

Is it better to live in a Basement, an Attic or to Get your Own Place? Analyzing the Costs and Benefits of Institutional Change for Northwestern Ontario

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ABSTRACT:

We analyze the prospects for institutional change in the alienated hinterland region of Northwestern Ontario. Among the scenarios we examine are union with Manitoba, provincial status and regional government. We find that there would be political benefits for the residents of the Thunder Bay, Rainy River and Kenora Census Districts from a union with Manitoba as they would have a larger voice in the Manitoba legislature than they have in Ontario's Queen's Park. As for the economic benefits, voters in Northwestern Ontario would have to trade-off having higher spending and taxes as part of Manitoba, against Ontario's lower spending levels that come with lower personal tax burdens. As for other options, the economic evidence supporting provincial status is for the most part ambivalent with no overwhelming case either for or against. Regional government is the easiest option to implement but will do the least to end regional alienation. In the end, any changes from the status quo will require the mobilization of the political will of Northwestern Ontarians and will have substantial political transactions costs.

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Introduction

Ontario's north is a vast, sparsely populated region of Ontario that has historically felt alienated from the province's more populous and compact south. It has been asserted that Ontario's north is much like the attic of a house – generally ignored and paid attention to only when it makes strange noises or sends down a burst of cold air.¹ Moreover, this alienation is often more keenly felt in the northwest portion of the province rather than the northeast which is immediately adjacent to the south. One aspect of this alienation is the feeling that government services in health, education and transport that are taken for granted in southern Ontario are obtained in the north only after sustained lobbying and the dispensation of special favours.² Gordon Brock (1978, 3) asserts that “The feeling of isolation, neglect and colonialism has been suffered in this region (Northern Ontario) since the huge area was acquired by the Ontario government”. Policies concerning taxation and spending set in Toronto are often seen as not reflecting the region's interests given the higher cost of providing public goods in the north.

An intriguing counterfactual is whether residents of Northwestern Ontario would be better off today if Manitoba had gained possession of Northwestern Ontario instead of Ontario. Other possible options include provincial status for the region or even regional government within the confines of Ontario. From a historic context, the usual focuses for answering this question are the subsequent economic development and economic diversification of Northern Ontario (Brock 1978, Di Matteo 1999). Southern Ontario benefited from the timber and mineral resources of its northern districts both as inputs into industrial production as well as a source of government resource revenues. One view argues that southern Ontario's economic success occurred at the expense of industrialization in the north of the province. On the other hand, as a small open economy exporting natural resources and dependent on external sources of capital, it is likely that allocating the region to Ontario would have made little difference for the long run development of the Northern Ontario economy.³

¹ For a lively discussion, see Tom B. Miller (1986).

² See Weller (1977).

³ Chambers and Gordon (1966) show resource booms result in a larger economy (extensive growth), population size and value of the fixed factor (land). Emery and Kneebone (2003, 2005) argue that in the

“Alienation” and secessionist movements are often features of hinterland areas and likely symptomatic of the factors described by Alesina and Spolaore (2003) in their framework of an optimal policy area that incorporates the idea of geographic distance from the center that provides public goods and services. Indeed, Canada’s history has been characterized by regional alienation of one type or another whether it is Quebec separatism, Western grievance or Atlantic dissatisfaction. Given the regional alienation of Northwestern Ontario, we explore the implications of re-defining the institutional arrangements of Northwestern Ontario by exploring three options: union with Manitoba, provincial status and regional government. As our baseline case, we ask whether residents of the Thunder Bay, Rainy River and Kenora Census Districts would be better off as part of Manitoba than Ontario given that this option has been a topic of public discussion.⁴ This delineation of Northwestern Ontario has a 2001 population of 234,771, which is just over 2 percent of the total Ontario provincial population and a land area of 526,355.39 square kilometers, which represents 58 percent of Ontario’s total area.⁵ We then apply the information generated from the base case to discuss other institutional arrangements that include provincial status and regional government within Ontario.

We find political benefits in northwestern Ontarians joining Manitoba as they would have a larger voice in the Manitoba legislature than in Queen’s Park. At the same time, income taxes would be higher as part of Manitoba suggesting that voters in northwestern Ontario would have to decide if they want to pay more for higher spending as part of Manitoba, or live with Ontario’s lower spending levels that also come with lower tax burdens. As for other options, the economic evidence supporting provincial status is for the most part ambivalent with no overwhelming case either for or against. In the end, these options – as is the case with the Manitoba union option – will require political will and substantial political transactions costs. Regional government within

case of Alberta and Saskatchewan, policies and ideologies of governments have had little impact on their economic development.

⁴ See “Carving up Ontario could be a solution,” *Winnipeg Free Press* Dec. 4, 2004 and accompanying Editorial Page Comment.

⁵ The Thunder Bay District has a population of 150,860 and has a land area of 103714.37 square km. The Kenora District has 61,802 people and a land area of 407,167.33 square km, and the Rainy River District has 22,109 people and a land area of 15,473.69 square km. The three-census districts definition of northwestern Ontario closely parallels that of Elections Ontario classification of Northern Ontario.

Ontario is probably the most realistic of the three options though its ability to resolve the alienation issue is the weakest of the three.

A Brief History of Northwestern Ontario

In the nineteenth century, government foresaw northern Ontario's potential as a natural resource revenue source. The Federal government subsidized construction of the Canadian Pacific Railway through northern Ontario and land ownership would have enabled some cost recovery through timber revenues. The Federal government wished to restrict the western limit of Ontario to a line just east of Thunder Bay and administer northwestern Ontario as a territory. If the north had become a federal territory during the period of border disputes with Manitoba and Ontario, then during the period of western development the north might have obtained provincial status as Alberta and Saskatchewan did in 1905. Ontario and Manitoba sought jurisdiction over the westernmost portion of Ontario and for a while both Ontario and Manitoba conducted courts and elections at Kenora. The boundary disputes were not completely resolved until 1912 when the northwestern portion of Ontario was officially added to the province.⁶

Ontario envisioned its north or "New Ontario" as it was called then, as an agricultural frontier whose settlers would form a market for the manufactured wares of the south.⁷ This view was reflected in popular publications of the period though

⁶ Ontario asserted that her legitimate western boundary was to the west of Kenora whereas the Dominion government boundary proposal would have resulted in the province of Manitoba extending to Lake Superior to include the Lakehead. Prime Minister, Alexander MacKenzie, appointed a Board of Arbitrators to determine Ontario's western boundary that ruled in 1878 that Ontario's boundary lay west of Rat Portage (now Kenora). When the MacDonald government returned to power in the following election, it overturned the Board's decision and passed an Act on March 21, 1881 that set the eastern border of Manitoba around Port Arthur (Nicholson 1954, 63). Ontario ignored the decision, prolonging the border dispute. Soon both provinces began appointing officials to administer in the disputed territory. Ultimately, the ensuing institutional uncertainty became the catalyst for both provinces to seek a final settlement on the conflict. The matter was brought before the Queen's Privy Council (the Privy Council being the highest law in Canada at that time) in July 1884. The Privy Council chose to uphold the 1878 Boundary Decision establishing Ontario's western boundary to the west of Kenora. The federal government was not pleased with the Privy Council's decision as they did not recognize Ontario's "new" boundary for another 5 years when they "officially" enlarged the province by an Act of Parliament in 1889. It passed the House of Commons in 1908 and was implemented by 1912. (MacKirdy 1959)

