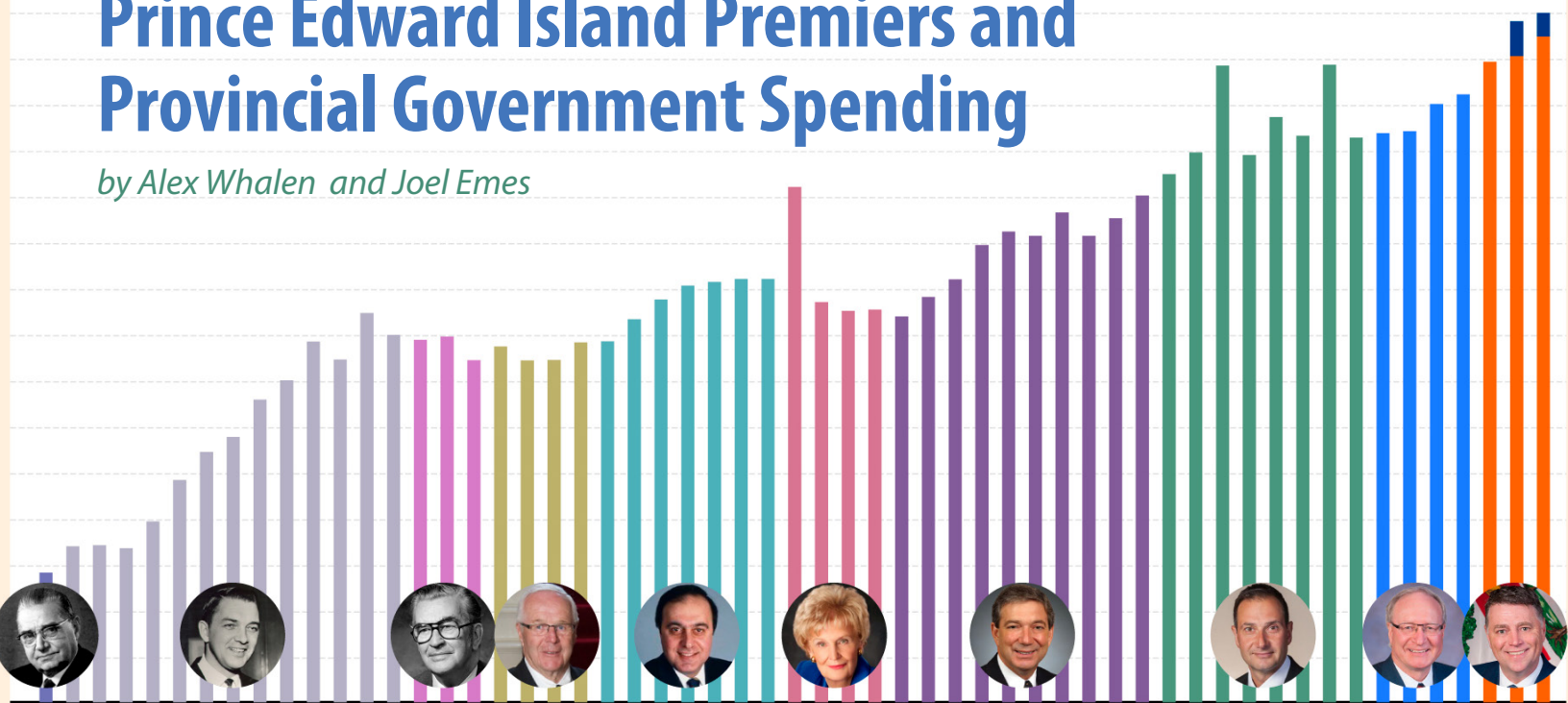


Prince Edward Island Premiers and Provincial Government Spending

by Alex Whalen and Joel Emes



SUMMARY

- Per-person inflation-adjusted program spending is a key measure of government fiscal policy. With comparable data going back to 1965, we are able to compare different historical periods and the tenures of various premiers of Prince Edward Island.
- From 1965 to 2021, provincial per-person government spending increased substantially over the 56-year period—from \$2,823 (in 2021 inflation-adjusted dollars) to \$15,024.
- Premier Alex Campbell increased spending the most of any Prince Edward Island premier since 1965. Campbell’s 8.7 percent average annual change in per person spending is substantially higher than all other premiers during our period of analysis.

