in 1992. British Columbia welcomed a record high of 50,000 immigrants in 1997/98. Alberta ranked fourth at 10,000-25,000 foreign migrants annually over the last 30 years. The number of foreign immigrants those headed for Saskatchewan and the Atlantic Provinces.

Figure 12



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

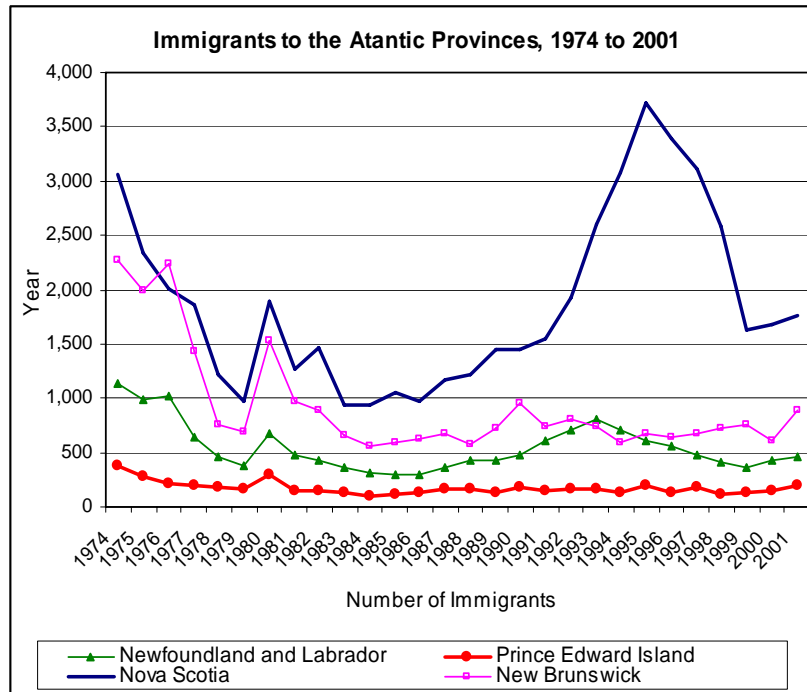
Figure 12 breaks down immigrants to Canada from 1972 to 2001 by age cohort. In 1972, over 50 percent of immigrants to Canada were under 25. In 2001, this figure dropped below 40 percent. Similarly, the percentage of immigrants under 35 has declined from nearly 80 percent in 1972 to approximately 70 percent in 2001. Meanwhile, the number of immigrants in the 35-44 cohort doubled from 10 to 20 percent over three decades. Immigrants over 34 years of age accounted for 20 percent of the total foreign migratory cohort in 1972 to 30 percent in 2001. Immigration to Canada, in other words, has been aging.

Atlantic Provinces

Among the Atlantic Provinces, since 1974 more foreigners have settled in Newfoundland and Labrador than Prince Edward Island (see Figure 13). Immigration to Newfoundland and Labrador reached its nadir in the 1980s but appears to have picked up since the early 1990s, reaching a high of nearly 700 immigrants in 1993/94. Immigration to Prince Edward Island is minimal, at only a few hundred people annually. Nova Scotia is the primary destination for immigrants to the Maritimes. In 1995/96, the province welcomed a record high of 3,500 immigrants, but the figures waned until 1999/2000. The situation has since improved. Foreign immigration to New Brunswick, which welcomed its highest number of immigrants in the late 1970s, about 2,000 people annually, has been in decline. In 2001, fewer than 1,000 immigrants arrived in New

Brunswick. Despite positive population gains due to immigration, the Atlantic Provinces only received a small proportion of total immigrants to Canada over the last 30 years.

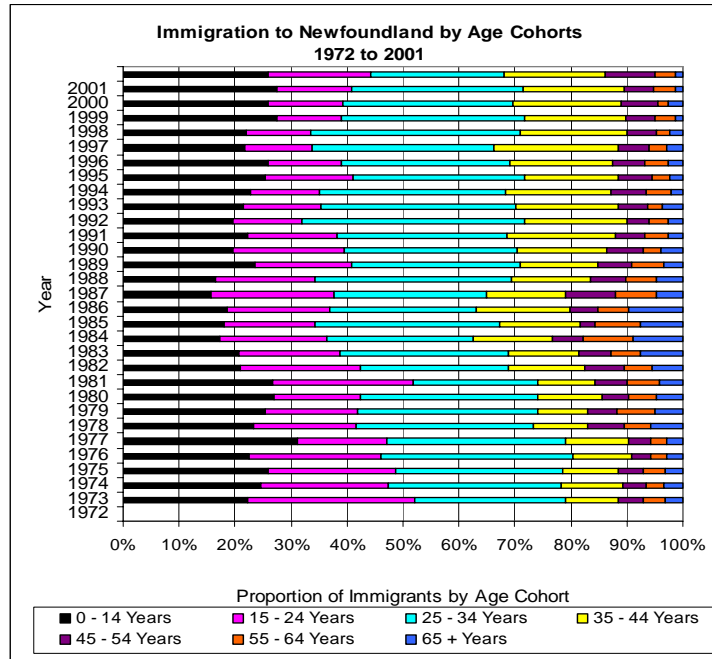
Figure 13



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

In 1972, nearly 80 percent of immigrants to Newfoundland and Labrador were under 35 (see Figure 14). In 2001, this proportion dropped to 70 percent. The number of immigrants over 34 years of age has increased over the last 30 years. In light of this influx of younger immigrants and losses of younger people to interprovincial migration, it is likely that many of these immigrants move on to other provinces after their arrival in Newfoundland and Labrador. Immigrants over 34 years of age are less mobile. Population aging in Newfoundland and Labrador is thus a function of minimal gains among younger people through immigration, the growing loss of young people to interprovincial migration, and the continued addition of immigrants to the over-34 cohort.