⁷ Nelles (1974) describes how the Ontario government envisioned the north of the province as a 'New Ontario' that was to be an agricultural frontier for settlers who would provide a market for the manufacturing output of the south. Indeed, Ontario adopted a northern development policy of land

some of the claims made now seem optimistic to anyone familiar with northern Ontario's landscape. Ontario's vision of an 'Agricultural New Ontario' ultimately failed due to poor soil, but the North proved to be a good natural resource revenue generator for the south (Di Matteo 1999). Over the period 1871 to 1914 natural resource revenue arising from Northern Ontario forestry and mining represented over 25 percent of total provincial revenue.⁸ These revenues paid for railroad subsidies, roads, public institutions, hospitals, public works and even the new parliament buildings at Queen's Park contributing greatly to the welfare of Ontario citizens. Whereas Northern Ontario accounted for at best 10 percent of the province's population it consistently provided about one quarter of the province's total revenue.⁹

Nevertheless, these outflows do not appear to have had a negative impact on economic growth on the north during the nineteenth century for it was booming region with population growth rates exceeding the south. The economic opportunities afforded by the private sector exploitation of timber and minerals and agricultural settlement compensated for any outflow to the south. As well, there was a rapidly expanding local manufacturing sector that filled consumer needs of a growing regional population. Moreover, the federal government also generated growth and employment in the north by constructing a series of transcontinental railroads.

Despite its resources, Northern Ontario's traditional natural resource and transportation employment base has declined. Since the mid twentieth century, the north's economy and population have grown slower than the south and experienced higher levels of unemployment. The north of the province has failed to diversify and Di Matteo (1999) suggests that this may be the long run result of the fiscal drain from north to south earlier in the century. The retention of resource rents by the region might have

settlement grants, railway construction and industrial protection via the "Manufacturing Condition" that closely paralleled the Federal National policy. See (Di Matteo, 1999, 294)

⁸ Di Matteo, *A Northern Province? Part II* Monday February 5 1997 The Chronicle Journal

⁹ The North of Ontario has been described as an important reason for Ontario's dominance within Confederation: "By entering upon this vast new territorial heritage Ontario secured an unshakeable position within the Canadian federation. The whole Great Lakes system in Canada was enclosed within the province and Manitoba's ambition of gaining an outlet of its own on Lake Superior was frustrated. With Ontario lapping the edge of the prairies, and in control of that region's most convenient water outlet, its commercial and social hegemony over the Canadian West was assured. Thanks to the integration of the economies of western and central Canada, Ontario's manufacturing and financial sectors were able to attain heights unequalled within the Dominion." (Zaslow 1967, 114)

permitted greater short run extensive growth via practices such as bonusing that would have expanded local market size and enabled more local industries to survive. Nicholson (1954) and Brock (1978) suggest that northern Ontarians believe that their economy would be much wealthier and diversified had northern Ontarians had a greater voice in the management of mineral and timber resources. Of course, the sustainability of this diversification in the face of high transport costs and competition from southern Ontario and American manufacturing is a difficult question to answer.¹⁰

Over the last 30 years, with dwindling market opportunities, provincial government spending has grown in importance for Northern Ontario's economy. With its decreasing population share relative to the south of the province, Northern Ontario residents have had their standard of living increasingly directly affected by the decisions of southern Ontario. Feelings of "Northern Alienation" are also alleged to be the result of the economic, social and geographic differences between the North and South of the province. Zaslow (1967, 116) suggests that "Periodically, northern and northwestern communities complain that their needs are misunderstood or ignored by southern-dominated Ontario legislatures." MacKirby (1959, 197) suggests that "the recent organization in the Lakehead area of a Union-with-Manitoba League is a reminder that this region is more closely identified economically and socially with the prairie west than with southern Ontario." Di Matteo (1999) argues that:

Ontario's North is geographically and economically distinct from the south and the case can be made that policies applied uniformly across the province may not take regional preferences into account. Institutional arrangements which centralize decision making power at Queen's Park hinder the North's economic and social progress. This has certainly been the case in health and education funding decisions which apply uniform funding models across a province with substantial differences in costs due

¹⁰ Zaslow (1967, 114) argues that it is doubtful that Northern Ontario would have been successfully developed "without continuing oversight and expenditures by successive provincial governments, backed by the financial strength and the tax resources of the wealthiest section of Canada." It is worth noting as well that provincial status of Canada's western provinces has not resulted in their industrialization as they remain dependent on their natural resource bases. Brock (1978) highlights the export of unprocessed resources as evidence that forward processing opportunities have been foregone. Di Matteo (1999) argues that the net fiscal flow from Northern Ontario to Southern Ontario between 1871 and 1911 reduced the growth of population and GDP in the North reducing the profitability of manufacturing in the region and resulting in the north of Ontario becoming less diversified than it could have been. Brock (1978) proposed that taxes on exports of unprocessed natural resources would encourage forward processing industries in the North of the Province. Di Matteo and others have called for twinning of the TransCanada highway to foster economic development.

to geography and climate... Centralized decision making makes it more difficult for regional differences to be accommodated whether those differences are in health care, education or transportation.

The vast distances of many Northern Ontario communities from southern Ontario, and a lack of political power within Ontario have contributed to longstanding feelings of alienation and neglect in the north resulting in periodic movements that have called for greater regional autonomy.

The creation of a northern province was proposed as early as 1875 to prevent Ontario from having a disproportionate influence in Confederation.¹¹ Between 1900 and 1910 secessionist talk resumed given the creation of the provinces of Alberta and Saskatchewan in 1905. Given that the north was already supplying 25 percent of Ontario's revenue, the new province would definitely have been self-supporting in fiscal terms. Several proposals were made for the creation of various configurations of a northern province to be named Algoma, or Huronia, or New Ontario. In 1911, the Kenora District called for a Union with Manitoba. Hubert Limbrick of Fort William and his "New Province League" campaigned for the creation of a northern province named Aurora in the 1940s and 1950s with Fort William/Port Arthur as the New Province's capital.¹² Running in the 1959 Ontario Provincial election as an Independent candidate in Fort William, Limbrick received only 382 of 21,990 votes and his agitation for a new province died shortly after. In the 1970s, Ed Diebel of North Bay campaigned for the creation of the Province of Northern Ontario. In December 2004, the Winnipeg Free Press ran an editorial comment and stories supporting union between northwestern

¹¹ MacKirdy (1959, 197) argues that "it is probable that a larger Manitoba and a smaller Ontario would have made for a more balanced federation in the years which followed."

¹² Limbrick believed that: "The natural eastern boundary of the province of North Ontario extends north from Sault Ste. Marie, following approximately the route of the Algoma Central Railway to Hearst, and hence to Port Albany. In the event that residents of Algoma and Cochrane preferred to keep their attachment with South Ontario, the boundary line could follow the eastern Boundary of the District of Thunder Bay, taking a general north and south line from Lake Superior through White River to Port Albany. In either case, such a partition would set aside a compact area unbroken by physical barriers and people by those with common problems and ambitions. In either case, such a partition would be comparable with Manitoba, Saskatchewan and Alberta. The initial population of 200,000 should be just the same as the population in Alberta and Saskatchewan when they first created provinces". *The Case for a New Canadian Province. The Province of Northern Ontario: Fort William, The New Provincial League, 1950*

Ontario and Manitoba.¹³ With the recent loss of thousands of forest sector jobs in the region and the perceived inability of the Provincial government to affect either electricity costs or wood fibre supplies, musing on a new province has also been rekindled.¹⁴

Optimal Policy Areas and the Role of Distance from the Centre

Alesina and Spolaore (2003) define public goods as including functions like the provision of monetary and financial systems, tax collection, fiscal institutions, a legal, police and judicial system, infrastructure and communication systems, public libraries and parks, and educational institutions. They also argue that providing these goods include fixed costs that are independent of the number of taxpayers. The existence of fixed costs in the provision of public goods means that there are advantages for taxpayers in a larger political jurisdiction providing public goods since the average fixed costs of provision declines as taxpayer numbers increase.

