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THE Quarterly

FALL 2024

Major Policy Changes Needed to End Canada's Dismal Economic Performance

ALSO INSIDE: ERP Costs Canadian Workers **4** Alberta Overcontributes to Canada **14** Capital Gains Hike Will Damage Economy **16**

FRASER INSTITUTE

MESSAGE FROM THE INSTITUTE'S PRESIDENT

Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

I hope you had a wonderful summer and were able to enjoy some of Canada's natural outdoor beauty. We are really blessed to live in such a remarkable country. You might say that Canada has some of the best geography in the world.

However, it's hard to imagine that our economic performance could be so dismal, given our wealth of natural resources (minerals, oil, natural gas, agriculture, fresh water), and our proximity to the world's leading economy.

That's what a new Fraser Institute study *We're Getting Poorer: GDP per Capita in Canada and the OECD, 2002–2060* (see page 2) finds. The authors examine Canada's historic and projected GDP per-capita growth compared to 30 other industrialized countries. While Canadian income growth roughly kept pace with the rest of the 30-country group from 2002 to 2014, it has since declined sharply. We rank third lowest among 30 countries for average growth from 2014 to 2022, and looking forward to 2060, our average annual growth rate is forecast to be dead last.

Much of this decline has been self-inflicted by poor government policy, especially at the federal level. And unfortunately, it just keeps getting worse. Most recently, the federal government increased the capital gains tax which as my colleague Jake Fuss explains in a commentary published in the *Globe and Mail* (see page 16), will further hinder the Canadian economy.

It has been heartening to see corporate Canada and entrepreneurs from all corners come together to oppose the significantly damaging capital gains tax increases recently implemented by the Trudeau government. However, one can't help but wonder where they've been hiding over the past nine or so years. The harm from the capital gains tax increase is just a fraction of the impact of the federal government's net zero initiatives for instance. As my colleague Bruce Pardy explains on page 20, corporate Canada betrayed capitalism and is now paying the price.

Not all is lost though—decisive changes to federal policy could quickly return Canada to a trajectory of prosperity and opportunity for all. A good start would be a new federal fiscal framework as presented on page 12.

I can't mention all the great work covered in this issue of *The Quarterly,* but hope you do read it all, and once you're done, please don't forget to pass this issue on to your friends, family and/or colleagues.

Best,

Niels

THE Quarterly

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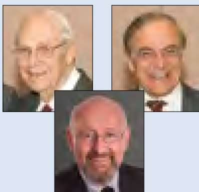

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Canada Had the Third-Lowest Growth in Per-Person GDP among 30 Advanced Economies between 2014 and 2022

Alex Whalen, Milagros Palacios, and Lawrence Schembri

On Canada Day, Deputy Prime Minister Chrystia Freeland proclaimed that "Canada is the best country in the world," yet Canadians are getting poorer relative to their peers in many other countries and our living standards are falling. This trend is expected to continue well into the future, unless our policymakers make significant changes.

Economists often measure living standards by real gross domestic product (GDP) per person—in other words, the inflation-adjusted monetary value of what a country produces in goods and services divided by its population.

As noted in a new bulletin, *We're Getting Poorer, GDP per Capita in Canada and the OECD, 2002–2060,* from 2002 to 2014, Canada's GDP per-person growth roughly kept pace with the rest of the OECD. But from 2014 to 2022, the latest year of available comparable data, Canada's annual average growth rate declined sharply, ranking third-lowest among 30 countries over the period. Consequently, in dollar terms, Canada's GDP per person increased only $1,325 during this time period, compared to the OECD average increase of $5,070 (all values in 2015 US dollars).

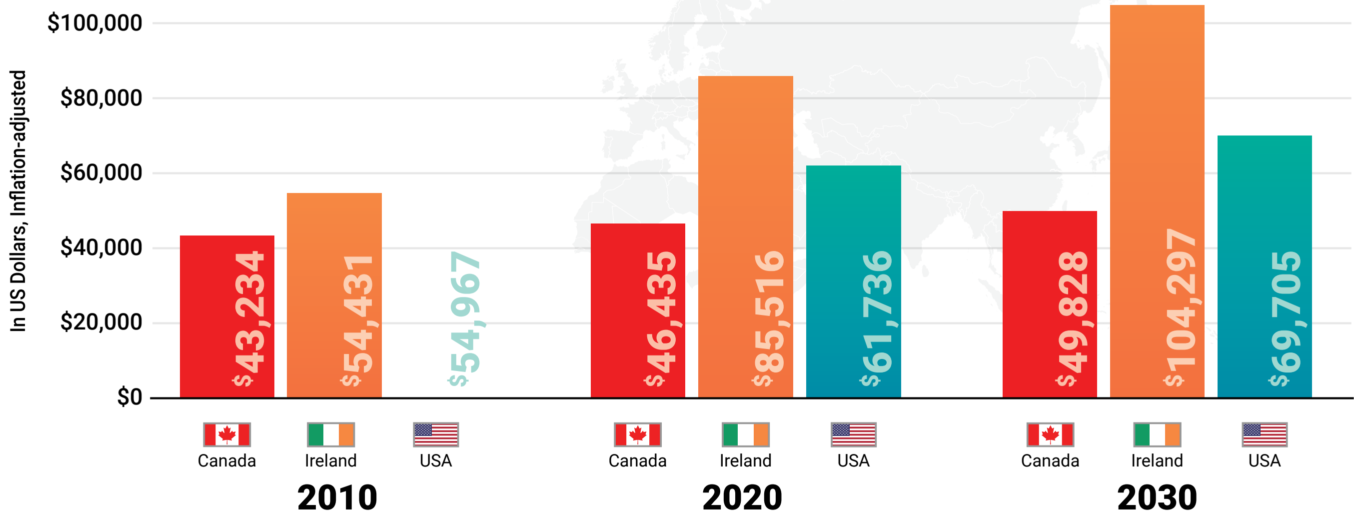
Moreover, between 2014 and 2022, Canada's GDP per person declined from 80.4 percent of the US level to 72.3 percent, and lost substantial ground to key allies and trading partners such as the United Kingdom, New Zealand, and Australia.

And according to OECD projections, Canada will have the lowest projected average annual growth rate of GDP per person (at 0.78 percent) from 2030 to 2060 when our GDP per person will be below the OECD average by $8,617. This represents a swing of more than $11,000 from where it was in 2002.

Why is this happening?

Several reasons, including historically weak business investment over the past decade, a substantial shift in the composition of permanent and temporary immigrants towards those with less education and fewer skills, and subdued technological innovation and adoption. These factors have combined to produce very low or negative labour productivity growth due to weak growth in the education and skills of the average worker and the amount of capital (namely plant, machinery, and equipment) per worker.

Comparing Per-Person GDP for Select Countries, 2010 to 2030



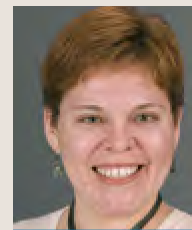
While most advanced countries are experiencing similar trends, the situation in Canada is among the worst. Consequently, our relative decline in living standards grows exponentially because Canada's poor performance compounds over time.

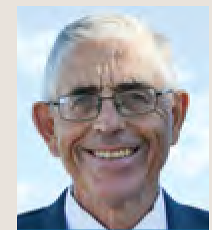
To break out of this rut and prevent this further decline in Canada's living standards relative to our peers, policymakers must enact comprehensive and bold policy changes to encourage business investment and innovation, promote worker education and training, and achieve better immigration outcomes where more is not always better.

As a starting point, governments should improve the climate for business investment and for investment in education and training. This can be achieved by streamlining regulation and major project approvals and by reducing current and expected future tax burdens on firms and workers.

Levels of government debt and debt interest costs are approaching thresholds of unsustainability not seen since the 1990s. Governments, including the federal government, must exercise spending restraint to put their finances on a more sustainable path to mitigate the "crowding out" effects of government spending and debt in private markets, and thereby promote private investment. In addition, policies that liberalise intra-provincial and international trade and foster more competition, especially in key industries (e.g., transportation, communication, finance) would help boost investment, productivity, and living standards.