- Joe Ghiz is the next-highest spending premier on our measure, with an average annual change in per-person inflation-adjusted spending of 4.8 percent. Dennis King at 4.3 percent (though he was premier during the pandemic) and Pat Binns at 2.6 percent make up the rest of the highest spenders. Wade MacLauchlan (1.9 percent), Robert Ghiz (1.9 percent), and James Lee (1.3 percent) sit in the middle of the spending increase pack.
- Angus MacLean (-2.3 percent) and Catherine Callbeck are the only two premiers in our period of analysis who reduced spending on the measure we used. At -8.1 percent, Catherine Callbeck presided over the largest reduction in spending during her tenure.

Introduction

This bulletin reviews the spending records of Prince Edward Island governments, presented by different premiers.¹ Specifically, it examines the Prince Edward Island provincial government's per-person (inflation-adjusted) program spending since 1965, divided into periods based on the different premiers. As a part of a series the Fraser Institute is doing for all provinces, the intention of this bulletin is to provide a historical analysis of this key measure of government fiscal policy.

Methodology

This bulletin focuses on program spending by premiers and excludes interest costs on government debt. If interest costs were included, it would penalize or reward premiers based on the debt accumulated prior to their tenure, and/or prevailing interest rates, both of which are out of the provincial government's immediate control.²

The study uses Finances of the Nation government revenue and expenditure data (REAL),³ which is built from three Statistics Canada publications: *Public Finance Historical Data* (PFHD) for 1965 through 1992; *Federal, Provincial and Territorial General Government Revenue and*

Expenditure (FPRTE) for 1989 through 2009; and *Canadian Government Finance Statistics* (CGFS) for 2009 to present. Data are available up to the fiscal year 2021-22. Accounting conventions are comparable through time within each period, but there are differences among the three periods. The creators of the REAL dataset adjust the data to make them more comparable.⁴

The study uses data based on provincial government fiscal years, which begin on April 1st and end on March 31st. Throughout the analysis we refer to government fiscal years by the first year only. Thus, fiscal year 2020-21, for instance, is simply referred to as 2020. We do this both for simplicity and because the majority of the government's fiscal year occurs in the first year referred to.

It is important to adjust for population as it can influence aggregate program spending. Indeed, the same amount of increased spending can look different depending on whether a province has experienced strong, modest, or negative population growth (i.e., a decline in the population). This study adjusts provincial program spending by population to calculate per-person spending using Statistics Canada's Table 17-10-0009-01 for population data.

This study also adjusts program spending data for inflation so that spending in the 1960s is comparable with spending in 2021. We use the consumer price index to adjust for inflation. Data are taken from Statistics Canada's Table 18-10-0004-01. Provincial per-person program

¹ The foundation for this analysis is based on *Prime Ministers and Government Spending: A Retrospective* (Clemens and Palacios, 2017).

² Both the level of debt accumulated from previous governments and prevailing interest rates influenced debt-servicing costs. However, that is not to say that the policies of the current government do not influence those costs. Deficits add to near-term debt accumulation, and deficit-financed spending can influence the risk premium on government debt, both of which can have an impact on interest costs.

³ See <https://financesofthenation.ca/data/>

⁴ Note that discrepancies are generally less than five percent (and are often much smaller) at the points where the datasets overlap. You can learn more about the adjustments made in the User Guide to the Finances of the Nation REAL data (<https://financesofthenation.ca/real-fedprov/>).