Preference heterogeneity due to ideological, demographic or income differences within a political jurisdiction represent an opportunity cost for larger jurisdictions since the distance between a given individual's preferred policy and the actual policy may be larger than in it would have been in a smaller jurisdiction characterized by greater preference homogeneity. Individuals within a population may have different views on how much governments should spend and the policies supporting that spending.¹⁵

Alesina and Spolaore assume that public goods provision has geographic dimensions. For example, being close to schools reduces travel costs. For post-secondary education, many believe having a local institution raises the likelihood that the educated workforce will remain in the local economy potentially attracting capital. Other public goods such as bureaucracies are concentrated in a small number of locations (like the capital city) and often living closer to these locations results in taxpayers deriving a

¹³ See "Carving up Ontario could be a solution," Winnipeg Free Press Dec. 4, 2004 and accompanying Editorial Page Comment.

¹⁴ "Musing once more on a new province," Editorial. The ChronicleJournal, July 25, 2005, Thunder Bay, Ontario, p. A6. See also "We want out." Time to Separate" The Chronicle-Journal, January 30, 2006, p. A6.

¹⁵ It is also possible that heterogeneity of preferences may be correlated with another variable such as income. There is an empirical literature on the impact of income on decentralization and whether decentralization is a normal good. See Levy and Truman (1971), Oates (1972), Giertz (1983).

greater benefit from the public good than taxpayers who reside a greater distance from the location.

Alesina and Spolaore argue that the distance a taxpayer resides from where the public good is provided, and how close the quantities of, and public policies in support of, public goods are to the individual's most preferred policy (heterogeneity in preferences over policies) are correlated. Furthermore, the transaction costs of governance and public goods provision results in political jurisdictions being geographically compact rather than disjoint even though many government functions do not require that taxpayers live in close proximity.¹⁶

Alesina and Spolaore observe that voters with similar attitudes, income, ideologies and race tend to live in close proximity to one another. Through path dependence and population sorting processes, such as chain migrations or immigration networks, over time a greater uniformity of beliefs and preferences within a local population evolves.¹⁷

Finally, the correlation of geographic and ideological distance from the provision of public goods may be the product of public and policy decisions. For example, hiring rules that favor local populations, or educational curriculum that focuses on local culture help reinforce local preferences and attitudes over assimilation of "national" values. When the provision of public goods is centralized in a small number of locations, taxpayers who have a higher demand for those public goods will choose to reside close to those public goods. Thus, it would be expected to see the preference for spending on that public good to be highest amongst those taxpayers living close to where it is provided and lowest where taxpayers live furthest away. For example, taxpayers in Kenora may not share the enthusiasm of Toronto taxpayers for greater spending on Toronto post-secondary institutions.

¹⁶ For a concrete example of their point, in the nineteenth century Ontario laid claim to the land directly to its north (forming a compact jurisdiction) but showed little interest in having the territory that later became Alberta allocated to Ontario's jurisdiction (a disjoint jurisdiction). Alesina and Spolaore's contention for this result seems to work well in current times, but historically it is harder to reconcile with earlier eras of British and Spanish empires that were essentially disjoint political jurisdictions.

¹⁷ See Akerlof (1991) for an interesting discussion of these processes. For example, a group that started out as a "rehab" society for drug users and alcoholics evolved into a para-military organization that loyally followed their leader's "maniacal whims".

Alesina and Spolaore (2003) examine the trade-off between jurisdiction size and the degree of preference heterogeneity within the jurisdiction as determined by geographic distance between where a taxpayer resides and where the public good is provided. They define a state as a political jurisdiction that monopolizes the provision of certain essential public goods and policies and takes prerogative over a host of other functions for reasons of economies of scale or transaction costs. Some functions are delegated to a sub-national level of government whose borders are enclosed within the national one. In our scenario, we envision Ontario as equivalent to Alesina and Spolaore's national government while the northwest of Ontario is our sub-national jurisdiction. Thus, Toronto plays the role of the central government since it is Ontario's capital.

For their modeling, Alesina and Spolaore assume that ideology (preferences) and geographic proximity to the public good are positively correlated. Assuming perfect positive correlation allows the model to be viewed in a single space where the distance between two points on a segment represents both an ideological and a geographic dimension. The authors simplify the analysis by transforming the nation into a uni-dimensional space or a linear segment with individuals organizing themselves into political jurisdictions. Those political jurisdictions are defined by borders that identify individuals who pay taxes for a specific public good that only taxpayers can use. Thus, policies followed by one jurisdiction will not affect any other jurisdiction creating no inter-jurisdictional externalities.

Optimal jurisdictional size decreases with the marginal cost of distance and increases due to economies of scale in the production of the public good. The optimal size of a jurisdiction reflects the trade off between economies of scale in the production of goods, services and policies provided by it, and the costs of distance from the public good associated with population preference heterogeneity. The optimal point in this trade off is generally different for each good, service or policy.

In the context of Ontario, "Northern Alienation" is a prediction of Alesina and Spolaore's model. They demonstrate that for a given political jurisdiction, the distribution of benefits among its citizens becomes uneven as those who are closer in preferences and to the centre of the jurisdiction have higher welfare. In the absence of

compensating transfers from the centre to the periphery of the jurisdiction, taxpayers located further away from the government have incentive to break up the jurisdiction and redraw borders to reflect regional preferences.

The Case for “Mantario”: Merger with Manitoba

In a merger with Manitoba, Northwestern Ontarians would benefit from a decrease in the transaction costs associated with distance from the centre of policy making and from the Northwest’s increased political influence from an effective increase in representation in the Manitoba legislature. Currently the northwest of Ontario is represented by three MPPs from the election districts of Kenora-Rainy River, Thunder Bay-Atikokan, and Thunder Bay-Superior North. The Ontario legislature seats 103, meaning that Northwestern MPPs represent less than 3 percent of total MPPS. Using Manitoba’s population per MLA values, the addition of the Northwestern Ontario to Manitoba would increase the number of seats in the Manitoba Legislature by 11 to 68. Northwestern Ontario would have 16 percent of the seats so even if the preferences of the population were not close to Manitoba’s, then they would still have considerably more influence in that legislature than in Ontario’s.

Perhaps the biggest potential gains for northwestern Ontarians would result if Manitoba taxpayers had preferences over public goods and public policies that are closer to those of northern Ontarians than those of southern Ontarians. MacKirdy (1959) alleges that this is a likely prospect but to get an idea of the comparison of preferences of voters in the three jurisdictions we look at demographic and economic characteristics of Ontario, Manitoba and Northwestern Ontario.

Incomes and Income Distribution

Census data for 2001 indicate that for individuals 15 years and older, 75 percent of income of northwestern Ontarians comes from employment, 14 percent comes from government transfer payments and 11 percent from other sources. In Manitoba, employment income represents 75 percent of total income while government transfers make up around 13.4 percent. In Ontario, total income from employment is around 79 percent while government transfers represent only 10 percent. This statistic indicates that

government transfers for both Manitoba and Northwestern Ontario are more important determinants of total income when compared to Ontario's values.

Figure 1 presents income distributions for Manitoba, Ontario, and Northwestern Ontario using 2001 Census data. The median income in Northwestern Ontario is \$22,724, \$20,469 in Manitoba and \$24,816 in Ontario. Average incomes in 2001 are \$29,160 in Northwestern Ontario's, \$26,416 in Manitoba and \$32,865 in Ontario. Northwestern Ontario has 10.8 percent of its population in the high income category (the \$60,000 and over category) compared to 6.8 percent for Manitoba.