Because GDP per person is so closely connected to incomes and living standards, Canada's decline relative to our peer countries on this key metric should concern all Canadians. Given Canada's projected continued poor performance, our country needs a major series of policy reforms to avoid further declines in living standards. FI





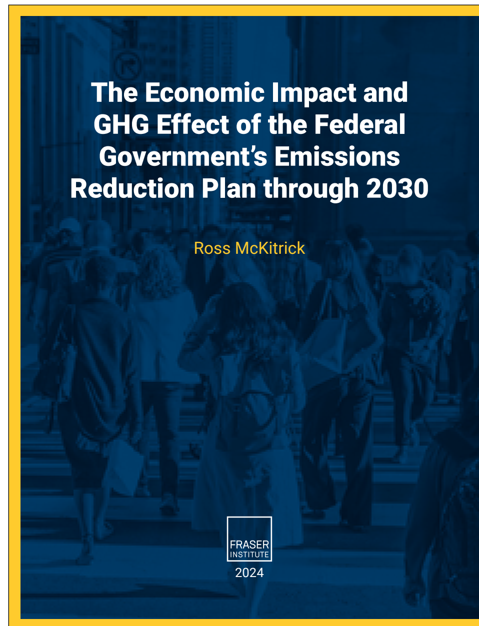
Alex Whalen is director, Atlantic Canada Prosperity, Milagros Palacios is director, Addington Centre of Measurement, and Lawrence Schembri is a senior fellow and jointly holds the Peter M. Brown Chair of Canadian Competitiveness at the Fraser Institute.

Federal Government's Emissions-Reduction Plan Will Cost Canadian Workers $6,700 Annually by 2030—While Failing to Meet Government's Emissions-Reduction Target

Ross McKitrick

Many Canadians are unhappy about the carbon tax. Proponents argue it's the cheapest way to reduce greenhouse gas (GHG) emissions, which is true, but the problem for the government is that even as the tax hits the upper limit of what people are willing to pay, emissions haven't fallen nearly enough to meet the federal target of at least 40 percent below 2005 levels by 2030. Indeed, since the temporary 2020 COVID-era drop, national GHG emissions have been rising, in part due to rapid population growth.

The carbon tax, however, is only part of the federal GHG plan. In my study, *The Economic Impact and GHG Effects of the Federal Government's Emissions Reduction Plan through 2030*, I present a detailed discussion of the Trudeau government's proposed Emissions Reduction Plan (ERP), including its economic impacts and the likely GHG reduction effects. The bottom line is that the package as a whole is so harmful to the economy it's unlikely to be implemented, and it still wouldn't reach the GHG goal even if it were.



Simply put, the government has failed to provide a detailed economic assessment of its ERP, offering instead only a superficial and flawed rationale that overstates the benefits and waives away the costs. My study presents a comprehensive analysis of the proposed policy package and uses a peer-reviewed macroeconomic model to estimate its economic and environmental effects.

The ERP can be broken down into three components: the carbon tax, the Clean Fuel Regulations (CFR), and the regulatory measures. The latter category includes a long list including the electric vehicle mandate, carbon capture system tax credits, restrictions on fertilizer use in agriculture, methane reduction targets and an overall emissions cap in the oil and gas industry, new emission limits for the electricity sector, new building and motor vehicle energy efficiency mandates, and many other such instruments. The regulatory measures tend to have high upfront costs and limited short-term effects so they carry relatively high marginal costs of emission reductions.

The cheapest part of the package is the carbon tax. I estimate it will get 2030 emissions down by about 18 percent compared to where they otherwise would be, returning them approximately to 2020 levels. The CFR brings them down a further six percent relative to their base case levels and the regulatory measures bring them down another 2.5 percent, for a cumulative

The federal government's Emissions Reduction Plan will achieve 57% of its goal by 2030 but impose enormous costs:

Loss of economic output of 6.2%

Per worker cost of $6,700 (annually)

Loss of 164,000 jobs

reduction of 26.5 percent below the base case 2030 level, which is just under 60 percent of the way to the government's target.

However, the costs of the various components are not the same.

The carbon tax reduces emissions at an initial average cost of about $290 per tonne, falling to just under $230 per tonne by 2030. This is on par with the federal government's estimate of the social costs of GHG emissions, which rise from about $250 to $290 per tonne over the present decade. While I argue that these social cost estimates are exaggerated, even if we take them at face value, they imply that while the carbon tax policy passes a cost-benefit test the rest of the ERP does not because the per-tonne abatement costs are much higher. The CFR roughly doubles the cost per tonne of GHG reductions; adding in the regulatory measures approximately triples them.

The economic impacts are easiest to understand by translating these costs into per-worker terms. I estimate that the annual cost per worker of the carbon-pricing system net of rebates, accounting for indirect effects such as higher consumer costs and lower real wages, works out to $1,302 as of 2030. Adding in the government's Clean Fuel Regulations more than doubles that to $3,550 and adding in the other regulatory measures increases it further to $6,700.

The policy package also reduces total employment. The carbon tax results in an estimated 57,000 fewer jobs as of 2030, the CFR increases job losses to 94,000 and the regulatory measures increases losses to 164,000 jobs. Claims by the federal government that the ERP presents new opportunities for jobs and employment in Canada are unsupported by proper analysis.

The regional impacts vary. While the energy-producing provinces (especially Alberta, Saskatchewan, and New Brunswick) fare poorly, Ontario ends up bearing the largest relative costs. Ontario is a large energy user, and the CFR and other regulatory measures have strongly negative impacts on Ontario's manufacturing base and consumer well-being.

Canada's stagnant income and output levels are matters of serious policy concern. The Trudeau government has signalled it wants to fix this, but its climate plan will make the situation worse. Unfortunately, rather than seeking a proper mandate for the ERP by giving the public an honest account of the costs, the government has instead offered vague and unsupported claims that the decarbonization agenda will benefit the economy. This is untrue. And as the real costs become more and more apparent, I think it unlikely Canadians will tolerate the plan's continued implementation. FI

ROSS MCKITRICK

Ross McKitrick is professor of economics at the University of Guelph and a Fraser Institute senior fellow.

ESG Rankings Have No Significant Effect on Investment Performance of Canadian Public Companies

Steven Globerman

Despite growing skepticism among investors, as evidenced by their withdrawal of billions of dollars from ESG equity funds so far in 2024, many finance industry leaders continue to claim that ESG-focused investing produces above-average returns.

But is that true?

Environmental, social, and governance (ESG) is a movement designed to pressure businesses and investors to pursue larger social goals. According to ESG theory, firms that receive poor ratings from ESG rating agencies should lose investment dollars. Yet the claim that ESG-focused investing can help investors do well by doing good has received surprisingly little empirical support from academic studies.

However, according to *ESG Investing and Financial Returns in Canada*, which tracked 310 companies listed on the Toronto Stock Exchange from 2013 to 2020, neither ESG rating upgrades nor downgrades were related in a statistically significant way to the stock market performance of companies.

> *"[P]romoting ESG-focused investment alternatives appears to have been, at least until recently, an effective marketing tool."*

Moreover, because the study finds that ESG ratings changes—which, when released, are effectively new information for investors—are not consistently related to financial returns, ESG ratings are likely not relevant to the expected future profitability of publicly-listed companies in Canada.

This of course raises the question—if new information (i.e., ratings changes) about a company's ESG-related practises is not statistically related to equity returns from investing in that company, why do money managers pay for the services of ESG rating companies?

One possible reason is that managers pass a substantial share of the costs along to customers who are willing to sacrifice financial returns (due to higher management fees) to express their commitment to

Analysis of Canadian companies finds NO LINK between changes in ESG ratings and financial returns

environmental sustainability and other social causes. Another possible reason is that promoting ESG-focused investment alternatives appears to have been, at least until recently, an effective marketing tool.

But again, the empirical evidence suggests there is no reliable statistical relationship between ESG-focused investing and the risk-adjusted returns earned by investors. And since asset managers typically charge higher fees for ESG-focused mutual funds, ESG investment strategies are more likely to underperform than overperform conventional investment strategies.

"The empirical evidence suggests there is no reliable statistical relationship between ESG-focused investing and the risk-adjusted returns earned by investors."

Certainly, if some percentage of investors choose to pursue ESG-related investment strategies, even at the cost of lower risk-adjusted investment returns, there should be no legal or regulatory restrictions on doing so. However, securities regulators should closely monitor the investment industry to ensure it provides reliable and up-to-date information about the financial performance of ESG-focused investment products that portfolio managers market to the public.