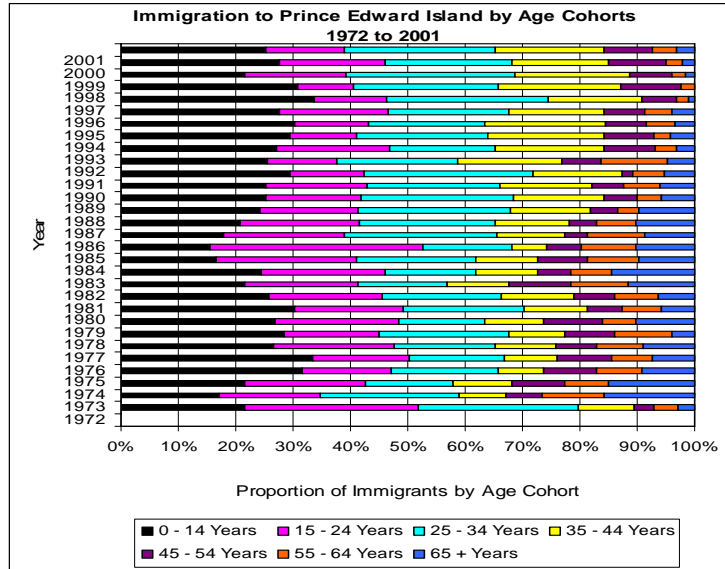
Figure 14



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

The age structure of immigrants to Prince Edward Island over the last three decades has fluctuated (see figure 15). In 1972, over 80 percent of immigrants were under 35. Over time this figure contracted to a low of less than 60 percent in 1974. Similar to the situation of Newfoundland and Labrador, most of the out-migrants from Prince Edward Island are between the ages of 15 and 29. Despite its negligible positive net migration rate of 0.1 percent, it is quite possible that many of the younger immigrants do not remain on the island but continue on to other Canadian provinces. Again, similar to Newfoundland and Labrador, the result is a rapidly aging population in Prince Edward Island.

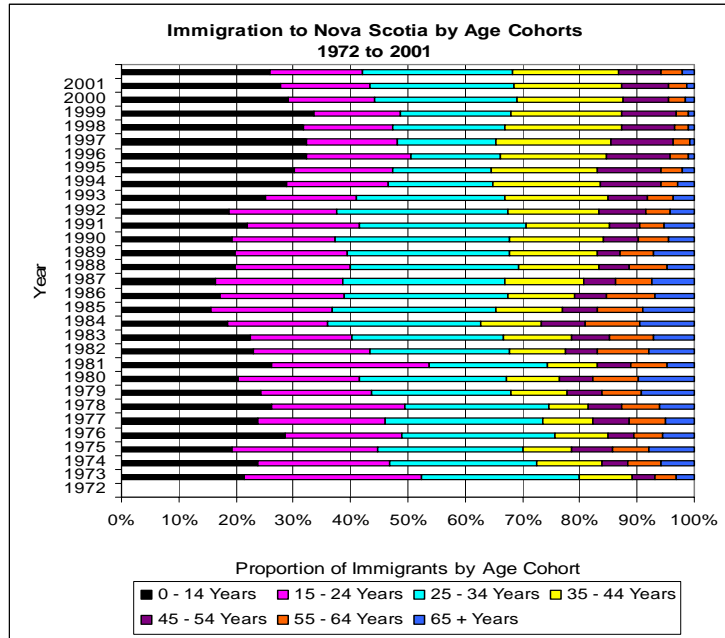
Figure 15



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

From 1972 to 2001, the percentage of immigrants to Nova Scotia under 35 fell from nearly 80 percent to less than 70 percent (see figure 16). Over this thirty year period, immigrants to Nova Scotia have grown older: one quarter percent of the immigrants to this province are now over 34 years of age. There has also been a marked increase in the number of immigrants in the 45-54 cohort to Nova Scotia since 1972, accounting for nearly 10 percent of the roughly 1,700 immigrants in 2001.

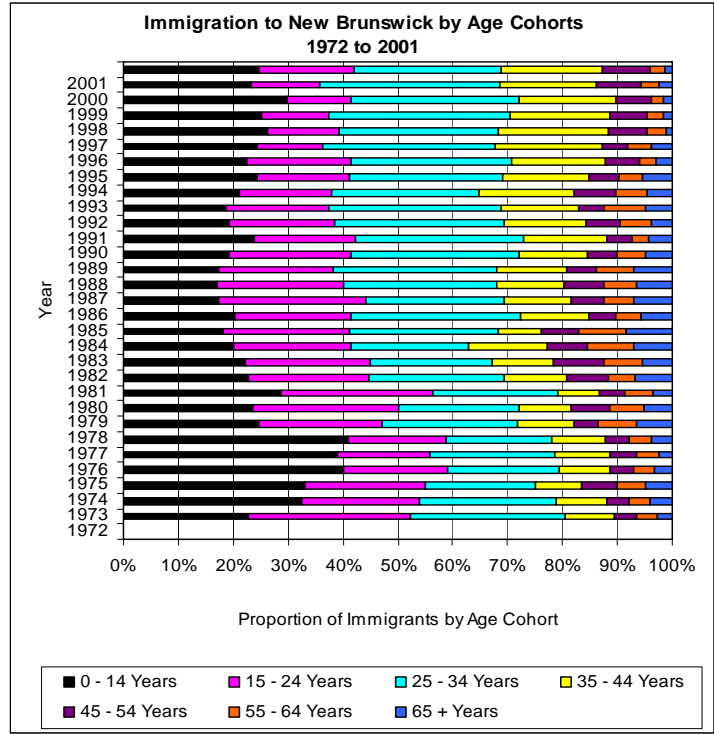
Figure 16



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

The proportion of immigrants to New Brunswick in the under-35 cohort declined over the last thirty years (see figure 17). It fell from over 80 percent in 1972 to less than 70 percent in 2001. New Brunswick, which suffered out-migration at a rate of 2.1 percent from 1996 to 2001, also experienced these losses from its younger population. So, while more young people are leaving New Brunswick, fewer young people are settling there and the number of older immigrants has been rising. The result is an older and aging provincial population.