Bolton and Roland (1997) argue that income distributions generate preferences that are expressed through jurisdictional tax structures. Table 1 lists the statutory rates for Manitoba and Ontario for 1996 to 2004. Ontario has lower personal income taxes rates than Manitoba in every income category. In the low tax category, Manitoba has maintained a rate of 10.9 percent while Ontario has cut that rate from 6.16 percent in 2001 to 6.05 percent in 2004. The medium rate for Manitoba dropped from 16.2 percent in 2001 to 14 percent in 2004, while Ontario has cut its rate in 2001 from 9.22 percent to 9.15 percent in 2004. The high income tax categories has seen no change since 2001 for both provinces, but Ontario has a much lower rate of 11.16 percent compared to Manitoba's 17.4 percent. Ontario has also increased its income exemption from \$7,412 to \$7,927, which is higher than Manitoba's. The differences in rates, particularly in the high-income brackets, illustrate that with regard to incomes the voters in Ontario have a preference for lower taxes than do Manitoba's voters.

In terms of incomes and income distributions, northwestern Ontarians lie between Ontario and Manitoba. Income levels in Northwestern Ontario are below the Ontario average but above those for Manitoba – in other words, residents of Northwestern Ontario are poor Ontarians but would be wealthy Manitobans. Personal income tax burdens are lower in Ontario than in Manitoba so a union of Manitoba and Northwestern Ontario would result in higher personal taxes paid by Northwestern Ontarians.¹⁸

¹⁸ It should be noted that a more appropriate comparison might be the total tax burden as a proportion of GDP rather than simply income taxes but this is a more difficult comparison to construct given data. Using the per capita revenue data in Table 3, as well as figures for GDP and population in 2001, the own-source revenue to GDP ratio is 15.5 percent for Ontario and 18.4 percent for Manitoba.

Age Distribution

Jurisdictional preferences for spending on public goods associated with health and education will be a function of the age distribution of the population. The age distributions of populations in Manitoba, Ontario and Northwestern Ontario were not dramatically different in 2001. However, Northwestern Ontario and Manitoba have slightly higher dependency ratios (population aged 0 to 15, and over 60 relative to population 16 to 59) suggesting that those jurisdictions may prefer to see higher spending levels on education and health care than Ontarians.

Another demographic characteristic that Manitoba and Northwestern Ontario populations share is the importance of the aboriginal population. Northwestern Ontario's Aboriginal population represents 18 percent of the total population, while in Manitoba, the Aboriginal population represents 14 percent of total population. In contrast, for Ontario as a whole, the aboriginal population represents only 3 percent of total population. The age distribution of the aboriginal population is also distinct from the overall population age distribution. The public spending needs of the aboriginal populations in Manitoba and Northwestern Ontario are those of a young population as just over one third of those populations are under age 16. It does not seem too contentious to conclude that northwestern Ontarians would likely find that Manitobans have more understanding and interest in public goods needs related to their large, young aboriginal population than they receive from Queen's Park.

Program Expenditures

The amount a government spends on programs reflects the relative importance of public programs to voters in the jurisdiction. We assume that per capita spending levels for Ontario are reflective of per capita spending in Northwestern Ontario. From 1989 to 1991, (in constant 1992 \$) Manitoba spent \$72 per capita more than Ontario. However, from 1992 to 1996 Ontario increased its spending dramatically and spent \$184 more per capita than Manitoba. With the election of Mike Harris and "common sense revolution", deep expenditure cuts were made in Ontario and per capita spending in Manitoba has

exceeded Ontario's since the mid-1990s.¹⁹ The resulting differences mean that Northwestern Ontarians must assess whether they prefer the low tax, low spending policies of Ontario, or the higher tax, higher spending policies of Manitoba.

Table 2 shows per capita spending by program category for Ontario and Manitoba for the 2001 fiscal year. Manitoba spent \$1409 per capita more than Ontario in 2001 but \$671 of that amount was for Manitoba's higher debt charges so in terms of program spending for current public goods and services, Manitoba spent only \$700 more per capita. Perhaps most relevant for Northwestern Ontario, Manitoba spent \$175 more per capita on education, \$160 more per capita on Resource Conservation and Industrial Development, \$60 more per capita on Recreation and Culture, and transferred \$150 more to other government sub-sectors. The Manitoba spending mix would appear to reflect the demands of "Alienated Northerners" suggesting that Manitoba's preferences are closer to their own than the rest of Ontario

How does Manitoba pay for its higher expenditure levels? While Manitoba has higher tax rates, Table 3 shows that Manitoba generates lower per capita revenues from personal income taxes than Ontario. Perhaps more to the point, Manitoba generated only \$250 more per capita in own source revenues than Ontario but could still substantially outspend Ontario because of federal equalization payments investment income.²⁰ Manitoba receives \$1294 more than Ontario from general-purpose transfers from the federal government. Of the general-purpose transfer, \$1094 per capita is from equalization payments for Manitoba.

Ontario does not receive federal equalization. The amount Manitoba receives in equalization payments is an important factor for any merger scenario with the Northwest of Ontario. Those in Northwest will have to weigh giving up provincial government transfers from the south of Ontario with the prospect of becoming part of a "have not" province and receiving funding from the federal government. This illustrates the

¹⁹ Perhaps not surprisingly, this is also the timing of the beginning of the Di Matteo articles in the Thunder Bay Chronicle—Journal calling for a new deal for Northern Ontario.

²⁰ Investment income is a revenue category that is divided up into four sub-categories, which include natural resource royalties, remitted trading profits, interest income, and other investment incomes. Natural resource royalties include leases of land and royalties paid on extraction.

importance that redistribution schemes might play in attracting the Northwestern Ontario population to a union with Manitoba.

Alesina and Spolaore (2003, 67) conclude that government transfers are a way to compensate voters for being distant from the public good. The irony in this merger with Manitoba scenario, is that while Northwestern Ontarians would be giving up transfers from southern Ontario that presumably compensate them for distance from the centre, by uniting with Manitoba they will potentially gain greater transfers to the region as well as reducing the distance from the legislative centre. Thus, along with the higher tax burdens and spending levels, Northwestern Ontario voters will have to decide whether the loss of transfer payments from the south of Ontario will be sufficiently compensated by the equalization payments that they would receive as Manitobans.

How Much Would Northwestern Ontarians Receive from Equalization Payments?

Manitoba is a “have not” province and receives equalization funding.²¹ If merged with Northwestern Ontario, Manitoba would receive additional equalization entitlements but the question is how much would it be, and how would those amounts compare to what the north receives from the south of Ontario under the status quo? When calculating revenue capacity of an individual province the Department of Finance uses a national average tax rate (not the province’s own tax rate) and the commonly measured tax base for the province in each revenue category of which there are thirty-three.²² A tax base is the sum of taxable activities in each category.²³

Fiscal yields and equalization calculations for the proposed union of Northwestern Ontario and Manitoba are in Tables 4 and 5 under the column titled “Mantario”. The calculations for Mantario are an approximation based on multiplying the per capita Ontario revenues by the population of Northwestern Ontario and then adding that total to

²¹ Equalization payments are transfers made by the federal government to provinces with below average fiscal capacity. The usual recipients exclude Ontario, Alberta and British Columbia.