At the same time, when ESG advocates push for more government-mandated ESG disclosures from companies in Canada, policymakers should be wary of any claims that greater disclosure mandates will improve the financial performance of companies. FI

STEVEN GLOBERMAN

Steven Globerman is a senior fellow and chair of the Addington Centre of Measurement at the Fraser Institute.

Canada’s Record of Underperforming International Peers Pre-Dates COVID

Francisca Dussaillant

This study, part of an ongoing series of research comparing Canada’s economic performance with its peer group of high-income countries in the Organisation for Economic Co-operation and Development (OECD), examines the last business cycle starting in 2007 and up to 2019.

Broadly stated, Canada’s economy underperformed across a host of measures compared to other OECD countries.

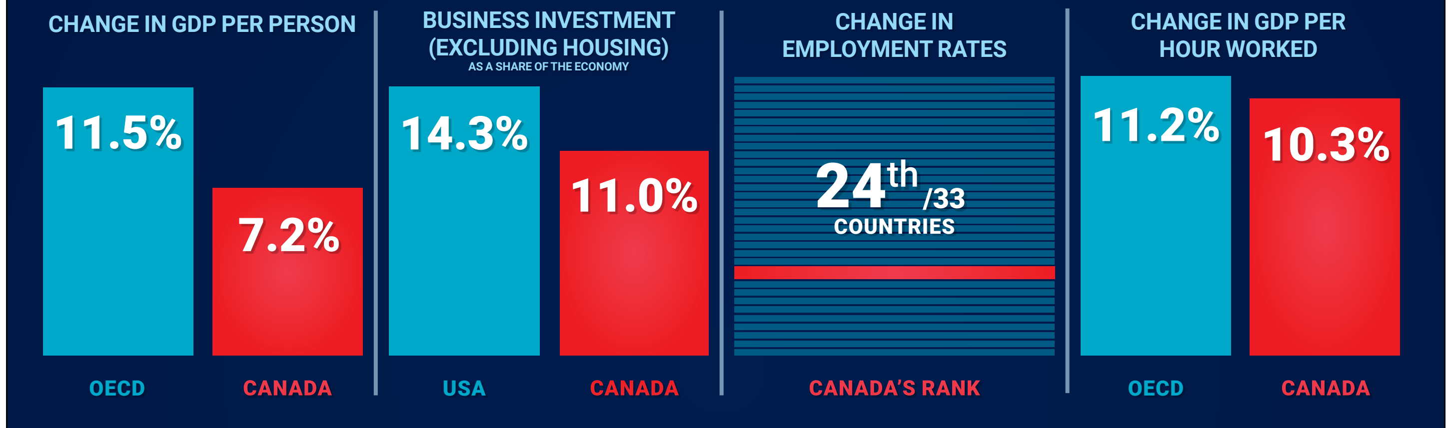
Consider GDP per person, which is a broad measure of living standards. Among 32 OECD countries with comparable data, Canada’s growth in GDP per person between 2007 and 2019 ranked 20th at 7.2 percent. For context, the OECD average was 11.5 percent and countries such as Poland (54.1 percent), Ireland (43.3 percent), Czech Republic (21.0 percent), the United States (12.7 percent), and Australia (10.8 percent) all outperformed Canada.

One of the factors contributing to Canada’s slow and comparatively low level of growth in GDP per person is a lack of business investment. Seventeen OECD countries have comparable data for the period 2007 to 2019. As of 2019, Canada had the second-lowest level of business investment (excluding residential construction) as a share of the economy (GDP) among the OECD countries. In 2019, top-ranked Switzerland’s 20.3 percent growth rate nearly doubled Canada’s 11.0 percent.

Perhaps more telling is that Canada’s growth in business investment (excluding residential construction) as a share of the economy between 2007 and 2019 was the third-worst among the OECD countries covered.

Canada’s business investment as a share of the economy (again, excluding residential construction) actually fell 11.1 percent over the period compared to 19.7 percent in the United States, which ranked first over the period.

As of 2019, Canada had the second-lowest level of business investment (excluding residential construction) as a share of the economy (GDP) among the OECD countries.”



Comparable data for employment is a bit more complicated. For instance, among the 33 OECD countries with data, Canada was one of 10 countries that recorded a decline in the overall employment rate (-3.1 percent). Consequently, Canada ranked 24th out of the 33 countries for the change in the employment rate.

> *"Among the 33 OECD countries with data, Canada was one of 10 countries that recorded a decline in the overall employment rate (-3.1 percent)."*

However, the situation is even worse if you separate the private sector from the government sector. Between 2007 and 2019, employment in Canada's government sector increased by 17.3 percent, the fourth-highest rate among OECD countries with comparable data while employment in the private sector, which is necessary to finance the government sector, only grew by 13.3 percent.

Finally, while more technical, the change in GDP per-hour worked is a way to measure how productive workers are in transforming inputs (e.g., raw materials, ideas) into useable and demanded goods and services. Being more productive is key in improving living standards over time. Between 2007 and 2019, Canada ranked 15th of 29 countries for its ability to improve worker productivity as measured by changes in GDP per-hour worked. Specifically, Canada experienced a 10.3 percent improvement over the entire period, which pales in comparison to Ireland's 55.7 percent improvement. Canada was less than the OECD average and several peer countries including the US, Denmark, Australia, and Estonia.

While there has been more interest and awareness of Canada's underperformance compared to other industrialized countries over the last few years, this study concludes that Canada's relative underperformance—whether measured as growth in living standards, attracting investment, or labour market performance—started more than a decade ago and has simply worsened over the last few years. FI

FRANCISCA DUSSAILLANT

JASON CLEMENS

Francisca Dussaillant is an economist and author of *A Comparative Analysis of the Economic Performance of Canada and Its OECD Competitors, 2007–2019.* Jason Clemens, Executive Vice President of the Fraser Institute, co-authored this summary of the study.

BC Government Should Stop Relying on Boom-and-Bust Natural Gas Revenues to Fund Ongoing Programs

Ben Eisen and Joel Emes

The Eby government, which plans to run a $7.9 billion operating deficit this year, also plans to accumulate a mountain of new debt from spending on capital projects while burning through resource revenue that should be saved rather than spent. In short, the government is spending recklessly at the expense of future generations of British Columbians.

Let's first look at non-renewable resource revenues, which include royalties from natural gas but exclude revenues from *renewable* sources such as forests. If the Eby government was considering the well-being of taxpayers in the future, it would treat non-renewable resource revenue differently than tax revenue. Why? Because when it collects resource royalties, the government depletes an asset. The government should instead save those royalties so they generate a reliable stream of revenue over time in the form of investment returns. Unfortunately, the Eby government is simply spending the money faster than it comes in the door. And non-renewable resource revenues are masking the full impact of the government's ongoing spending spree. In short, the government is selling the family silver to supplement income, yet is still incurring big operating deficits.

These deficits, however, are only a small portion of the debt the government plans to incur in the years ahead. The operating budget only includes spending on day-to-day activities such as government worker salaries and debt interest payments. It excludes expenditures on long-term capital projects (e.g., highways and schools). Once we account for this spending, the

FRASER RESEARCH BULLETIN

July 2024

A New Fiscal Framework for British Columbia

Ben Eisen and Joel Emes

Summary

- British Columbia's provincial government finances have deteriorated rapidly in recent years. With large deficits and rapid debt accumulation forecasted in the years ahead, British Columbia is on track to become a high-debt province.
- This transformation in the health of BC's finances has been the result of a fundamental shift in the government's approach to government spending that began in 2017/18. Since that time, BC's government has increased spending at a much faster rate than occurred during a lengthy period of fiscal discipline that dates back to the turn of the century.
- This paper begins a process of outlining an alternative approach to public finances in British Columbia by establishing a fiscal framework to control expenditures to return to a balanced budget and begin saving rather than spending royalty revenues from natural gas.
- The implementation of the fiscal framework outlined in this paper would produce markedly different fiscal outcomes than those forecasted in the government's recent budget. By 2026/27, it would produce a balanced budget, in contrast to the government's projected $6.3 billion deficit. It would also result in the accumulation of $22.5 billion less debt over the next three years compared to the government's current plan. This framework would generate substantial deposits into a BC Prosperity Fund, allowing the fund to reach $3.7 billion by 2026/27.
- In the longer term, the implementation of the fiscal framework would create a range of policy options including tax relief, and explicit debt reduction.
- A fiscal framework based on spending restraint and saving rather than spending revenue from natural gas can prevent the rapid debt accumulation now forecasted in the years ahead, put provincial finances on a sounder footing for the long term, and ensure lasting benefits from natural resource royalties.