Figure 17

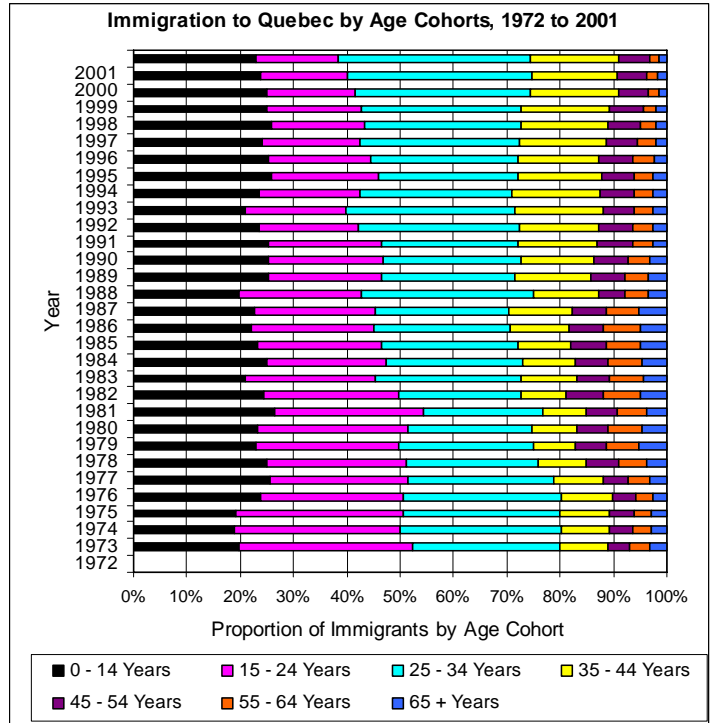


Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

Quebec and Ontario

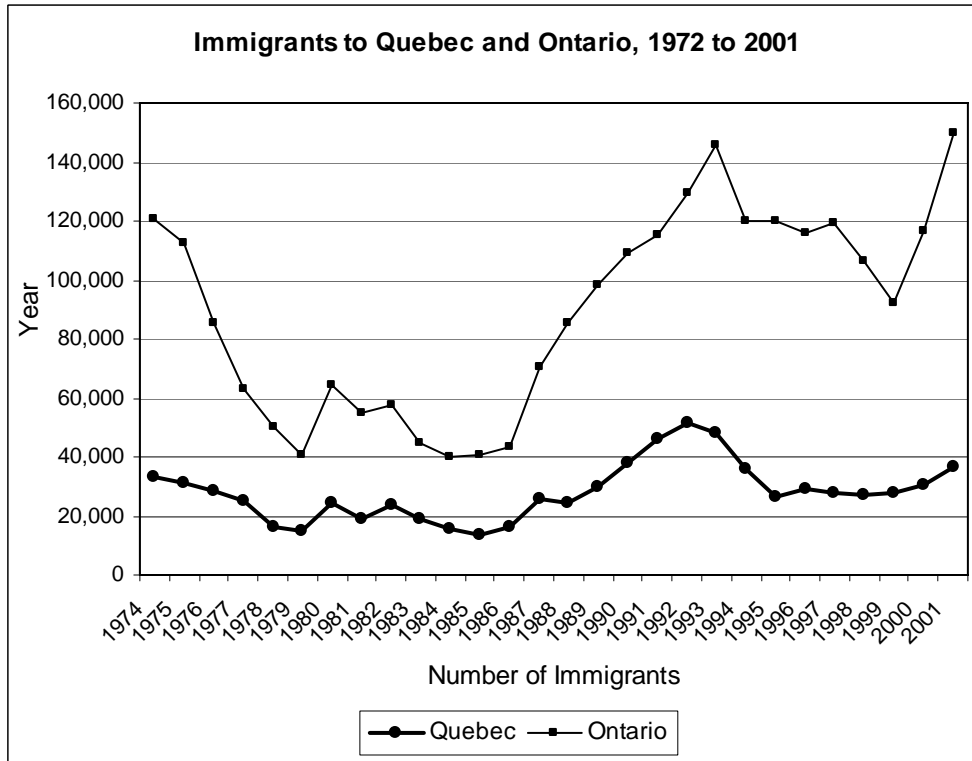
Figure 18 shows immigration to Quebec by age cohorts from 1972 to 2001. As depicted, the percentage of immigrants between in the 25-34 cohort has risen by 10 percent. However, the percentage of immigrants under 25 declined from over half percent to less than 40 percent, while the percentage of immigrants between the ages of 35 and 44 has risen from less than 10 percent to nearly 20 percent. With an out-migration rate of 0.9 percent owing primarily to losses of individuals in the 0-44 cohort, and a 10-percent shift in the age of immigrants in favour of older cohorts, an older, aging provincial population has been emerging. Nonetheless, Quebec still receives a good proportion of immigrants to Canada, and thus remains a relatively diverse province (see figure 19).

Figure 18



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

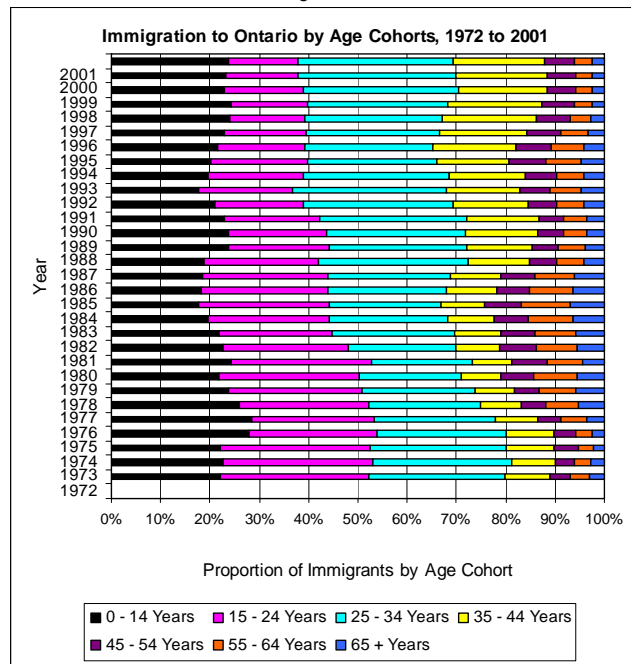
Figure 19



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

Figure 19 shows steady growth in the number of immigrants to Ontario from 1972 to 2001. On the one hand, the number of immigrants to Ontario between in the 15-24 cohort declined by 20 percent. On the other hand, in 2001 the number of immigrants in the 25-34 rose slightly to over thirty percent. The number of immigrants between the ages of 35 and 44 also rose, from less than 10 percent to nearly 20 percent of total immigrants from 1972 to 2001. The influx of immigrants in the 25-34 cohort and the positive net-migration of individuals between the ages of 5 and 44 (especially among 15 to 29 year olds) results in a stable proportion of younger people living in Ontario over thirty years. As the destination for two-thirds of immigrants to Canada, it is also the most ethnically diverse province.