²² Courchene p. 23

²³ Because the equalization calculations use a national average tax rate Ontario’s revenues are overstated compared to their own provincial budget and the Financial Management System calculations from the federal government in 2000/01. The reason for the overstated values is that Ontario’s tax rates are on average, lower than the average Canadian tax rate. Manitoba’s tax rates tend to be higher than those average rates; hence, Manitoba’s revenues in Table 5 will appear lower than in either its provincial budget or the general rate of the FMS found in Table 4.

Manitoba's for each of thirty-three revenue categories. We convert them to a per capita basis by dividing by the combined population of Manitoba and Northwestern Ontario. Table 5 shows the equalization entitlements after subtracting revenue categories of Mantario from the Five Province Standard (FPS) column of Table 4. To the extent that Northwestern Ontario cannot generate the same public revenues as the south of the province, we interpret the Mantario equalization amount as a lower bound estimate since we have likely overstated the Mantario fiscal capacity.

We estimate Mantario equalization entitlements at \$819 per capita in 2001. With the increase in population and new revenue sources Manitobans will forgo equalization payments of \$275 per capita. When we calculate the per capita debt payments for Mantario, we find that northwestern Ontarians would be paying an additional \$556 per capita on debt charges which accounts for most of the Mantarian equalization payment. Thus, we believe that the desirability of Mantario for Northwestern Ontarians still depends on whether they prefer Ontario's low tax, low spending policies or Manitoba's higher tax, higher spending policies. Complicating this matter is the fact that Northwestern Ontarians do not currently raise enough revenue in the region to fully finance the level of expenditure that does occur. As such, the gain in equalization from a union with Manitoba needs to be compared to what Northwesterners already receives from the south.

Transfers from the Rest of Ontario to Northwestern Ontario

Mullins (2004) estimates the local tax and public spending flows in Ontario counties and districts to investigate the comparative fiscal burden of urban, suburban, and rural areas. The analysis consists of taking overall government revenue and spending line items for Ontario and allocates them to the 49 counties and districts in the province using Statistics Canada's provincial accounts for Ontario. The county totals are created by summing up the locally allocated tax and spending amounts. Excluding federal taxes and spending that are part of the calculations in Mullins (2004), Mullins calculates the numbers in Table 6 for the three northwestern districts of Thunder Bay, Kenora and Rainy River.²⁴

²⁴ We thank Mark Mullins for providing these calculations which were not published in Mullins (2004).

Table 6 shows that the average per capita revenues generated by the Ontario government from 1999 to 2001 from the Northwestern Ontario Districts of interest for this study were \$4992. Per capita expenditures averaged \$6023 per capita over the two-year period. Thus, total provincial transfers into Northwestern Ontario were on average \$1026.53 per capita. Mullins (2004) shows that the north is unable to produce enough revenue to cover total expenditures. The Northwest is reliant on the Rest of Ontario to pay for the full cost of program spending in the region.

Table 7 compares the per capita revenue and expenditure rates for Manitoba, Northwestern Ontario, and Ontario for 2001. Northwestern Ontario generates less revenue per capita than either Manitoba or Ontario, but has more spending per capita than the Ontario average. Manitoba spends more per capita than Northwestern Ontario and the Rest of Ontario. Merging with Manitoba would mean increased spending for the Northwestern districts, but at the cost of increased taxes and debt payments. Since Northwestern Ontario's fiscal capacity appears lower than Manitoba's despite its higher incomes and natural resource revenues, the Manitoba equalization payment calculated above using the average fiscal capacity for Ontario is too low and actual equalization may be closer to what Manitoba actually received in 2001. What Northwestern Ontario lacks are Manitoba's corporate income tax base and investment income.

To get a better understanding of government spending in the north we use numbers from the Ontario Department of Finance's community redistribution fund and various school board budgets for the year 2001. Table 8 shows the main categories of government transfers. The Table shows that for Northwestern Ontario to maintain the level of funding for health care, social services and education it has to rely on government transfers of \$1143 per capita in 2001. In education, \$893.62 per capita alone comes from government transfers. With regard to health and social service spending \$250 per capita comes from direct transfers from the provincial government. These within Ontario subsidies are directly comparable to the federal equalization payments estimated above.

In terms of transfers, one of the main conclusions from the previous section, which used per capita levels in Ontario to represent an average voter in the north, was that equalization payments would be a major benefit to those living in the north. However, Mullins (2004) calculates the South's transfer to the Northwest being \$1027

per capita in 2001, and our calculations which show a transfer of \$1143.61 in 2001 to support Northwestern public spending by the provincial government. If the Northwest chooses to secede from Ontario and join Manitoba they would gain \$819 to \$1094 per capita in equalization payments which it turns out may be roughly equal to what they receive from southern Ontario already. From this perspective, gaining federal equalization payments should be seen as irrelevant to the evaluation of the desirability of a union with Manitoba.

Summing up the Case for Manitoba

Whether a merger of Northern Ontario and Manitoba makes sense depends upon the cost and benefits associated with a union of the two regions and for the jurisdiction that would be left behind. If Manitoba unites with Northwestern Ontario then it would be taking on a jurisdiction that is unable to support its current lower levels of spending. However, without federal equalization, Manitoba would also not be able to support its own levels of spending.

Manitoba will potentially gain the economic benefits associated with a larger province such as greater economies of scale in the provision of public provided goods and services, a larger provincial “home” market that arises from the elimination of inter-provincial trade barriers, and the internalization of fiscal externalities between Manitoba and Northwestern Ontario. Northwestern Ontario in seceding from Ontario would not gain these benefits as it would be uniting with a smaller jurisdiction. Manitoba will see gains from the merger by offsetting some of its debt payments to the people of Northwestern Ontarians, gaining greater natural resource revenues and by having an efficient port on Lake Superior in place of its own highly subsidized port on Hudson Bay.²⁵

²⁵ Having access to Lake Superior and access to the Atlantic Ocean by means other than Churchill Port is important because of several factors. The Port of Thunder Bay and the Seaway System operate 24 hours a day, seven days a week, from the end of March through to late-December. The Churchill Port is available for shipping and receiving ocean vessels only from July until November. Canadian National and Canadian Pacific Railways, as well as major Canadian trucking companies serve Thunder Bay’s port facilities while Churchill maintains its own northern rail lines, which is costly and less efficient. The Port of Thunder Bay has nine-grain terminals with a total storage capacity of 1.4 million tonnes. Loading rates at the terminals range from 1,000 to 3,400 tonnes/hour. Churchill on the other hand has only a 140,000-tonne elevator Shipping Capacity and operates at maximum 1,623 tonnes per hour.

With a merger of the northwest with Manitoba, Ontario would be much smaller in land area, marginally smaller in population and slightly diminished in public revenues due to the loss of natural resource revenues from Northwestern Ontario. In addition, Mullins (2004) demonstrates that spending in the north of the province is subsidized by southern Ontario, primarily Toronto, so being relieved of responsibility for Northwestern Ontario results in more public resources being available for the “Rest of Ontario”.²⁶ So unless “size matters” to southern Ontarians, it would appear that uniting Northwestern Ontario and Manitoba would provide a fiscal benefit for the “Rest of Ontario”.²⁷

The North of Ontario would benefit from some aspects of a merger even though its demographics and income distributions lie somewhere in-between that of Ontario and Manitoba, hence it is a convex combination of the two. Those benefits include being geographically closer to the provincial capital of Winnipeg as opposed to Toronto, hence deriving greater utility from publicly provided goods and services. They would also benefit from increased influence in the Legislature. The north would also benefit from increased spending on many government programs. Given the recent crisis in forestry, an additional benefit of any merger with Manitoba would also be access to cheaper hydro-electric costs which are an important input into pulp mill operation.²⁸

²⁶ Based on the per capita subsidy calculated in this paper, being relieved of its “northwestern burden” could save Ontario over 200 million dollars per year. Out of an over 70 billion dollar annual budget, this represents a very small proportion. It should be noted that the amount that Ontario actually spends in the north may be overstated when based on the application of per capita numbers based on provincial averages. For example, in the mid-1990s, the billings from OHIP in the Thunder Bay District on a per capita basis were 34 percent lower than the provincial average. While it does cost more to provide health care in the north, greater distances mean that not everyone accesses it (See page 14, Thunder Bay Health Services Restructuring Report. 1996). As well, while per capita revenues from income and corporate taxation in the north are below the provincial average, higher prices mean that the revenues from sales and fuel taxes are not substantially lower.