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government's projected debt will more than double over just four years, rising from $60.7 billion in 2022/23 to $128.8 billion in 2026/27.

> *"By 2026/27, each British Columbian will be responsible for nearly $1,000 in provincial government debt interest. That's money unavailable for other priorities such as health care and education."*

Of course, taxpayers will ultimately bear the burden of this debt. Debt interest payments are set to rise

quickly in the years ahead. By 2026/27, each British Columbian will be responsible for nearly $1,000 in provincial government debt interest. That's money unavailable for other priorities such as health care and education.

Clearly, British Columbia needs a new path forward. The government should adopt a new fiscal framework based on spending restraint and investing non-renewable resource revenue in a provincial fund. The government could use earnings from the fund to help finance ongoing spending and keep taxes lower in the future.

According to a recent bulletin, *A New Fiscal Framework for British Columiba*, if the government simply froze spending at the historically high level in 2023/24 and kept the freeze in place up to 2026/27—while saving 100 percent of non-renewable resource revenue—it could balance the budget by 2026/27. This stands in stark contrast to the government's projected $6.3 billion deficit that year. This framework would generate substantial deposits into a savings fund, allowing the fund to reach $3.7 billion by 2026/27.

This fiscal framework would also cut projected debt accumulation by $22.5 billion over the next three years compared to the government's current plan.

A fiscal framework based on spending restraint and saving, rather than spending resource revenue, can prevent the rapid debt accumulation now forecasted in the years ahead, put provincial finances on a sounder footing for the long term, and ensure lasting benefits from resource revenue. This would be a principled approach to the stewardship of public money and the province's natural resources, that also protects the wellbeing of British Columbians in the future. FI

> *"A fiscal framework based on spending restraint and saving, rather than spending resource revenue, can prevent the rapid debt accumulation now forecasted in the years ahead..."*

BEN EISEN

JOEL EMES

Ben Eisen is a senior fellow and Joel Emes is a senior economist at the Fraser Institute. They are co-authors of *A New Fiscal Framework for British Columbia.*

Federal Government Could Balance Budget and Reduce Tax Rates with 2.3% Spending Reduction over Two Years

Jake Fuss and Grady Munro

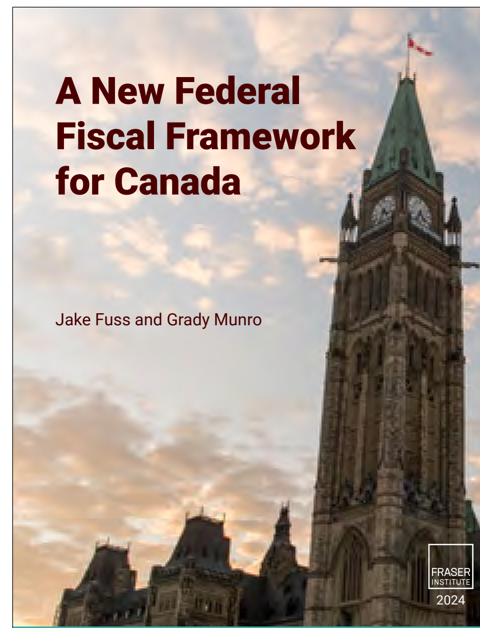
Canadians are flocking south in record numbers to live in the United States, due likely in part to Canada's high taxes and faltering economy. Clearly, the policy status quo in Ottawa cannot continue.

First, on the tax front, Canada's top combined (federal and provincial) personal income tax rate ranked fifth-highest out of 38 OECD countries in 2022 (the latest year of available comparable data). And last year, Canadians in every province, earning a variety of incomes, faced higher income tax rates than Americans in nearly every US state.

Our higher tax rates, particularly compared to the United States, put Canada at a competitive disadvantage in attracting and retaining high-skilled workers including doctors, engineers, and entrepreneurs. Moreover, high tax rates diminish the incentives to save, invest, or start a business—all key drivers of economic prosperity.

> *"High tax rates diminish the incentives to save, invest, or start a business—all key drivers of economic prosperity."*

Second, consider the dismal state of federal finances. According to the Trudeau government's latest budget, Ottawa expects to spend $39.8 billion more in 2024/25 than it collects in taxes, and will borrow to cover the difference. This marks the Trudeau government's



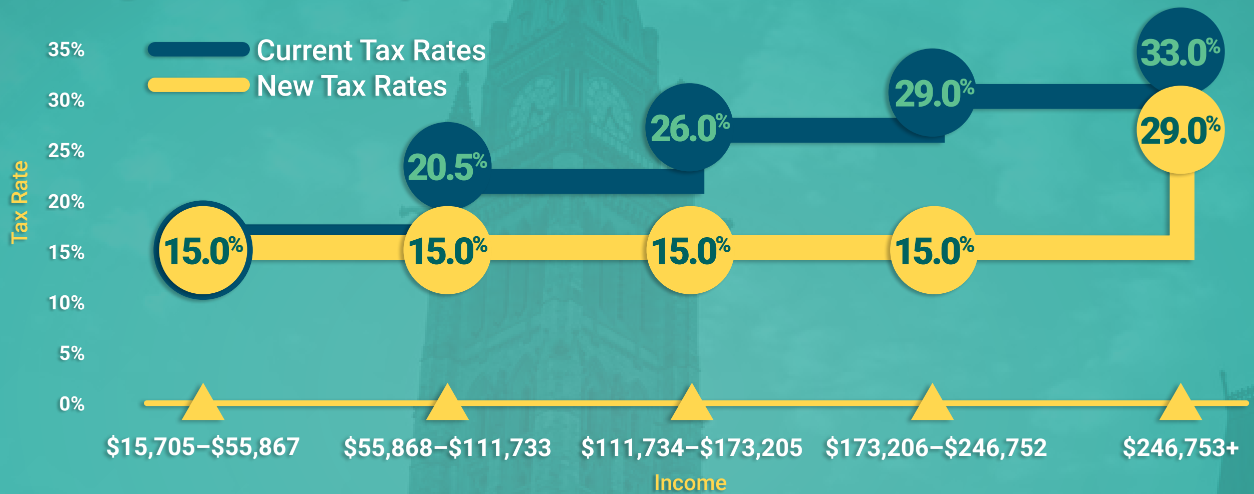
tenth consecutive budget deficit, and the government projects additional deficits until at least 2028/29, driven largely by the Trudeau government's historically high spending.

Consequently, since the Trudeau government was elected in 2015, federal gross debt is expected to have increased by nearly one trillion dollars, and will increase an additional $400.1 billion by 2028/29. Empirical research shows that rising government debt discourages investment and increases the risk of future tax hikes, which further impedes economic growth.

So, what's the solution?

Despite the past decade of deficits and debt accumulation, as noted in our new study, *A New Federal Fiscal Framework for Canada*, a balanced budget—and tax rate reductions for many working Canadians—are within reach if Ottawa changes course.

A 2.3% federal spending reduction over 2 years could balance the budget with lower personal tax rates for most Canadians



Specifically, if the federal government reduced program spending by only 2.3 percent over two years—and eliminated 49 federal personal income tax expenditures (tax credits, tax exemptions, etc.), which do little to improve economic growth yet reduce government revenue—it could eliminate the three middle federal personal income tax rates (20.5 percent, 26.0 percent, 29.0 percent) and reduce the top rate from 33.0 percent to its previous level of 29.0 percent.

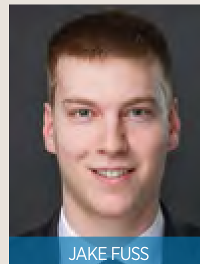
> ***"If the federal government reduced program spending by only 2.3% over two years... it could eliminate the three middle federal personal income tax rates...and reduce the top rate from 33% to the previous level of 29%."***

While the government would lose income tax revenue, since most Canadians would now face lower tax rates, the money it would save by eliminating the tax expenditures would pay for the majority of the loss.

Moreover, by lowering tax rates for many Canadians, the government would improve Canada's tax competitiveness relative to other jurisdictions and better incentivize entrepreneurship, investment and other productive activities that promote economic growth and generate tax revenue.