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Table 1: Prince Edward Island's Premiers and Budget Years over the Period of Analysis

Premier (Budget)	Party	Budget Years	Number of Budgets
Walter Shaw	Progressive Conservative	1965	1
Alex Campbell	Liberal Party	1966-1978	13
Angus MacLean	Progressive Conservative	1979-1981	3
James Lee	Progressive Conservative	1982-1985	4
Joe Ghiz	Liberal Party	1986-1993	8
Catherine Callbeck	Liberal Party	1994-1996	3
Pat Binns	Progressive Conservative	1997-2006	10
Robert Ghiz	Liberal Party	2007-2014	8
Wade MacLauchlan	Liberal Party	2015-2018	4
Dennis King	Progressive Conservative	2019-2021	3

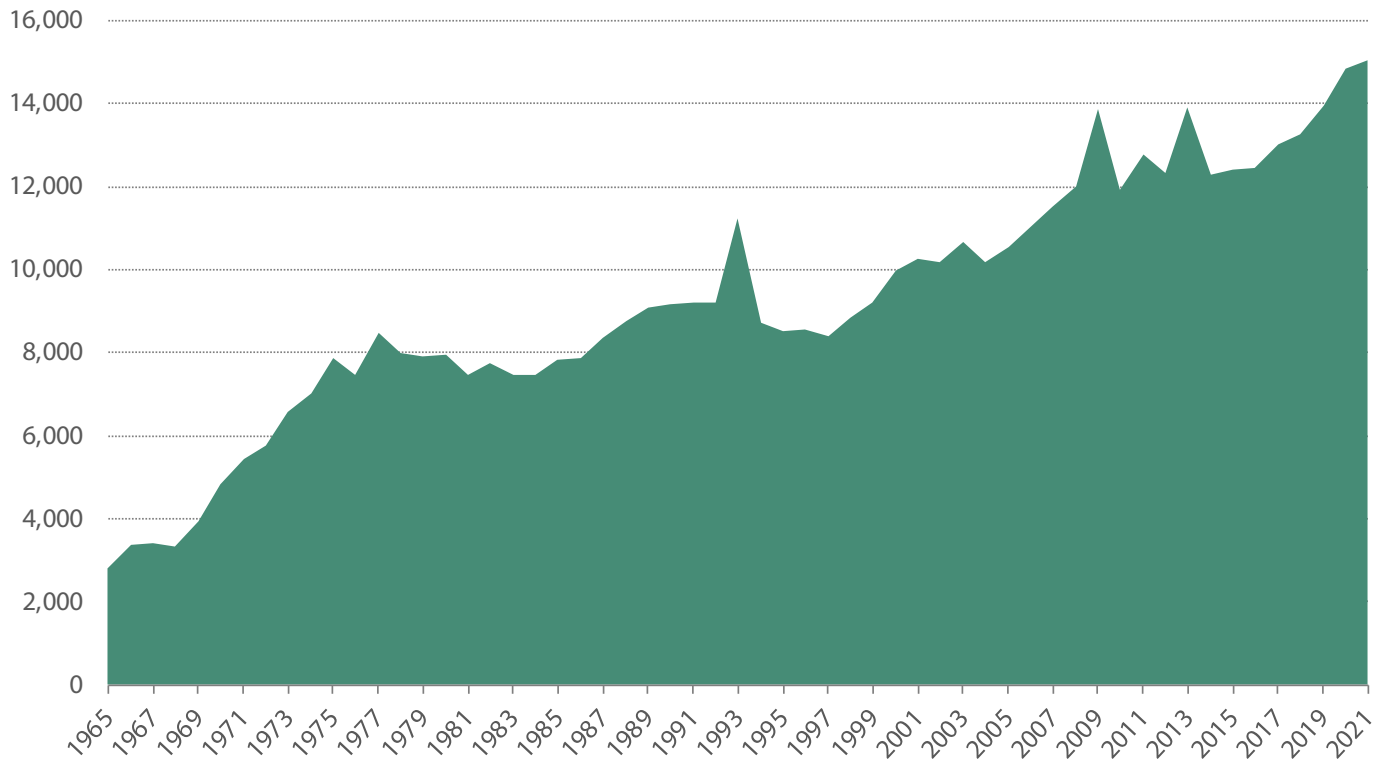
Note: Although Walter Shaw served as premier for parts of eight years (1959-1966), there is only one year of available data during his tenure (1965)