Figure 20



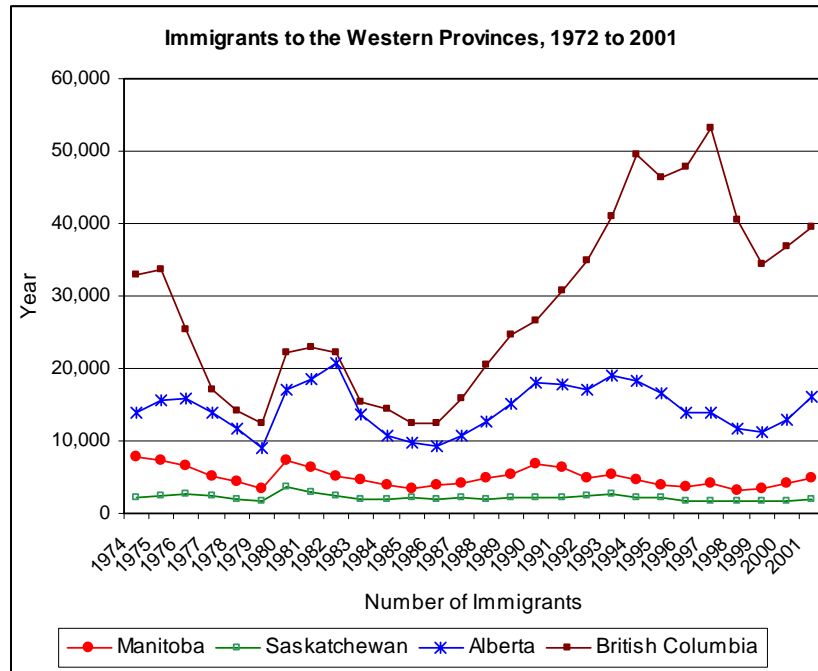
Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

Western Provinces

Figure 21 shows the number of immigrants to the western provinces from 1972 to 2001. Fewer than 20,000 foreign immigrants settled on the Prairies annually from 1972 to 2001. At fewer than 5,000 immigrants per year, Saskatchewan was the least-popular destination, while 5,000-10,000 immigrants settled in Manitoba per year over the thirty years. Immigration to British Columbia and Alberta fluctuated. Still, fewer immigrants – peaking at 20,000 in 1982/83 and 1993/94 -- settled in Alberta than in British Columbia. British

Columbia received the least immigrants in 1979/80, then again in 1985/86 and 1986/87 (about 15,000 a year). In 1997/98, by contrast, over 50,000 immigrants arrived in British Columbia, a figure that has since remained fairly constant.

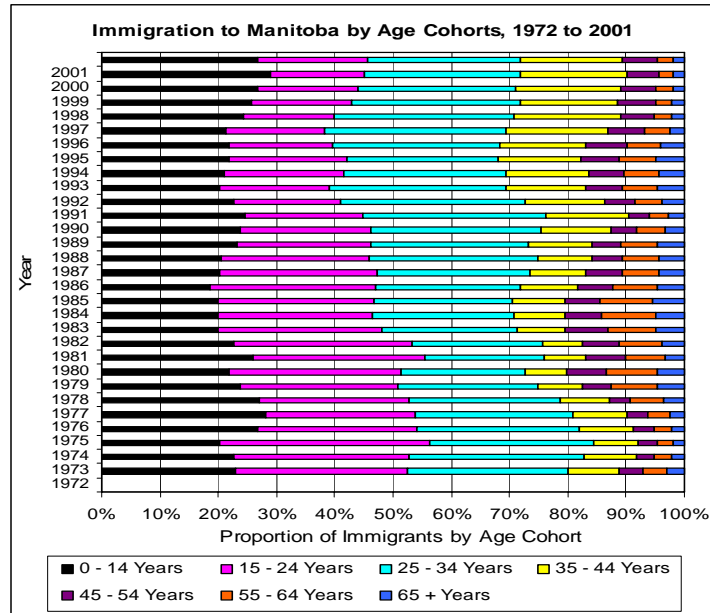
Figure 21



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

Since 1972, the proportion of immigrants to Manitoba in the under-35 cohort has fallen by 10 percent (see figure 22). The percentage of immigrants over the age of 34, however, has increased concomitantly. As the number of young immigrants has fallen, and with 3.0 percent of out-migrants between the ages of 15 and 29 between 1996 and 2001, the proportion of Manitoba's older population (aged 35 and over) has grown accordingly.

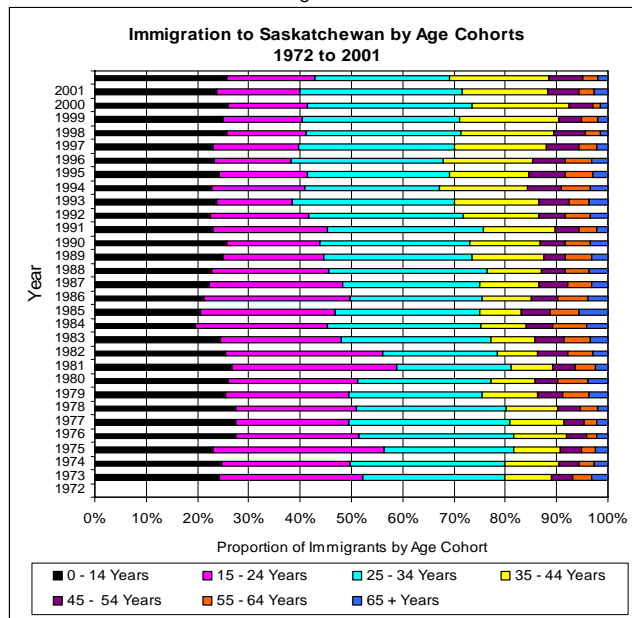
Figure 22



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

The proportion of immigrants to Saskatchewan under the age of 35 has fallen from 80 percent to less than 70 percent in 2001 (see figure 23). At the same time, the percentage of immigrants over 34 increased from less than 10 percent to over 20 percent. Although Saskatchewan has received nearly 5,000 immigrants annually over the past thirty years, the annual rate of out-migration between 1996 and 2001 is relatively high at 5.9 percent. The decline of the percentage of the Canadian population living in Saskatchewan may be explained by the low number of immigrants and high out-migration. Since most of them are between the ages of 15 and 29 and with a declining the proportion of young immigrants, Saskatchewan's age structure is older than that of larger provinces (and most of its young population is Aboriginal).