²⁷ One other factor that may need to be considered is the potential future income from undiscovered mineral resources in northwestern Ontario as well as hydro-electric generating capacity in the area north of 50 degrees latitude.

²⁸ Rising electricity costs in Ontario have been blamed as one of the key factors in the recent forest sector closures in northwestern Ontario. Manitoba rates are much lower than Ontario. Manitoba’s regulated electricity market generates power from access to hydraulic sources with rates per kwh not including delivery or transmission ranging from 2.5 to 3 cents. Ontario, which has higher cost sources of electricity as well as other issues based on market structure and past attempts at reform rarely produces at rates below 5 cents per kwh.

Provincial Status and Regional Government

Two other options that can be briefly considered are provincial status for northwestern Ontario or regional self-government within Ontario. While periodic calls for province-hood have been made for all of northern Ontario, this paper considers only the northwest.

An interesting question is what the economy of a province northwestern Ontario would look like in terms of size and whether it could provide the necessary tax base for a reasonable level of government services. A recent 2001 estimate of regional GDP of northwestern Ontario places it at 6.817 billion dollars.²⁹ With a population of about 234,000 the province of northwestern Ontario would be one of Canada's smallest provinces exceeding only Prince Edward Island in population and GDP. With a per capita GDP in 2001 of \$29,037, Northwestern Ontario would be below the national average in per capita income and would therefore obtain equalization payments.

Based on earlier figures in Table 7, to maintain its current level of per capita provincial government expenditures of \$6023, a Northwestern Ontario provincial government would need to raise revenues of 1.4 billion dollars, which in the absence of any transfer payments from the federal government (to make up what the Ontario government was providing in regional transfers) would require a revenue to GDP ratio of nearly 21 percent. Using the equalization estimates for Manitoba of 819 dollars per capita, equalization would generate 192 million dollars in revenue resulting in a revenue to GDP ratio of 17.9 percent which is lower than the Manitoba own-source figure of 18.4 percent. Any additional transfers for health and post-secondary education from the federal government would further reduce the amount that a province of northwestern Ontario would need to raise from its own-source revenue.

These figures suggest that a province of Northwestern Ontario would be as viable economically as Saskatchewan, Manitoba or any other of the Atlantic region's provinces and should be able to generate comparable levels of government expenditure and revenue. The political benefits of province-hood would consist of control over one's own public policies and would help remove the sense of regional alienation that has afflicted the region for most of its history. On the other hand, the northwest would no longer be

part of Canada's wealthiest province and would have to pay out of its own revenue base for roads, medical, social and education services over a geographically dispersed area.

In economic terms, there is currently not an overwhelming case for a separate province but neither is there a case against. If northwestern Ontarians want their own province they might have to be prepared to accept a lower level of public expenditure or face higher taxes. However, the decline in public spending in Ontario during the 1990s has made the prospect of making do with less public spending a much smaller deterrent to provincial status. Another economic question is whether separate provincial status could somehow stimulate more private sector development activity in the north. While such an option may have worked earlier in this century when natural resource revenues could have been used to attract industry, there is no reason to believe that it would work today. Nevertheless, provincial status would allow for regional tax policies and incentives if so desired to counter-act location disadvantages firms often face in locating in the north.

While economic factors do not present an insurmountable barrier to provincial status for the northwest, there are some serious political obstacles. At first glance, creating Mantario seems more complicated by the presence of two provinces and a federal government. However, creating a new province out of Ontario is not a simple decision between Ontario and Ottawa. While the federal government has the power to create a new province, the province of Ontario would need to agree to a change in its borders and agreement would also have to be provided by the other provinces. For all their ambivalence towards the north, southern Ontarians are not likely to easily approve the disappearance of 60 percent of their province's landmass whether it is as a new province or part of Manitoba. As well, other provinces are probably in no great hurry to add a new province that qualifies for equalization payments and would dilute the current status of their veto over constitutional change.

Finally and most importantly, such a change would need a large-scale show of public support and action among northerners and the evidence to date is that the demand for a new province does not enjoy support beyond the level of coffee-table discussion. The attempt at forming a northern party in the 1970s generated an initial burst of interest

²⁹ Di Matteo(2004).

and euphoria, which then dissipated when it came time to convert talk into votes. The more recent alienation and secessionist rhetoric since the mid-1990s has also not generated any type of political party or movement that might work towards provincial status.

Another option worth exploring is transferring provincial decision-making power from Queen's Park to a regional government for Northwestern Ontario. This may be the most workable of options designed to empower residents of the region given that the Ontario government is currently providing more powers to Toronto under the new City of Toronto Act. Indeed, there has been public discussion of a "Northwestern Ontario Act" which would create regional governance institutions.³⁰ The basic principle of devolution would be to transfer those provincial expenditure items with mainly regional impact onto a Northwestern Regional Government. Indeed, such a process could be extended to all of northern Ontario as the case could be made that at minimum, there should be one regional government for the Northwest and another for the Northeast

Functions to be devolved to a Northwestern Regional Government could include economic development, environment and energy, municipal affairs, natural resources, northern development and mines, transportation, culture, tourism and recreation. In general, human capital investment and redistribution functions such as health, education and social services should remain at the provincial level because of mobility concerns and the need for some uniform standards. However, the case can also be made for regional provision of social services and particularly health because of distinct regional needs. Partial regionalization of health expenditure in Ontario is indeed already underway with the creation of Local Health Integration Networks (LHINs).

To fund these regional government expenditures, the provincial government could implement a funding solution modeled on one of the current arrangements between the

³⁰ See Submission by Township of Atikokan to the Ontario Standing Committee on finance and Economic Affairs Pre-Budget Consultations, January 25th, 2006. The submission argues: "It is time for a Northwestern Ontario Act that creates regional governance institutions for the Northwest within Ontario that will enable it to set its own energy, transport and economic development policies. The provincial government should immediately take steps to create regional government institutions for Northwestern Ontario that provide local sovereignty on regional economic issues as well as the necessary fiscal support. As part of solving Ontario's fiscal imbalance with Ottawa, the Ontario government should make the case for special equalization payments to Northern Ontario which would then be provided to northern regional governments as a dedicated revenue source."

provincial governments and Ottawa - a tax point transfer. Ottawa currently transfers some federal tax revenues it collects directly to the provinces along with the cash grants that fund health, social spending and post-secondary education. A guaranteed fiscal transfer of provincial revenue from income or sales tax points would be a good way to fund the regional government as it would tie revenue more closely to the economy's performance rather than political decisions.

A regional council and chief executive elected by Northwestern voters would provide the necessary mechanism for public accountability. Regional government is not an entirely new idea as the idea of a regional government for the Thunder Bay District alone was originally proposed in the late 1960s but never implemented.³¹

Regional government for the Northwest and the North in general would help end Ontario's "northern" problem by transferring decision making power and responsibility to the people most affected and enable them to make the decisions that are in their best long term interests. This is a realistic option for dealing with the north's concerns and can be explored as an alternative to options such as joining Manitoba or provincial status. A key advantage of this option is that it requires the participation of only the Ontario government rather than an assortment of provincial governments and the federal government for union with Manitoba or provincial status. However, given the historic alienation of the region and its small population share, attracting the attention of the Ontario government to establish a regional government will be difficult in the absence of direct benefits to southern Ontario of such an arrangement.