Details on the allocation of specific budgets:

- The 1966 budget was allocated to Alex B. Campbell as he served as premier for the majority of the fiscal year.
- The 1978 budget was allocated to Alex B. Campbell as he served as premier for half the fiscal year and delivered the original budget.
- The 1981 budget was allocated to Angus MacLean as he served for a majority of the fiscal year.
- The 1986 budget was allocated to Joe Ghiz as he served as premier for the majority of the fiscal year.
- The 1996 budget was allocated to Catherine Callbeck as she introduced the budget and served the majority of the fiscal year. There were three Premiers in 1996: Callbeck, Keith Milligan, and Pat Binns.
- The 2007 budget was allocated to Robert Ghiz as served as premier for the majority of the fiscal year.
- The 2019 budget was allocated to Dennis King as he served the majority of the fiscal year. King has presented four budgets, however, the period of analysis used in this study ends in fiscal year 2021-22.

Sources: Elections Prince Edward Island (2022); Prince Edward Island (2022b).

Figure 1: Inflation-Adjusted (\$2021) per Person Program Spending in Prince Edward Island, 1965-2021



Sources: Finances of the Nation, 2022; Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01.

(inflation-adjusted) spending is simply referred to as “per-person spending” hereafter.

It is important to understand that Prince Edward Island’s premiers had varying tenures.⁵ In years when there were changes in government, it is necessary to make discretionary decisions about which premier is designated responsible for each budget. Table 1 summarizes the allocation of budget years to premiers from 1965 to 2021.

⁵ For an overview of Prince Edward Island’s premiers and their terms, see Elections Prince Edward Island (2022) and Prince Edward Island (2022b).

We used two factors to decide which premier was allocated a specific budget year. The first and most important was the premier’s length of time in office during the fiscal year. When the fiscal year is fairly evenly split between two or more premiers, the situation is resolved by considering a second factor: which premier delivered the original budget that set the foundation for spending that year. For example, in the 1978 fiscal year, Alex Campbell and Bennett Campbell both served similar periods of time—5.5 and 6.5 months respectively. The 1978 budget was ultimately allocated to Alex Campbell as he delivered the original budget.

Finally, it is important to recognize that certain premiers served during periods of recession and/or other significant events that may have had an impact on government spending. However, the intention of this bulletin is not to provide context to specific years of spending or comment on whether spending changes are negative or positive. Rather, it focuses specifically and narrowly on providing an overview of per-person spending over time by premier.⁶

Per person spending in Prince Edward Island: 1965 to 2021

Figure 1 shows inflation-adjusted per-person spending beginning in 1965. There are a number of interesting points worth noting. From 1965 to 2021, per-person spending increased substantially over the 56-year period—from \$2,823 (in 2021 inflation-adjusted dollars) to \$15,024.

While figure 1 shows an overall increase in spending over time (again, adjusted for inflation), there are several interesting periods when spending⁷ was either increased or restrained. The first runs from the starting point in 1965 until 1977, a period of substantial and increased spending. This spans the governments of both Walter Shaw (1965), and Prince Edward Island's longest serving premier, Alex Campbell (1966 to 1978). During this period, per-person spending increased 200.4 percent from \$2,823 in 1965 to \$8,479 in 1977.