Figure 23

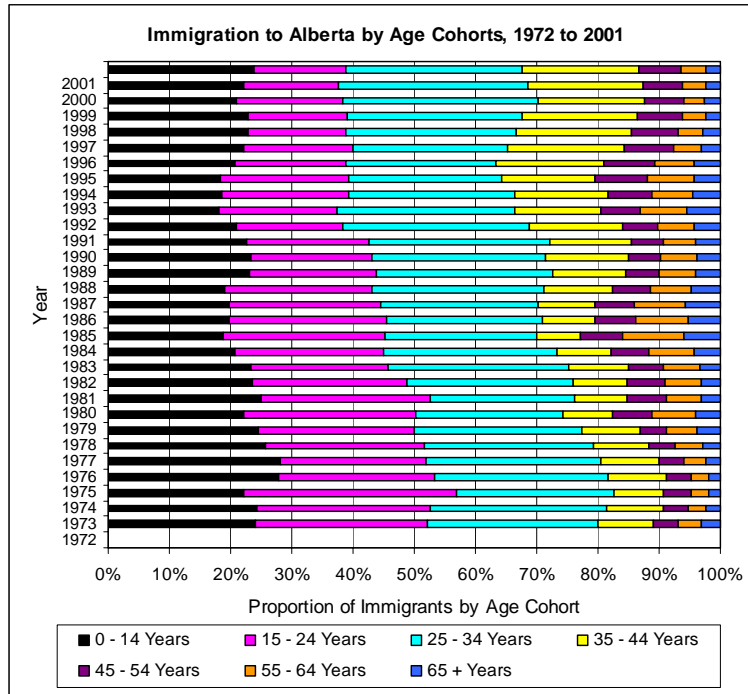


Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

Alberta and British Columbia

Alberta has experienced a shift in the age distribution of immigrants since 1974 (see figure 24). In 2001, fewer immigrants between the ages of 15 and 24 and more immigrants over 34 arrived in Alberta. The number of immigrants between the ages of 45 and 54 also increased markedly. Inter-provincial migration contributed to the growth of these cohorts with a positive in-migration rate of 4.7 percent from 1996 to 2001. Over 9 percent of migrants to Alberta were between the ages of 15 and 29. Gains from inter-provincial migration and stable international immigration of 10, 000-20,000 settlers have spurred growth among Alberta's population. It has the youngest age structure of any province in Canada and it has been diversifying ethno-culturally.

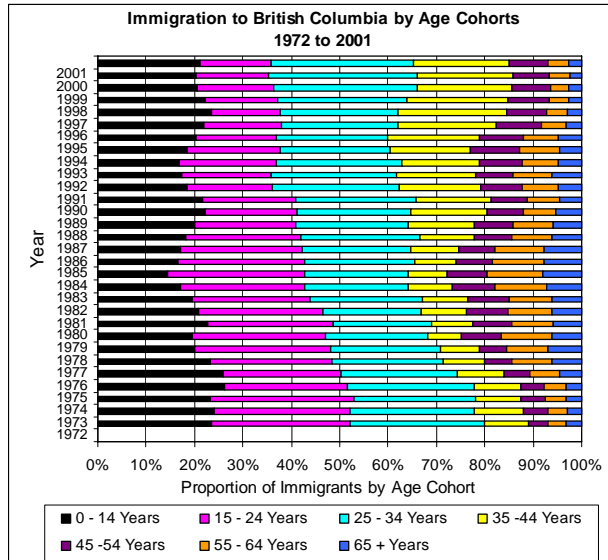
Figure 24



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

British Columbia is the most popular destination for immigrants to western Canada (see figure 25). The percentage of immigrants to British Columbia under 35 fell from 80 percent of immigrants in 1971 to less than 65 percent of immigrants in 2001. Meanwhile, the proportion of immigrants in the 25-34 and 35-44 has since by 10 percent respectively since 1972. The 0.7 percent rate of out-migration between 1996 and 2001, is offset by immigration. As a result, the proportion of youth and ethnic diversity in a more populated British Columbia has risen over the past three decades.

Figure 25



Source: Statistics Canada. CANSIM II. CANSIM Table No. 051-00111. International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons). E-Stat. Last updated 5 November 2005. Last accessed February 2005.

Analysis of Equalization in Terms of Migration

In the Atlantic, Manitoba and Saskatchewan negative rates of interprovincial migration rates correlate with low rates of immigration. Interprovincial migration trends have resulted in declines in the proportion of youth in these provinces as well as declines in the proportion of the Canadian population that lives there. These demographic losses exceed foreign immigration to these provinces. And those immigrants that do go often do not end up staying. The arrival of new citizens notwithstanding, these are unlikely to retain diversity -- in the form of new immigrants -- and are likely to lose their new immigrants to more populated, younger and diverse provinces such as Ontario, Alberta or British Columbia.

Quebec is the exception. While its population has grown, its proportion of the national population has declined. Migratory losses in the 0-24 cohort, a growing number of immigrants aged 35 and 44, and increases in the number of immigrants in older cohorts have resulted in an older age structure in Quebec.

Ontario, Alberta and British Columbia gained from interprovincial migration and immigration. The proportion of youth in these provinces as well as their provincial populations have thus been growing relative to the national population. As such, these provinces have been more successful in attracting and retaining immigrants, and therefore, are more diverse than their smaller, older provincial counterparts.

Among the traditional 'have-not' provinces, net out-migration of youth and new citizens compounded by population aging result in a change in the expenditure needs of the provincial population. Interprovincial migrants of working age are likely to move from a province where they were "paying more in taxes than they were receiving through service provisions or other transfers".⁴¹ There is a two-fold loss to the province of origin - the potential productive earnings and investments in terms of education and training.⁴² As population growth stagnates, the shrinking the revenue base is accompanied by a change in spending patterns as well as a change in the demands on public goods and services.

Population growth in 'have' provinces may increase their tax-revenue base. But it also precipitates greater population diversity. That may change spending patterns and lead to greater demands on public goods and services. While a large proportion of interprovincial migrants are likely to be between the ages of 15 and 64, this does not necessarily maintain for international migrants.

In comparison to immigrants to the United States, immigrants to Canada use "substantially fewer public services than does the non-immigrant population until about 14 years after their arrival; after that, immigrant use becomes substantially greater".⁴³ After three years, immigrants to Canada contribute the same amount of tax as non-immigrants, therefore, they pay substantially more in the long run.⁴⁴ Ergo, "an average immigrant household is a profitable investment for the non-immigrant populations in both the United States and in Canada." Yet, the costs and benefits of immigration are not distributed equally across the country for, as we saw above, immigrants tend to gravitate to particular parts of the country⁴⁵. Immigrants may require additional public goods and services, such as language programs, whose costs are difficult to assess.⁴⁶

Although immigrants do not consume public goods and services disproportionately upon their arrival in a host nation, the level of consumption tends to rise over time to match the consumption patterns of non-immigrant citizens. At the same time, immigrants of working age are more likely to be earning incomes below the low-income cut-off (LCIO). Since income correlates with demand on public services, it follows that immigrants impose a greater strain on public goods and services. Table 11 shows the low-income rates of the total Canadian population, Canadian-born citizens, and foreign-born citizens.

Table 11

⁴¹ Black and Silver, op. cit.

⁴² Black and Silver, op. cit.

⁴³ Ather H. Akbari. "The Public Finance Impact of Immigrant Population on Host Nations: Some Canadian Evidence." *Social Science Quarterly*. June 1991. Vol. 72, No. 2: 343.

⁴⁴ Ibid.

⁴⁵ Akbari, op. cit., 344.

⁴⁶ Ibid.