Conclusions

The historic alienation and lack of decision making power faced by resource hinterlands far removed from centre of power can be addressed by institutional changes that provide the tools for self-government. This paper has explored the possibility of new institutional arrangements for the region of northwestern Ontario – union with Manitoba, provincial status and regional government – as alternatives to the status quo. All three options involve substantial transactions costs though in rank terms, those of regional

government would be the lowest as northwestern Ontario would remain part of Ontario. Union with Manitoba or provincial status create more complicated and costly transition scenarios such as the issues of what to do about the debt, how to register lands and companies and other details of government come to the fore. At the same time, regional government would do the least to end regional alienation as it would ultimately be a creature of Queen's Park. Nevertheless, there is no inherent overwhelming set of arguments against northwestern Ontario either joining Manitoba or creating new province

In the end, the answer to the question as to whether it is better to be an Ontarian who lives far from Toronto either with or without regional government, an Eastern Manitoban or a citizen of Northwestern Ontario comes down to the preferences of voters in the Kenora, Thunder Bay and Rainy River Census Districts and their desire and ability to effect institutional change. While there is a long history of regional alienation and perennial voicing of a desire to separate from Ontario, there has been little public mobilization towards institutional change. At minimum, there would need to be a political action group or party to begin creating a movement for change and to date the northwest has been incapable of organizing such a movement in part due to the vast geography of the region itself. Moreover, in a region with a tradition of out-migration, dissatisfaction is often marked more by exit rather than voice.

While there is no overwhelming case against new institutional options, there does not at this time appear to be an overwhelming case for them either. Leadership on this issue will have to come from the people of northwestern Ontario. This choice may be analogous to one between remaining Ontario's attic, becoming Manitoba's basement or simply moving out into your own place. In the absence of any motivating regional ambition, the choice may simply be to remain in the attic.

³¹ As part of the process that amalgamated the twin cities of Port Arthur and Fort William into Thunder Bay, a Thunder Bay District government was proposed. See Lakehead Local Government Review. Report and Recommendations by Eric Hardy, Special Commissioner, Toronto, 1968.

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Table 1: Personal Income Taxes

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Tax on Tax Regime (% of federal tax rate)									
Manitoba	52%	52%	51%	48.50%	47%				
Ontario	58%	49%	45%	40.50%	37.70%				
Tax on Base Regime									
Low rate									
Manitoba						10.90%	10.90%	10.90%	10.90%
Ontario						6.16%	6.05%	6.05%	6.05%
Medium rate									
Manitoba						16.20%	15.40%	14.90%	14%
Ontario						9.22%	9.15%	9.15%	9.15%
High rate									
Manitoba						17.40%	17.40%	17.40%	17.40%
Ontario						11.16%	11.16%	11.16%	11.16%
Income exemption									
Manitoba						\$7,634	\$7,634	\$7,634	\$7,634
Ontario						\$7,412	\$7,634	\$7,756	\$7,927
<i>Manitoba Budget various years</i>									

Table 2: Manitoba and Ontario 2001 Per Capita Expenditure by Source		
	Manitoba	Ontario
Total Expenditures	7338.98	5930.30
<i>General Government Services</i>	161.95	80.17
<i>Labour, Employment and Immigration</i>	23.51	7.73
<i>Housing</i>	67.91	129.94
<i>Foreign Affairs and International Assistance</i>	0.00	0.00
<i>Regional Planning and Development</i>	67.91	23.70
<i>Research Establishments</i>	0.87	3.23
<i>General Purpose transfers to Other Government Subsectors</i>	168.91	18.77
<i>Debt Charges</i>	1515.86	845.15
<i>Protection of Persons and Property</i>	296.03	258.70
<i>Transportation and Communication</i>	210.71	180.56
<i>Health</i>	2075.71	2057.87
<i>Social Services</i>	1072.68	1067.16
<i>Education</i>	1255.52	1071.23
<i>Resource Conservation and Industrial Development</i>	286.45	124.42
<i>Environment</i>	46.15	28.62
<i>Recreation and Culture</i>	89.68	33.04

Source: CANSIM II Table 3850002

Table 3: Manitoba and Ontario 2001 Per Capita Revenue by Source		
	Manitoba	Ontario
Total Revenue	7594.09	5932.42
Own Source Revenue	5629.83	5367.46
<i>Income Tax</i>	2016.50	2268.76
Personal Income Tax	1582.03	1642.22
Corporation Income Tax	394.42	618.64
Mining and Logging Taxes	39.18	7.98
<i>Consumption Tax</i>	1526.31	1772.34
General Sales Tax	877.65	1146.82
Alcoholic Beverages and Tobacco Taxes	106.22	81.02
Amusement Taxes	2.61	43.74
Gasoline and Motive Fuel Taxes	195.03	235.09
Liquor Profits	136.70	71.51
Remitted Gaming Profits	207.22	194.24
<i>Property and Related Taxes</i>	296.90	183.71
General Property Taxes	178.49	1.19
Capital Taxes	107.96	116.86
Other Property Related Taxes	10.45	65.74
<i>Other Taxes</i>	370.91	452.34
Payroll Taxes	208.09	293.86
Motor Vehicle Licenses	61.82	81.70
Natural Resource Taxes and Licenses	8.71	0.25
Miscellaneous Taxes	93.16	76.52
<i>Health and Drug Insurance Premiums</i>	0.00	0.00
<i>Contributions to Social Insurance Plans</i>	121.02	209.61
<i>Sales of Goods and Services</i>	157.59	273.90
<i>Investment Income</i>	1132.76	192.79
<i>Other Revenue from Own Sources</i>	8.71	14.01
General Purpose Transfers from Other Government Subsectors	1730.92	437.05
Specific Purpose Transfers from Other Government Subsectors	233.34	127.91

Source: CANSIM 11 table 3850002.

Table 4 Fiscal Capacity-Per Capita Yield of Tax Bases at National Average Tax Rates, by Province and Revenue Source, 2000-01(dollars)				
Revenue source	Ontario	Manitoba	Mantario	FPS
1. Personal income tax revenues	1985.51	1334.83	1445.26	1666.28
2. Business income revenues	606.67	317.26	366.38	508.76
3. Capital tax revenues	159.45	90.03	101.81	130.68
4. General and miscellaneous sales taxes	967.5	802.25	830.3	918.69
5. Tobacco taxes	78.03	60.67	63.62	74.59
6. Gasoline taxes	160.94	158.37	158.81	154.81
7. Diesel fuel taxes	56.9	61.62	60.82	57.17
8. Non-commercial vehicle licenses	54.81	51.14	51.76	54.49
9. Commercial vehicle licenses	34.18	35.85	35.57	32.01
10. Revenues from the sale of alcoholic beverages	140.07	133.64	134.73	136.96
11. Hospital and medical insurance premiums	72.98	67.11	68.11	71.21
12. Race track revenues	2.12	0.59	0.85	1.33
13. Forestry revenues	15.92	14.21	14.5	62.9
14. New oil revenues	0.35	9.31	7.79	16.69
15. Old oil revenues	0.04	2.15	1.79	1.72
16. Heavy oil revenues	0	0	0	5.04
17. Mined oil revenues	0	0	0	0
18. Third tier oil revenues	0	0.73	0.61	4.68
19. Heavy third tier oil revenues	0	0	0	2.7
20. Natural gas revenues	1.68	0	0.29	61.5
21. Sales of Crown leases	0.32	1.57	1.36	14.14
22. Other oil and gas revenues	0.06	0.47	0.4	2.04
23. Mineral resources	19.2	45.77	41.26	19.5
24. Water power rentals	10.84	91.71	77.99	44.4
25. Insurance premium revenues	47.73	41.51	42.57	45.55
26. Payroll taxes	263.61	175.78	190.69	224.53
27. Provincial local property tax revenues	1257.58	953.03	1004.72	1155.3
28. Lottery ticket revenues	68.07	51.44	54.26	68.24
29. Other game of chance revenues	157.98	155.22	155.69	149.86
30. Misc. provincial. Local taxes and revenues	433.33	318.51	338	386.28
31. Shared revenues: offshore activities (NFLD)	0	0	0	0
32. Shared revenues: offshore activities (NS)	0	0	0	0
33. Shared revenues: preferred share div.	4.81	7.26	6.84	4.12
34. Total	6600.66	4982.01	5256.72	6076.18