The next several years saw overall restraint in per-person inflation-adjusted spending, al-

though there were many fluctuations during the period. From 1977 to 1984, spending actually declined on this measure. This period encompasses several different governments, including Alex Campbell (1978), Angus MacLean (1979 to 1981) and James Lee (1982 to 1984). During this period, spending decreased from \$8,479 in 1977 to \$7,458 in 1984, a decline of 12.0 percent.

From 1984 onward, the James Lee government (1984 and 1985), the Joe Ghiz government (1986 to 1993), and the first year of Catherine Callbeck's government (1994) saw a return to increased spending. During this period, spending rose from \$7,458 in 1984 to \$11,228 in 1993, an increase of 50.6 percent. The most notable change was from the 1992 to 1993 fiscal years when per-person inflation-adjusted spending rose by \$2,008.

Amidst much public discussion,⁸ the remainder of the Callbeck government's years saw reductions in spending. From 1993 to 1997 (all the Callbeck years and the first year of the Binns government), spending fell from its peak of \$11,228 to \$8,406, a decline of 25.1 percent, or \$2,822 per person.

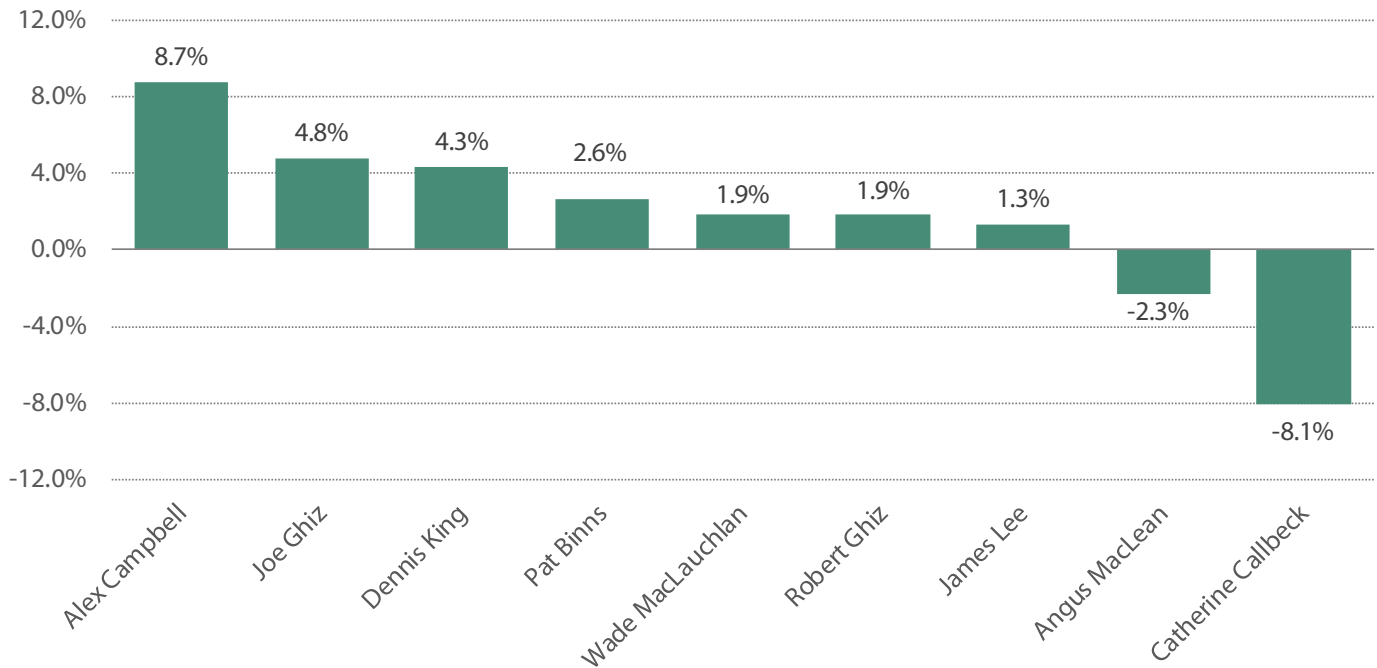
Ultimately, these reductions would not last. Beginning in the 1998 fiscal year and continuing through to our latest year of available data, spending generally continued to rise. In these 24 fiscal years, spending declined from year-to-year only five times (2001 to 2002, 2003 to 2004, 2009 to 2010, 2011 to 2012, and 2013 to 2014). Overall, spending rose by 78.7 percent between 1997 and 2021, an increase of \$6,618 per person.