Low Income Rates (LICO), in Percentages					
	1980	1985	1990	1995	2000
Total population	17.1	18.7	15.5	19.1	15.6
Canadian-born	17.2	18.5	15.1	17.6	14.3
All immigrants	17.0	19.3	17.1	24.7	20.2
Immigrants < 6 years in Canada	24.6	34.2	31.3	47.0	35.8
Immigrants 6–10 years in Canada	18.7	26.0	24.2	35.3	28.3

Source: Garnett Picot and Feng Hou, "The rise in low-income rates among immigrants in Canada," *Analytical Studies Branch Research Paper*, no. 198 (Ottawa: Statistics Canada, 2003); Statistics Canada, Low Income in Census Metropolitan Areas. The Daily. 7 April 2004. Available online. Last updated 7 April 2004. Last accessed 30 March 2005.

The proportion of Canadians living under the low-income cut-off⁴⁷ fell from 17.1 percent in 1980 to 15.6 percent in 2001.⁴⁸ A 2.9-percent decline in the percentage of Canadian-born citizens living under the LICO declined by 2.9 percent was offset by an increase of 3.2 percent of the number of immigrants living in poverty. Although the low-income rates of immigrants rose along with the incomes of the rest of the Canadian population, they did not return to its 1990 or 2000 level. Ergo, Picot and Hou conclude: "rather than converging, the gap between low income rates for immigrants and Canadians has increased over the past 20 years."⁴⁹

Individuals in lower-income categories are especially dependent on health care, education, transportation and other infrastructure.⁵⁰ Equalization is thus an important means to improving equality across income brackets. Yet, per capita income has been converging across provinces over the last 30 years; the convergence has accelerated since 1989, the advent of free trade. This is all the more disconcerting when one considers the aging populations in those provinces. Is it fair that disparities in income across Canada are being equalized at the expense of younger populations? Is it fair that disparities in income across Canada should be equalized at the expense of immigrants?

⁴⁷ Statistics Canada defines low-income cut-off as: "Proportion of persons in economic families and unattached individuals with incomes below the Statistics Canada low-income cut-off (LICO). The cut-offs represent levels of income where people spend disproportionate amounts of money for food, shelter, and clothing. LICOs are based on family size and degree of urbanization; cut-offs are updated to account for changes in the consumer price index."

⁴⁸ Garnett Picot and Feng Hou, "The rise in low-income rates among immigrants in Canada," *Analytical Studies Branch Research Paper*, no. 198 (Ottawa: Statistics Canada, 2003).

⁴⁹ Picot, Garnett and Feng Hou, "The rise in low-income rates among immigrants in Canada." *Analytical Studies Branch Research Paper*, no. 198 (Ottawa: Statistics Canada, 2003).

⁵⁰Rafael Gomez and David K. Foot. "Age Structure, Income Distribution and Economic Growth." *Canadian Public Policy*. January 2003. Vol. 29.: S145.

So, although the influx of new citizens enhances to the work force and the tax base, it also precipitates greater public expenditures on certain goods and services, transportation and infrastructure. It is unclear whether the long-term benefits of high immigration rates outweigh the cost of public expenditures.

Once again, the demographic cleavage between the traditional 'have-not' and 'have' provinces, whereby the former are smaller, older and less diverse and the latter are larger, younger and more diverse, becomes clearer. What is more, those provinces that do not receive the unconditional equalization grant may be experiencing significant growth in costs related to the provision of public good and services. One implication is that the smaller, and possibly shrinking, populations of the Atlantic and Prairie Provinces are receiving favourable treatment in comparison to larger, and growing, provinces. A closer needs-based examination is required to assess whether it can be asserted that this favoritism disproportionately benefits citizens of these provinces in comparison to Ontarians, Albertans and British Columbians, and to what extent this favoritism contravenes the very principle of equalization.

Provincial Populations Living in Urban and Rural Areas

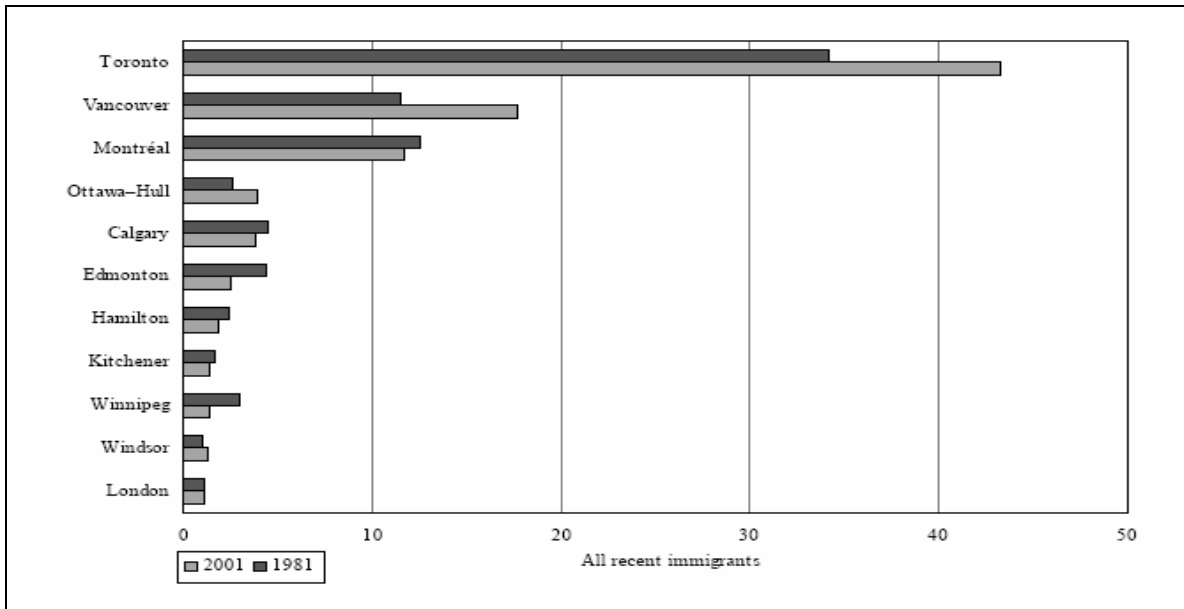
Cities are, as Jack Layton explains, "creatures' of the provinces"⁵¹, and as such, the fiscal demands of burgeoning urban centres are shouldered by the provinces. These pressures weigh disproportionately on the purses of 'have' provinces since they also tend to have the largest cities. This is especially true for the province of Ontario where the bulk of the largest census metropolitan areas (CMAs) are concentrated. The governments of smaller, older provinces, such as Manitoba, must address similar demands, but have access to unconditional equalization funds to offset the fiscal needs of their largest urban centres, such as Winnipeg. The growing pressures on the provincial coffers fuel recent public-policy concerns about the growth of Canada's largest cities, where provinces such as Ontario are struggling to meet the demands and the costs associated with urban sprawl and related issues such as pollution and deteriorating infrastructure

By definition, urbanization in Ontario, Alberta and British Columbia, and to a lesser extent Manitoba, is a result of the influx of immigrants to large metropolitan areas in these provinces. Figure 26 contrasts the percentage of recent immigrants to Canada residing in selected Canadian metropolitan areas in 1981 and 2001.