As a result, if the government enacted these spending and tax reforms, it would go from a projected $30.8 billion deficit in 2026/27 to a balanced budget. And by balancing the budget, the government would accumulate significantly less debt and reduce the burden on future generations of Canadians.

As Canadians face high taxes and a stagnant economy, it's not surprising that record numbers are choosing to leave for the US. But this need not be the case, and with modest spending reductions the federal government can reduce tax rates and simultaneously balance the budget in two years. FI



Jake Fuss is director of Fiscal Studies and Grady Munro is a policy analyst at the Fraser Institute. They are authors of *A New Federal Fiscal Framework for Canada.*

Albertans Continue to Contribute Disproportionately to Canadian Federalism—Net Contribution Totaled $244.6 billion between 2007–2022

Tegan Hill, Nathaniel Li, Spencer Gudewill, and Milagros Palacios

According to a recent poll by the Angus Reid Institute, nearly half of Albertans believe they get a "raw deal"—that is, they give more than they get—being part of Canada. It's easy to see why Albertans are frustrated. Despite the province's crucial role in the federation, the federal government continues to inflict restrictive and damaging policies on the Albertan economy.

The Trudeau government's list of policies includes Bill C-69 (which imposes complex, uncertain and onerous review requirements on major energy projects); Bill C-48 (which bans large oil tankers off British Columbia's northern coast and limits access to Asian markets); the oil and gas emissions cap; the "clean fuel standard"; numerous "net-zero" targets that disproportionately impact Alberta, and so on. Not surprisingly, the same poll found that 65 percent of Albertans believe federal government policies have hurt their province's economy.

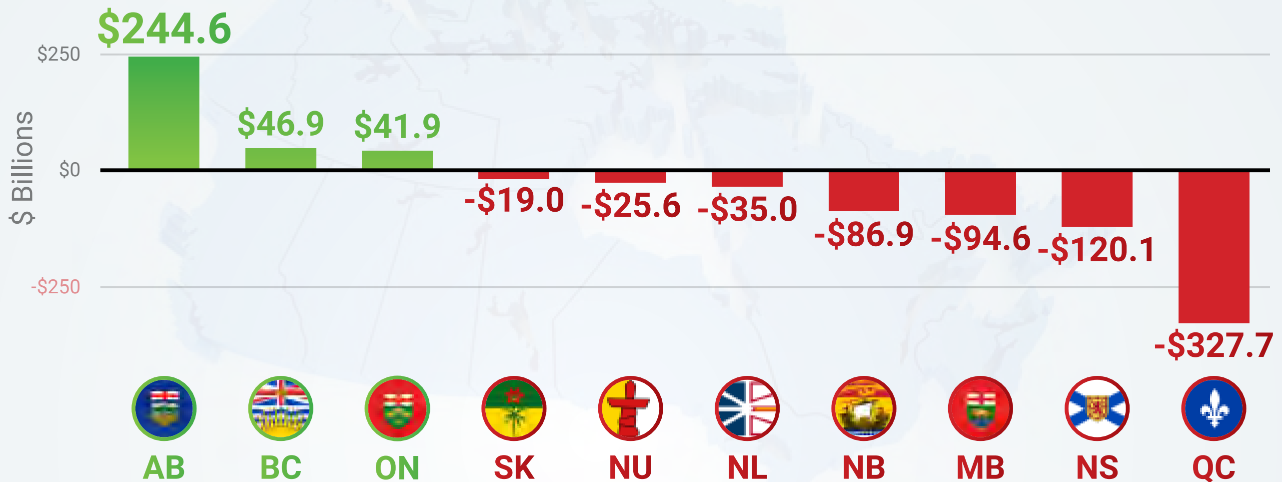
What's less clear is why the federal government wants to thwart Alberta's economic engine, considering how much the province contributes to the federation financially. In our current system of federalism, Ottawa collects various taxes then redistributes money to Canadians in other provinces for federal programs including equalization, the Canada Pension Plan (CPP), and employment insurance (EI).

According to our study *Undertanding Alberta's Outsized Contribution to Confederation*, from 2007 to 2022 (the latest period of available data), Albertans contributed $244.6 billion more in taxes and

other payments to the federal government than they received in federal spending—more than five times as much as British Columbians or Ontarians. The other seven provinces received more federal dollars than they contributed to federal revenues. In other words, Alberta is by far the largest net contributor to Ottawa's coffers.

> *"Albertans contributed $244.6 billion more in taxes and other payments to the federal government than they received in federal spending—more than five times as much as British Columbians or Ontarians."*

Alberta's net contribution to Ottawa—more than $244 BILLION from 2007 to 2022—dwarfs contributions from any other province



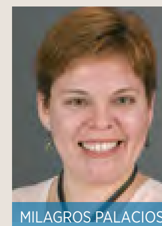
Alberta's large net contribution reflects its comparatively young population (fewer retirees), higher rates of employment, higher average incomes, and relatively strong economy. Alberta's economic growth rate (inflation-adjusted) led the country in 2022, and accounted for 17.9 percent of Canada's total economic growth despite being home to just 11.6 percent of the population.

Alberta also had the highest level of business investment per private-sector worker in 2022, more than double the national average (excluding Alberta), and the highest private-sector job growth, contributing nearly one in every five private-sector jobs created in Canada in 2022.

Relatively strong economic growth, business investment and private-sector job creation may help explain why (on net) 56,245 Canadian residents relocated to Alberta in 2022—far more than any other province. For decades, Alberta has provided economic opportunities for Canadians from other parts of the country who were willing to relocate.

Finally, without Alberta's large net contribution to the federal government's bottom line, Ottawa would have significantly larger budget deficits. In 2022, for instance, without Alberta the Trudeau government's $25.7 billion budget deficit would have ballooned to $39.9 billion. The larger the deficit (all else equal) the greater the debt accumulation, which Canadians must ultimately finance through their taxes.

When Alberta's economy is strong and prosperous, it benefits all of Canada. And due to Alberta's economic success, Albertans continue to contribute relatively more to the federation than Canadians in other provinces. That's something the federal government should encourage, not discourage. FI



Tegan Hill is director, Alberta Studies, Nathaniel Li is a senior economist, Spencer Gudewill is a 2024 intern, and Milagros Palacios is director, Addington Centre of Measurement at the Fraser Institute. They are co-authors of *Understanding Alberta's Outsized Contribution to Confederation*.

Capital Gains Hike Will Cause Widespread Damage in Canadian Economy

Jake Fuss and Grady Munro

On June 10, two months after tabling the federal budget, Finance Minister Chrystia Freeland introduced a motion in Parliament to increase taxes on capital gains. The next day, this motion passed as the NDP, Bloc Québécois, and Green Party voted with the Liberals. Unfortunately for Canadians, the tax hike will likely hurt Canada's economy. And the finance minister continues to make misleading claims to defend it.

Prior to this, investors who sold capital assets paid taxes on 50 percent of the gain (based on their highest marginal tax rate). On June 25, thanks to Freeland's motion, that share increased to 66.7 percent for capital gains above $250,000. (Critically, the gain includes inflationary and real increases in the value of the asset.)

According to Minister Freeland, the hike was necessary because it will bring in more than $19 billion of revenue over five years to pay for new spending on housing, national defence and other programs. This claim is disingenuous for two reasons.

First, investors do not pay capital gains taxes until they sell assets and realize gains. A higher capital gains tax rate gives them an incentive to hold onto their investments, perhaps anticipating that a future government may reduce the rate. Individuals and businesses may not sell their assets as quickly as the government anticipates so the tax hike ends up generating less revenue than expected.

Second, the government does not have a revenue problem. Annual federal revenue is increasing and has grown (nominally) more than $185 billion (or 66.2 percent) from 2014–15 to 2023–24. Before tabling the budget in April, the government was already anticipating annual revenue to increase by more than $27 billion this year. But the government has chosen to spend every dime it takes in (and then some) instead of being disciplined.

Years of unrestrained spending and borrowing have led to a precarious fiscal situation in Ottawa. If the government wanted to pay for new programs, it could have reduced spending in other areas. But Minister Freeland largely chose not to do this and sought new revenue tools after realizing this year's deficit was on track to surpass her fiscal targets. Clearly, raising taxes to generate revenue was unnecessary and could have been avoided with more disciplined spending.