⁶ For those interested in this normative issue, see Tanzi (2011) and Di Matteo (2013).

⁷ In this essay, spending means per-person inflation-adjusted program spending unless otherwise noted.

⁸ Following the massive spending spike in the 1993 budget year, Callbeck reported that she felt that spending had become "out of control" and implemented a historic 7.5 percent rollback on government sector compensation. For more, see MacPhee (2014).

Figure 2: Ranking of Premiers by Average Annual Change in Per Person Spending, Inflation-Adjusted (\$2021)



Sources: Finances of the Nation, 2022; Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01.

Figure 1 shows an obvious and substantial overall increase in inflation-adjusted per-person spending during our period of analysis (1965 to 2021). However, some notable differences emerge between different eras. Spending growth from 1965 to 1977 was followed by restraint between 1977 and 1984. Spending then rose until 1993, when it declined until 1998. From 1998 onward, spending increases have largely resumed.

Ranking premiers on changes in inflation-adjusted per-person spending

For additional context, figure 2 shows the average annual change in per-person spending during the tenure of each premier. Specifically, it presents the rank for the premiers based on the

average annual change in per-person spending from the year before they took office as premier to their last budget.

As figure 2 shows, premier Alex Campbell stands out as the Prince Edward Island premier who increased spending the most since 1965. Campbell's 8.7 percent average annual change in per person spending is substantially higher than all other premiers during our period of analysis.

Joe Ghiz is the next-highest spending premier on our measure, with an average annual change in per-person inflation-adjusted spending of 4.8 percent. Dennis King⁹ at 4.3 percent, and

⁹ It is worth noting that King happened to be premier during the COVID-19 pandemic, a time

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Pat Binns at 2.6 percent make up the remainder of the highest spenders. Wade MacLauchlan (1.9 percent), Robert Ghiz (1.9 percent), and James Lee (1.3 percent) sit in the middle of the spending increase pack.

Angus MacLean (-2.3 percent) and Catherine Callbeck are the only two premiers in our period of analysis who reduced spending on the measure we used. At -8.1 percent, Catherine Callbeck presided over the largest reduction in spending during her tenure.

Conclusion

Per-person spending adjusted for inflation and excluding interest costs is an important gauge of a government's fiscal policies, both within a specific year and over time. It, combined with overall spending as a share of the economy (GDP), are the two key measures by which to assess and understand government fiscal policy. Unfortunately, per-person inflation-adjusted spending is often neglected because it is not as easily accessible as the alternative measure, government spending as a share of GDP. This bulletin corrects that deficiency for Prince Edward Island and provides interested readers with a historical analysis of per-person spending by year and by premier going back to the mid 1960s.

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when government spending increased substantially in almost all jurisdictions across Canada. For context, spending can be adjusted to exclude expenses specifically designated as being related to the pandemic. For 2020, overall inflation-adjusted per person spending was \$14,839. When COVID-related expenses are removed, this declines to \$14,082. For 2021, the figures are \$15,024 and \$14,511 respectively.

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Acknowledgments

This bulletin was inspired by the 2017 work of Jason Clemens and Milagros Palacios (*Prime Ministers and Government Spending: A Retrospective*), in addition to the 2017 work of Professor Livio Di Matteo and his analysis of the finances of Canada over its history (*A Federal Fiscal History: Canada, 1967-2017*).

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