Figure 26

Percent of All Recent Immigrants Residing in Selected Census Metropolitan Areas (CMAs) 1981 and 2001

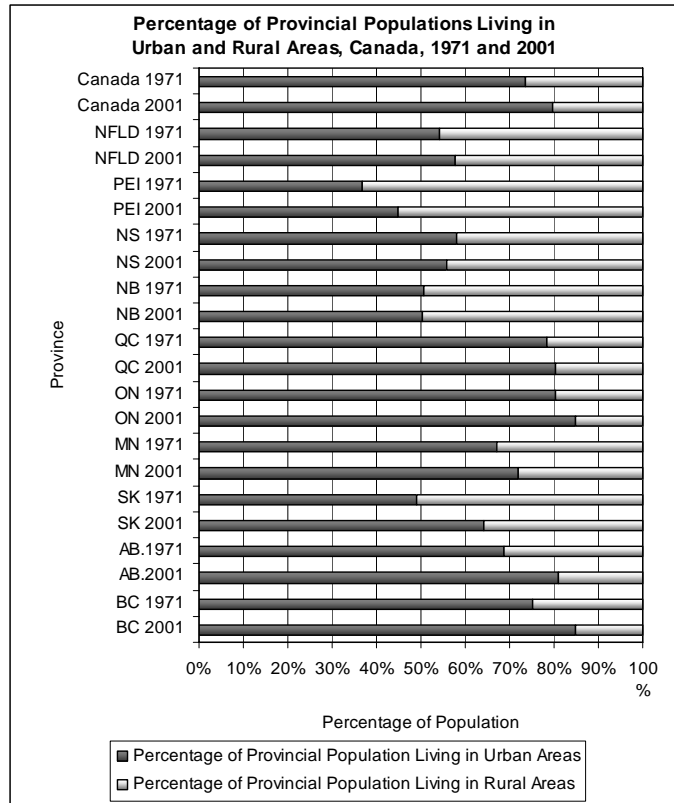
⁵¹Jack Layton. "Time to build Canada's cities". *Policy Options*, February 2004. Vol. 25. No. 2: 35.



Source: Grant Schellenberg. *Immigrants in Canada's Census Metropolitan Areas*. Trends and Conditions in Census Metropolitan Areas. Statistics Canada: Catalogue no. 89-613-MIE — No. 003 (Ottawa: Ministry of Industry, 2004). P. 17.

Figure 27 shows the percentage of provincial populations living in urban and rural areas in 1971 and 2001. Three-quarters percent of Canadians live in urban areas – while only a quarter of citizens live in rural areas. The populations of the Atlantic Provinces are more rural than the rest of Canada. Newfoundland became more urban between 1971 to 2001, with over half of its population living in urban areas. In Prince Edward Island, the percentage of Islanders living in urban areas increased by 10 percent over 30 years. Still, more than half the islanders were living in rural areas in 2001. In 1971, nearly 60 percent of Nova Scotians lived in urban areas; in 2001, this number fell to around 55 percent. In New Brunswick, this figure hovered around a 50-percent split in the population in rural and urban areas in both 1971 and 2001. Quebec became slightly more urban; about 80 percent of the provincial population now lives in cities.

Figure 27



Sources: Statistics Canada. Census 1971. (Cat. No. 92-709) (Ottawa: Information Canada, 1973); Statistics Canada. *A National Overview*. 2001 Census of Canada (Cat. No. 93-360-XPB) (Ottawa: Industry Canada, 2002).

Ontario's urban population grew by five percent between 1971 to 2001. Among the Western Provinces, Manitoba and Saskatchewan have lower rates of urbanization than Alberta and British Columbia. The number of city-dwellers in Manitoba rose by about five percent, to a total of over 70 percent in 2001. Saskatchewan's rural and urban populations were split half and half in 1971. In 2001, the number of city-dwellers rose by nearly 15 percent to 65 percent of the population. Less than 70 percent of Alberta was urban in 1971, over 80 of Alberta was urban by 2001. The percentage of British Columbians living in cities rose from 74 percent in 1971 to 85 percent in 2001.

Analysis of Equalization in Terms of Provincial Urbanization:

Are Canada's Metropolitan Areas A "Have" Province Phenomenon?

Table 12 identifies Toronto as the primary destination for immigrants to Canada in both 1981 and 2001. Nearly 35 percent of immigrants to Canada settled in Toronto in 1981; In 2001, almost 44 percent of immigrants settled in Toronto. In 1981, over 10 percent of immigrants to Canada settled in Vancouver; by 2001, this figure had risen to nearly 18 percent.

Table 12 shows the percentage of the total population comprised of recent immigrants in the thirteen largest CMA's in 1981 and 2001. Toronto and Vancouver are the largest with recent immigrants accounting for 17.3 percent and 14.0 percent of the total CMA populations in 2001, up from 13.2 percent and 10.6 percent, respectively, in 1981.

Table 12

Percentage of Total Population Comprised of Recent Immigrants Selected Census Metropolitan Areas (CMAs), 1981 and 2001								
	1981				2001			
	Recent Immigrants	Immigrated 1961 – 1970	Immigrated before 1960	All Immigrants	Recent Immigrants	Immigrated 1981 – 1990	Immigrated before 1980	All Immigrants
Toronto	13.2	10.7	14.0	38.0	17.3	9.2	17.9	44.4
Vancouver	10.6	6.8	12.2	29.6	16.8	7.4	14.0	38.2
Windsor	4.9	5.4	11.1	21.4	8.0	3.5	10.8	22.4
Calgary	8.8	4.5	7.9	21.1	7.4	4.5	9.3	21.2
Ottawa-Hull	4.2	3.8	5.8	13.8	6.8	3.7	7.3	17.8
Montreal	5.2	4.6	6.3	16.1	6.4	3.8	8.3	18.6
Kitchener	6.7	6.2	9.1	22.0	6.4	4.3	11.5	22.2
Hamilton	5.1	6.8	14.1	26.1	5.5	3.6	14.7	23.8
Edmonton	7.8	3.9	8.0	19.7	4.9	4.1	9.0	18.0
London	4.6	5.4	10.2	20.1	4.6	3.6	10.8	19.0
Winnipeg	6.0	3.7	9.5	19.2	4.0	3.4	9.2	16.7
Abbotsford	n.a.	n.a.	n.a.	n.a.	7.1	3.7	11.2	22.0
Victoria	4.5	4.3	14.7	23.5	3.3	2.7	13.1	19.0

Source: Schellenberg, Grant. *Immigrants in Canada's Census Metropolitan Areas*. Trends and Conditions in Census Metropolitan Areas. Statistics Canada: Catalogue no. 89-613-MIE — No. 003. Ottawa: Ministry of Industry, 2004. P. 17.