Further misleading Canadians, the Trudeau government claims this tax hike will only increase taxes for "0.13 percent of Canadians." But in reality, many Canadians earning modest incomes will pay capital gains taxes.

According to an analysis by economist Jack Mintz, 50 percent of taxpayers who claim more than $250,000 of capital gains in a year earned less than $117,592 in normal annual income from 2011 to 2021. These include individuals with modest annual incomes who own businesses, second homes or stocks, and who may choose to sell those assets once or infrequently in their lifetimes (such as at retirement). Contrary to the government's claims, the capital gains tax hike will affect 4.74 million investors in Canadian companies (or 15.8 percent of all tax filers).

> ***"Many Canadians who you wouldn't consider among "the wealthiest" will earn capital gains exceeding $250,000 following the sale of their assets, and be impacted by Freeland's hike."***

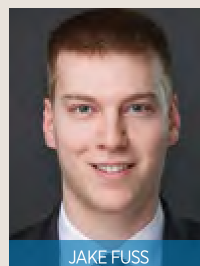
In sum, many Canadians who you wouldn't consider among "the wealthiest" will earn capital gains exceeding $250,000 following the sale of their assets, and be impacted by Freeland's hike.

Finally, the capital gains tax hike will also inhibit economic growth during a time when Canadians are seeing an historic decline in living standards. Capital gains taxes discourage entrepreneurship and business investment. By raising capital gains taxes, the Trudeau government is reducing the return that entrepreneurs and investors can expect from starting a business or investing in the Canadian economy. This means that potential entrepreneurs or investors are more likely to take their ideas and money elsewhere, and Canadians will continue to suffer the consequences of a stagnating economy.

> ***"Capital gains taxes discourage entrepreneurship and business investment."***

If Minister Freeland and the Trudeau government want to pave a path to widespread prosperity for Canadians, they should reverse their tax hike on capital gains. FI

> ***"Potential entrepreneurs or investors are more likely to take their ideas and money elsewhere, and Canadians will continue to suffer the consequences of a stagnating economy."***


JAKE FUSS

GRADY MUNRO

Jake Fuss is director of Fiscal Studies and Grady Munro is a policy analyst at the Fraser Institute.

Ford and Trudeau Share Affection for Spending and Taxes

Ben Eisen

Recently, Ontario Premier Doug Ford and Prime Minister Justin Trudeau came together to announce massive government subsidies for Honda to build electric vehicles and an EV battery plant in Ontario. During the funding announcement, the prime minister heaped praise on Premier Ford, describing him as an "outstanding partner" and "strong leader."

Despite their different party affiliations, this praise should come as no surprise. The Ford and Trudeau governments share an affection for corporate welfare. However, that's not the only similarity. The two governments largely operate out of similar policy playbooks when it comes to spending, government debt, and taxes.

Let's first look at spending. The Trudeau government came to power promising to increase spending in several areas. A few years later the Ford government took office while taking a very different rhetorical tack, promising to cut spending that, Ford argued, had been profligate under former Ontario Premier Kathleen Wynne.

Since taking power, however, both governments have chosen to increase spending compared to levels they inherited from their predecessors. Since 2015/16, the Trudeau government has increased per-person program spending by 20 percent (after adjusting for inflation). While the Ford government's spending growth has been slower (up 2.1 percent between 2018/19 and 2023/24, after adjusting for inflation), it broke its commitment to reduce spending.

> *“Since 2015/16, the Trudeau government has increased per-person program spending by 20 percent (after adjusting for inflation). While the Ford government’s spending growth has been slower... it broke its commitment to reduce spending.”*

On deficits and debt, the two governments’ track records are also more similar than different. Thanks largely to their shared failure to control spending, both governments have run operating deficits almost every year in power (the only exception was 2021/22 in Ontario due to a surprise influx of revenue following the pandemic). This year, both the Trudeau government ($40 billion) and the Ford government ($9.8 billion) will run budget deficits. Moreover, once you add in spending on long-term capital projects, the Ford government expects a net debt increase of $24.2 billion this year alone.

Both governments also share a willingness to maintain high taxes. The Ford government came to power promising substantial tax relief. Instead, Ontarians have seen no major tax reduction initiatives under Ford, and provincial tax revenue (as a share of the economy) has actually grown. Meanwhile, the Trudeau government has implemented a number of tax hikes, including the recent increase to the capital gains inclusion rate.

> *“Ontarians have seen no major tax reduction initiatives under Ford, and provincial tax revenue (as a share of the economy) has actually grown.”*

Indeed, this latest development illustrates the similarities between the two governments when it comes to taxes. Although the decision to raise the inclusion rate was made by the Trudeau government, it’s properly viewed as both a federal and provincial tax increase because both levels of government share the same definition of income. In other words, the provincial “share” of capital gains revenue will grow as well. But if Premier Ford rejected the Trudeau government’s tax-friendly approach to governance, his government could simply cut other provincial taxes to keep Ontario’s overall revenue levels the same while leaving more money in the pockets of Ontario residents and businesses. There’s been no indication this will happen. Instead, Premier Ford will go along with Prime Minister Trudeau’s tax hike and keep the province’s share at Queen’s Park where it can be used to finance government spending.

To be sure, the fiscal policy approaches of Ford and Trudeau are not identical. The Trudeau government is more active in its pursuit of additional tax revenue and more spending while the Ford government is more passive, leaving high tax rates and spending levels where they are and shrugging its collective shoulders at large deficits and debt accumulation. However, the two governments’ fiscal approaches have many similarities. Don’t be surprised to see more joint press conferences and praise between the two leaders in the future. FI

BEN EISEN

Ben Eisen is a senior fellow at the Fraser Institute.

Corporate Canada Betrayed Capitalism—Now It Has Been Betrayed

Bruce Pardy

The original Battlestar Galactica, a campy space opera, debuted on network television in 1978. Canadian actor John Colicos played the traitor Baltar, who helps robot Cylons ambush human civilization. After humans have been almost wiped out, Baltar is hauled before the Cylons' Imperious Leader. "What of our bargain?!" Baltar demands. "My colony was to be spared!" The Leader says he has altered the bargain. "How can you change one side of a bargain?!" Baltar spits, not getting it. "When there is no other side," the robot tells him, "You have missed the entire point of the war. There can be no survivors." "Surely," Baltar stammers, finally understanding, "you don't mean me."

Corporate Canada should know the feeling. After years of colluding with climate hysteria and betraying capitalism, Canadian companies have been dumped at the curb.

On June 20, Bill C-59 received Royal Assent. It's a hodgepodge bill of humdrum provisions, hundreds of pages long, related to last year's spring federal budget and fall economic statement. But buried in the stack are two sections that prohibit "greenwashing." Businesses cannot claim that their products or practices help to protect against climate change or provide other environmental benefits unless they can prove the claims are true. The provisions amend the Competition Act and make climate and other environmental claims subject to the same regulatory regime as false advertising.

Companies and industry associations have taken down climate pledges and environmental commitments from their websites and social media. "Ottawa's ban on 'greenwashing' has already put a chill on climate disclosure targets," objected Deborah Yedlin, president and CEO of the Calgary Chamber of Commerce, in a commentary for CTV. It will affect the entire economy, she wrote, add bureaucratic burden, halt investment, and weigh on Canada's sagging productivity. Corporate Canada has lost its climate bargain.

Over the course of decades, Western countries, but nowhere more than Canada, have undergone a cultural

revolution. Accelerating climate activism, aggressive social justice ideology and managerial government have changed the landscape. Business elites, instead of defending capitalism, competition, open markets, the rule of law and other values of Western civilization, decided to switch rather than fight. To protect their own prosperity and influence, corporate leaders learned to speak the language and adopt the norms of progressive collectivism. They became cheerleaders for the new regime. Many came to believe in it themselves.

Companies took on new roles. The social responsibility of business became not merely to increase its profits, as Milton Friedman famously insisted, but to serve as social welfare agencies. They were not just to obey the law and deliver products and services that people wanted to buy, but to pursue social and environmental causes. They would serve the interests not just of their shareholders but their "stakeholders," as "Environmental, Social, and Governance" (ESG) models demanded.