Each provincial revenue source is calculated using the following formula $tcj(Bij/Pi)$ which is referred to as the provinces fiscal capacity for revenue base for each category - it is the product of the national-average- tax rate (not the province's own tax rate) and the commonly measured tax base for the province. Source: Department of Finance Canada, Provincial Fiscal Equalization: Final Calculations, 2000-01 (Federal-Provincial Relations Department, Finance Canada, 2003), Summary Table 6A

Revenue source	Ontario	Manitoba	Manitoba
1. Personal income tax revenues	-319.23	331.45	221.02
2. Business income revenues	-97.91	191.50	142.38
3. Capital tax revenues	-28.77	40.65	28.87
4. General and miscellaneous sales taxes	-48.81	116.44	88.39
5. Tobacco taxes	-3.44	13.92	10.97
6. Gasoline taxes	-6.13	-3.56	-4.00
7. Diesel fuel taxes	0.27	-4.45	-3.65
8. Non-commercial vehicle licenses	-0.32	3.35	2.73
9. Commercial vehicle licenses	-2.17	-3.84	-3.56
10. Revenues from the sale of alcoholic beverages	-3.11	3.32	2.23
11. Hospital and medical insurance premiums	-1.77	4.10	3.10
12. Race track revenues	-0.79	0.74	0.48
13. Forestry revenues	46.98	48.69	48.40
14. New oil revenues	16.34	7.38	8.90
15. Old oil revenues	1.68	-0.43	-0.07
16. Heavy oil revenues	5.04	5.04	5.04
17. Mined oil revenues	0.00	0.00	0.00
18. Third tier oil revenues	4.68	3.95	4.07
19. Heavy third tier oil revenues	2.70	2.70	2.70
20. Natural gas revenues	59.82	61.50	61.21
21. Sales of Crown leases	13.82	12.57	12.78
22. Other oil and gas revenues	1.98	1.57	1.64
23. Mineral resources	0.30	-26.27	-21.76
24. Water power rentals	33.56	-47.31	-33.59
25. Insurance premium revenues	-2.18	4.04	2.98
26. Payroll taxes	-39.08	48.75	33.84
27. Provincial local property tax revenues	-102.28	202.27	150.58
28. Lottery ticket revenues	0.17	16.80	13.98
29. Other game of chance revenues	-8.12	-5.36	-5.83
30. Misc. provincial Local taxes and revenues	-47.05	67.77	48.28
31. Shared revenues: offshore activities (NFLD)	0.00	0.00	0.00
32. Shared revenues: offshore activities (NS)	0.00	0.00	0.00
33. Shared revenues: preferred share div.	-0.69	-3.14	-2.72
34. Total	-524.49	1094.16	819.46

Source: Department of Finance Canada, Provincial Fiscal Equalization: Final Calculations, 2000-01 (Federal-Provincial Relations Department, Finance Canada, 2003), Summary Table 7A

Table: 6 Per Capita Revenue for and Spending by the Ontario Government 1999-2001				
	Thunder Bay	Rainy River	Kenora	Total
Revenue	5216.76	4703.97	4546.78	4992.10
Spending	6270.71	5789.50	5501.44	6022.89
*Net Lending	1047.33	1085.53	954.66	1026.53

**Net Lending is the amount that the provincial government gives to those counties to compensate for short falls in revenue. Source: Mullins (2004) and calculations provided by Mark Mullins.*

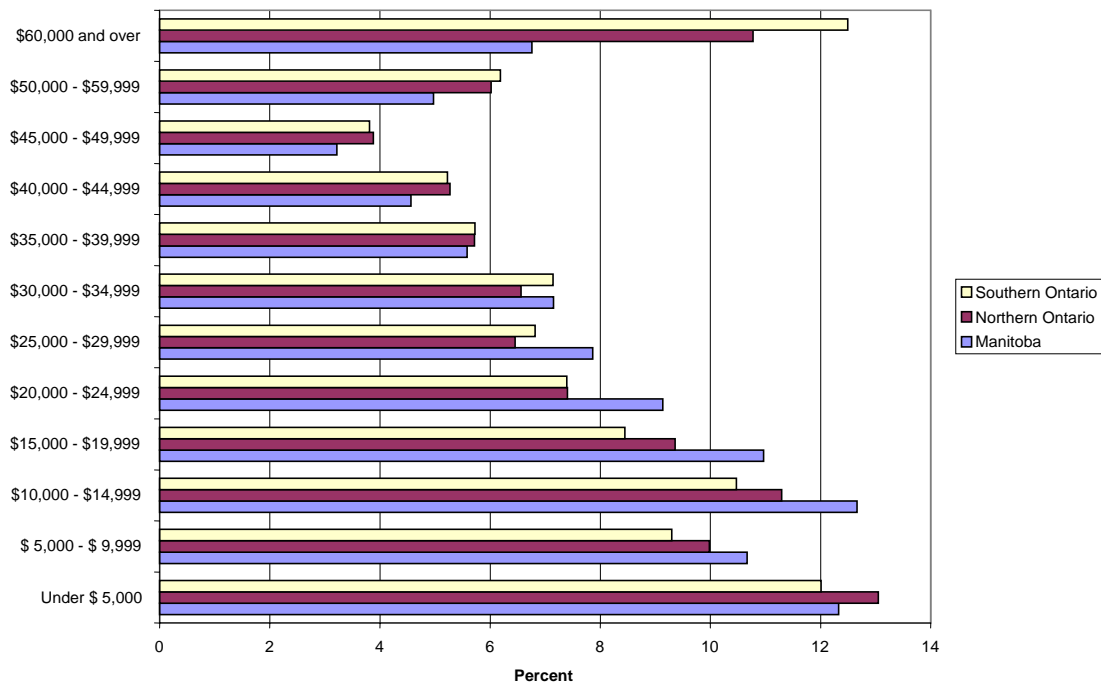
Table 7: Per Capita Spending and Revenue 2000-2001			
	Manitoba	Ontario	Northwestern Ontario
Revenue	7594.09	5932.42	4992.10
Spending	7338.98	5930.30	6022.89

Sources: Tables 2, 3 and 4.

Table 8: Ontario Provincial Government Per Capita Transfers to Northwestern Ontario (2000-2001)	
Elementary and Secondary Education	\$744.93
Post Secondary Education	\$148.69
Community Reinvestment Fund	\$250.00
Total Transfer	\$1,143.61

Source: Ontario Finance Department CRF calculations and various school board budgets

Figure 1: Income Distribution Individuals 15 years +



Source: 2001 Census.