International and interprovincial migrants overwhelmingly settle in the Greater Toronto Area, followed at some distance by Vancouver and Montreal. The influx of migrants to these areas causes the provincial population to increase and increase demand for the public goods, services and infrastructures of these urban centres.

A trend emerges where provinces that experience less pressure, if any, on provincial funds for urban development and renewal, such as the Atlantic and Prairie Provinces, also receive more unconditional funds than their larger, more diverse provincial counterparts. Not only are these traditional 'have-not' provinces smaller, but, over time, their provincial populations represent a shrinking proportion of the national population. Net out-migration and low immigration rates also result in older populations, which are significantly less diverse than larger, younger and more populous provinces.

'Have' provinces are primarily urban, while 'have-not' provinces tend to be more rural. Eighty percent of Quebecers, Ontarians, Albertans and British Columbians lived in cities in 2001. That figure was 70 percent for Manitoba, 65 for Saskatchewan, and 50 percent throughout the Atlantic Provinces.

DEMOGRAPHIC FACTORS AND EQUALIZATION: IMPLICATIONS FOR FEDERAL GOVERNANCE IN CANADA

A comparative analysis of Canadian provinces over the past three decades reveals a demographic divergence. On the one hand, the proportion of the population residing in Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick, and Manitoba and Saskatchewan has been in steady decline since 1971. The proportion of the 0-24 cohort living in these provinces also declined. These provinces demonstrate minimal, if any, population gains from interprovincial migration, and higher rates of out-migration, especially from younger age cohorts. Although these provinces welcomed steady numbers of immigrants, they were the least popular destinations for international migrants in Canada. And the immigrants that do come do not appear to stay all that long. The balance between urban and rural areas changed little between 1971 and 2001.

On the other hand, Ontario, Alberta and British Columbia, and to a lesser extent, Quebec have growing populations, due in large part to immigration (although Quebec's proportion of the national population has been on the wane). As young families move elsewhere in the country, Quebec and British Columbia have an aberrant pattern of interprovincial migration, with the majority of out-migrants in the 0-14 and 30-44 cohorts.

Ontario and Alberta gained from interprovincial migration. The populations of British Columbia, Ontario and Alberta, have grown over time, with proportionally more Canadians, especially younger Canadians between the ages of 0 and 24, living in these provinces. Immigration to Ontario, Alberta and British Columbia, and especially to their census metropolitan areas, was substantial. These provinces have the highest rates of urbanization, with the vast majority of the provincial populations living in urban areas.

This divergence coincides with the differentiation of 'have' and 'have-not' provinces that characterizes the distribution of transfers determined by the equalization formula. 'Have' provinces have to meet increased demands for public goods and services. While the ability to do so depends on fiscal capacity and policy decisions, these factors dependent of the program needs determined by demographic change. These provinces do not have the benefit of drawing on an unconditional equalization grant. This may actually end up hindering the ability of these provinces to provide a level of public goods and services comparable to 'have-not' provinces, at comparable tax rates.

So, while the equalization program is committed to assist provinces in providing 'basic levels of comparable services at comparable tax rates', the equalization program fails to take into account the differences in costs to deliver similar goods and services across provinces. The issue arises then if equalization, which takes into account various provincial fiscal capacities, can address the disparities created or exacerbated by demographic shifts.

The equalization transfer program accounts for population growth in so far as it is distributed on a per capita basis. The equalization calculation determines provincial fiscal capacities based on tax revenues of particular sources; therefore, it also performs an informal assessment of the economic health and prosperity of each province. In this way, the equalization formula considers the relationship of demographic and economic forces as determinants of provincial fiscal capacities. To date, however, it is unclear how equalization as a policy and program has affected both economic and demographic outcomes. It is clear, however, that provinces whose populations are aging more rapidly, are more homogeneous, and more rural have been benefitting disproportionately from equalization. What is more, they also benefit disproportionately from Employment Insurance as well as from regional development schemes.⁵²

This is not to say that equalization is fundamentally flawed. Just about every federation in the world (with the exception of the United States) has a systematic equalization program; so, equalization is part and parcel of operationalizing federal governance. Yet, equalization is also inherently politics. The equalization formula continues to evolve. This paper posits age structure, ethno-cultural diversity, and the rural-urban divide as variables that warrant greater attention. Age structure and the rural-urban divide figure in the current discourse on equalization – but in quite a different manner: smaller provinces tend to argue that because their populations are aging more rapidly, they should receive *more* compensation; similarly, they argue that the cost of delivering services to rural areas is greater than that of delivering services in urban areas. Certainly, providing public goods and services to older and more rural populations may be more costly. But if these services are provided at the expense of younger, more diverse, urban areas, i.e. those areas that make equalization possible and sustainable in the first place, then are we not robbing Peter to feed Paul?

The demographic composition of the country's regions and provinces has changed markedly since equalization was first introduced. Provincial populations had much more similar age structures than they do now; they were far more homogeneous than they are now; and they were far more urban than they are now.

⁵² Gerard W. Boychuk and Keith G. Banting, "Converging and Diverging Paradoxes: National and Sub-National Variation in Income Maintenance Programs in Canada and the United States," in Richard G. Harris, ed., *North American Linkages: Opportunities and Challenges for Canada* (Calgary: University of Calgary Press, 2004).

The equalization formula itself has undergone considerable change. Still, as it turns out, equalization is inadvertently working for the benefit of older, homogeneous, more rural populations and to the detriment of younger, heterogeneous, urban populations. In a liberal democracy, considerations of inter-provincial disparities in fiscal capacity should be balanced against intergenerational justice, ethno-cultural equality, and urban wealth generation. But far from balancing these issues, the trend over the past three decades indicates an ever-growing imbalance. On grounds of freedom, equity, and fairness, that is, on the same grounds on which equalization is justified in the first place, the time has come for intergenerational, multicultural, and urban issues to figure more prominently in the discourse on equalization. Demographic projections forecast further inter-provincial demographic differentiation. In light of the ongoing divergence of inter-provincial demographic trends, factoring these variables into the debate on equalization is becoming increasingly indispensable in relieving the intergovernmental stresses created by demographic change in Canada.

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