> ***"Bringing Canadian carbon emissions to zero would make no measurable difference to anything. Countries that together produce far and away most of the emissions on Earth have no intention of changing their paths."***

In their marketing and rhetoric, they embraced climate action, corporate social responsibility, social licence, "equity, diversity, and inclusion" (EDI) and social justice. They promoted the United Nations Sustainable Development Goals (SDGs), which are a blueprint for socialist managerialism. The Business Council of Canada endorsed carbon pricing and Canada's climate plans. Major oil companies promoted net zero and repeated the kinds of claims that governments themselves made: that climate action in Canada helps to prevent the climate from changing.

Such claims are patently false. Even if you believe in anthropogenic climate change, if your country doesn't contribute much to the problem, cutting its contribution isn't a solution. Bringing Canadian carbon emissions to zero would make no measurable difference to anything. Countries that together produce far and away most of the emissions on Earth have no intention of changing their paths. And who can blame them? If I were them, I would do the same.

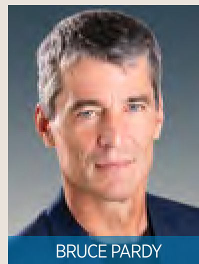
Canada excels at climate boondoggles. Carbon taxes are just more money for government coffers that do not necessarily reduce emissions, if that actually mattered.

Wind and solar power, a lucrative source of government largesse that some businesses have adeptly saddled up to, don't replace fossil fuels. Carbon capture and storage, perhaps the most pathetic pretend of them all, is a breathtakingly expensive symbolic gesture that cannot be applied at scale. The Paris Accord and its net zero aspirations are climate fairy tales.

Canadian business leaders would never say any of this. That was the deal: pay homage to the climate gods, and you can be on the team. But now they can't.

Progressive statism has never been about the climate, or transgenderism, or whatever the cause du jour. The target has always been Western values and principles. Free enterprise is anathema to its aspirations, and as it turns out, so is prosperity itself. Canadian companies have betrayed the economic principles of their own society. How does government change one side of a bargain? When there is no other side.

The Canadian business community still does not understand the point of the revolution. There can be no survivors. Surely, they sputter, you don't mean us. FI



Bruce Pardy is professor of Law at Queen's University and a senior fellow at the Fraser Institute.

Here's Why Your Plane Ticket Is So Expensive

Alex Whalen and Jake Fuss

While the strike by WestJet mechanics lasted only a few days, many Canadian air travellers faced long delays and cancelled flights. More broadly, according to the Canadian Transportation Agency, customer complaints have hit an all-time high.

Yet many dissatisfied travellers likely don't realize that Ottawa heavily contributes to their frustrations. Let's look at the various ways federal policies and laws make air travel worse in Canada.

First, federal laws insulate Canada's airlines from competition. Foreign airlines are subject to highly restrictive "cabotage" laws which, for example, dictate that foreign airlines cannot operate routes between Canadian cities. At the same time, foreign investors are forbidden from owning more than 49 percent of Canadian airlines. By restricting international participation in the Canadian air travel market, these laws both deprive Canadian consumers of choice and insulate incumbent airlines from competition. When consumers have more choice, incumbents have a greater incentive to improve performance to keep pace with their competitors.

> *"[R]estricting international competition in the Canadian air travel market... deprives Canadian consumers of choice and insulates incumbent airlines from competition."*

Second, a wide array of taxes and fees heavily influence the cost of airline tickets in Canada. Airport improvement fees, for example, average $32.20 per departing passenger at airports in Canada's 10 largest markets. In contrast, airport improvement fees in the United States cannot exceed $4.50. And last year the Trudeau government increased the "air travellers security charge" by 32.85 percent—this fee, which now ranges from $9.94 to $34.82 per flight, is higher in Canada than the US across all flight categories. On the tax front, in addition to fuel taxes including the federal carbon tax, the federal excise tax on unleaded aviation gasoline in Canada is 10 cents per litre compared to 6.9 cents per litre in the US. And the US, unlike Canada, does not apply sales taxes to aviation fuel.

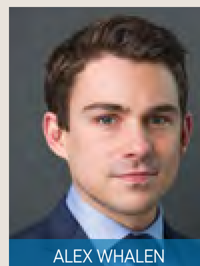
Third, air travel is a heavily regulated sector. Federal legislation generates thousands of provisions airlines must follow to operate legally in Canada. Of course, some regulation is necessary to ensure passenger safety, but each regulation adds administrative and compliance costs, which ultimately affect ticket prices. To lower the cost of air travel, the federal government should reduce the regulatory burden while maintaining safety standards.

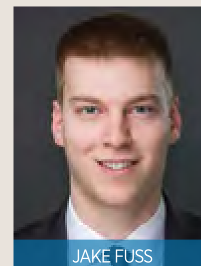
> *"To lower the cost of air travel, the federal government should reduce the regulatory burden while maintaining safety standards."*

Lastly, the ownership model of Canada's airports results in a yearly transfer of rent to the federal government. The federal government used to own Canada's national system of airports until they were transferred to private not-for-profit corporations in the early 1990s. However, these airports must still pay rent to the federal government—nearly half a billion dollars annually, according to the Canada Airports Council. As with the other examples listed above, these costs are ultimately passed on to consumers in the form of higher ticket prices.

While a precise estimate is difficult to obtain, various government policies, taxes, and fees comprise a large share of the cost of each airline ticket sold in Canada. With complaints from travellers at all-time highs, the federal government should reduce the regulatory burden, increase competition, and lower fees and taxes. Policy reform for air travel in Canada is long overdue. FI

> *"While a precise estimate is difficult to obtain, various government policies, taxes, and fees comprise a large share of the cost of each airline ticket sold in Canada."*


ALEX WHALEN


JAKE FUSS

Alex Whalen is director of Atlantic Prosperity and Jake Fuss is director of Fiscal Studies, at the Fraser Institute.

Nova Scotia's Massive Government Stifling Economic Growth

Fred McMahon

As Ottawa pumps up its magical money machine, splashing out billions of our dollars to buy our votes, it's clear that neither the federal nor provincial government plan anything to fix one of Nova Scotia's most growth-stifling problems—its leviathan size of government.

Government spending in Nova Scotia equaled 63 percent of the economy in 2022 (the latest year of available data), the largest of any province. The Canadian average was 41 percent. If Nova Scotia were a country, it would exceed all countries on size of government except micro-states such as Kiribati (population of 130,000) and the Marshall Islands (population 42,000) and retro-communist states such as North Korea and Cuba.

Nova Scotia has high military spending, but if it were normalized to the Canadian average, government spending would remain about 60 percent of the provincial economy.

Even the Nordics are pikers in government spending compared to Nova Scotia. In 2022, government spending in Sweden equaled 47 percent of its economy; Norway, 39 percent; Iceland, 48 percent; Denmark, 45 percent; and Finland, 53 percent.

However, according the World Competitiveness Report, all the Nordic states (except Finland) have legal and regulatory environments consistently more business-friendly than Canada, offsetting costs imposed by large government. A recent study by the Mercatus Center at George Mason University suggests that Nova

Scotia lags all the other Canadian provinces (except Newfoundland and Labrador) in the weight of the regulatory burden—adding to big government costs.

Vast government damages the economy in several ways. Onerous taxes discourage and distort economic activity. Deficits create future burdens. Yet spending all by itself injures the economy even if money drops from heaven, as much does for Nova Scotia from the feds.

"Government spending priorities differ, often revolving around political considerations, rewarding friends and doling out money for political gain. This erodes business's focus on quality and price, and ability to succeed in the marketplace."

It reduces the space for private-sector growth, leading to economic stagnation. It forces business to compete with generous government salaries and benefits, drawing many of the most talented workers and increasing costs. Massive government spending distorts business incentives. Government becomes many businesses' biggest customer. To sell in the private sector, services and products must be of competitive quality and price. Government spending priorities differ, often revolving around political considerations, rewarding friends and doling out money for political gain. This erodes business's focus on quality and price, and ability to succeed in the marketplace.

These are key reasons why Nova Scotia lags most of Canada in private-sector indicators such as investment, employment growth, and business startups.

But there's good news. If you reduce the size of government, you help unleash dynamic growth. When Ireland moved to shrug off its "have-not" status as northern Europe's economic laggard, its key goal was to shrink government and broaden the space for the private sector.

Government spending in Ireland averaged more than 50 percent of the economy through most of the 1980s. The country was a northern backwater. Ireland launched a series of reforms slashing government's size. By 2000, government spending equaled only about 30 percent of the economy. In 2022, it was just 21 percent, one-third of Nova Scotia's current level. Ireland is now roughly twice as prosperous as Canada. In 1989, before Irish reforms, per-person GDP in Canada was about one-third greater than in Ireland.

Canada had a similar experience, albeit not as dramatic. Through the 1980s and early 1990s, government spending in Canada spending reached Irish levels, soaring from under 40 percent of the economy to more than 50 percent in many years, weakening the economy.

Growth fell below world and US averages. In 1995, Prime Minister Jean Chretien started dramatic spending cuts. By 2000, he'd reduced government spending to 40 percent of the economy—still high, but economic growth resumed, matching and sometimes exceeding world and US growth over the following decade.

Growth can be damaged in many ways. Size of government is one of those ways. Yet neither Ottawa nor the Houston government's 2024 provincial budget show any interest in addressing this growth-hobbling condition and opening space for businesses to thrive and create prosperity in Nova Scotia. FI

FRED MCMAHON

Fred McMahon is the Resident Fellow and Dr. Michael A. Walker Chair of Economic Freedom at the Fraser Institute.

Pressure to Enact Smartphone Restrictions Spurs Change Among Provinces

Paige MacPherson

More than a decade ago, a Verizon commercial put a man holding his cellphone up to his ear in different locations across the United States, asking: "Can you hear me now?"

In Canada, it often seems like one end of the country doesn't talk to the other, and policies look very different from west to east. But occasionally we're reminded that we can learn from one.

For example, smartphone restrictions in K-12 classrooms. As the new school year draws near, this policy—in various forms, grounded firmly in research—is sweeping across Canada including British Columbia, Alberta, Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island.

Children and teenagers do not have a fully formed prefrontal cortex to help exercise self-control and limit their anxiety when smartphones are buzzing throughout the day. According to one study, the typical teenager receives 237 smartphone notifications per day—about 15 per hour. And according to the latest (2022) Programme for International Student Assessment report, 80 percent of Canadian students feel anxious if their phones are not with them. Moreover, having a phone nearby, with notifications buzzing, is

> *"Eighty percent of Canadian students feel anxious if their phones are not with them."*

enough to cause students to lose focus on classroom tasks. One study found it took kids a full 20 minutes to regain focus after just one distraction.

So what's the impact on student learning?

PISA research has found a clear connection between smartphone distraction and declining student achievement, particularly in math. Eighty percent of Canadian students report being distracted by the devices of other students in math class—and students who were distracted by smartphones in math class scored 15 points lower on PISA math tests than those who were not distracted (PISA equates a 20-point drop in student test scores with one year of lost learning).

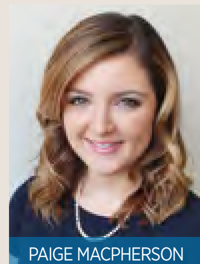
> *"PISA research has found a clear connection between smartphone distraction and declining student achievement, particularly in math."*

Of course, parents know this is a problem. According to a January 2024 poll, eight in 10 Canadian parents support banning smartphones in public schools.

Finally, while the research and polling support smartphone bans, the seven provinces that have enacted smartphone restrictions haven't gone far enough. For example, Nova Scotia's elementary school ban—which instructs elementary students to store their phones for the entire school day—is a great policy but doesn't apply to junior high or high school students. Ontario's failed 2019 restrictions provide a weaker example that didn't work. And three provinces—Saskatchewan, Manitoba, and Newfoundland and Labrador—have not enacted any provincewide restrictions at all.

> *"Three provinces—Saskatchewan, Manitoba, and Newfoundland and Labrador—have not enacted any provincewide restrictions at all."*

But thankfully, this upcoming school year, some provinces are learning from each other in an example of functioning federalism. Yes, we can hear you now—and in this case, children and teens will benefit. FI


PAIGE MACPHERSON

Paige MacPherson is associate director of Education Policy at the Fraser Institute.

Federal Government's Turbo-Charged Immigration Helping Drive Housing Demand

Jock Finlayson

According to a recent Statistics Canada report, Canada's population has just hit the level it was previously expected to reach in 2028. That startling finding underscores the extraordinary growth of the country's population since the pandemic, driven by record inflows of both permanent and "temporary" immigrants.

A rapidly expanding population can bring some benefits, notably by stimulating overall economic activity and providing additional workers. But it's not an alloyed good. The number of Canadian residents is increasing faster than economic output (gross domestic product), which has translated into an unprecedented series of declines in per-person GDP over the last several quarters. Productivity is stagnant, as newcomers struggle to find their way in the economy and job market. In addition, a significant share of new immigrants don't obtain employment, dampening

> *"Unusually brisk population growth is putting considerable strain on public services and infrastructure, in part because the federal government did essentially nothing to plan or prepare for the dramatic surge in immigration that its own policies sanctioned."*

immigration's contribution to the growth of economic output.

Meanwhile, unusually brisk population growth is putting considerable strain on public services and infrastructure, in part because the federal government did essentially nothing to plan or prepare for the dramatic surge in immigration that its own policies sanctioned. The "downstream" challenge of managing the pressures flowing from turbo-charged immigration falls mainly to provinces and municipalities, not faraway Ottawa.

All of this has implications for the hottest issue in Canadian politics today—housing affordability and supply. Like the rest of us, newcomers need a place to live. Immigration is the predominant source of incremental housing demand in much of the country, particularly big cities. Demand for housing also comes from the existing Canadian population, as young adults establish separate households, marriages dissolve, and people move to other communities or neighbourhoods for work, education, or to retire.

"Unfortunately, homebuilding has been running far behind what's necessary to accommodate immigration, let alone meet the demand from household formation among current residents."

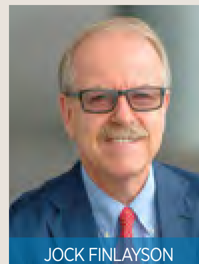
Unfortunately, homebuilding has been running far behind what's necessary to accommodate immigration, let alone meet the demand from household formation among current residents. In 1972, when the population stood at 22 million, roughly 220,000 new homes were added to the Canadian housing stock. In 2023, with a population of 40 million, housing starts were only a little higher than half a century ago.

This brings us to the Trudeau government's multifaceted housing plan, rolled out over the past year and finalized with great fanfare in the 2024 federal budget. The government has pledged to somehow build 3.9 million new homes by 2031—just seven years from now. This is equivalent to 550,000 housing starts per year. It's an aspirational target, but also a patently unrealistic one.

The federal government has little control over what happens in the towns, cities, and provinces where most of the policy and regulatory decisions affecting homebuilding and community development are made. Moreover, the Canadian construction sector doesn't have the spare human resources or organizational capacity to quickly double housing starts. Even today, the construction sector's "job vacancy rate" is higher than the all-industry average.

The year 2021 marked an all-time record for Canadian housing starts at 270,000. Starts fell over 2022-23, amid higher interest rates. This year, RBC Economics projects housing starts of 251,000, rising to 273,000 in 2025. To put it mildly, these figures are inconsistent with Ottawa's ambitious plan to deliver 550,000 new homes per year.

We'll likely see more and faster homebuilding over the next few years, as governments at all levels direct more money and political attention to housing. But a doubling of housing starts simply won't occur within the Trudeau government's politically manufactured timeline. One thing seems certain—Canada's housing "crisis" will continue to fester. FI


JOCK FINLAYSON

Jock Finlayson is a Fraser Institute senior fellow and jointly holds the Institute's Peter M. Brown Chair in Canadian Competitiveness.

Student Leaders Embark on a Learning Journey at the Institute

In June, we held our annual Student Leaders Colloquium. This program boasts a prestigious set of alumni, including Danielle Smith, Premier of Alberta; Ezra Levant, lawyer and journalist; Stephanie Kusie, Member of Parliament for Calgary Midnapore; and our very own Jason Clemens, Executive Vice President of the Fraser Institute. This year, we welcomed 26 bright young students to participate in an exclusive, expenses-paid, three-day intensive enrichment program held at the Fraser Institute's head office in Vancouver, BC. Fraser Institute policy staff and senior fellows joined students in sessions covering a wide array of complex public policy issues. Topics included Economic Freedom, Realities of Socialism, and the state of fiscal policy in Canada, to name a few.

Here is what one student had to say about their experience:

"I'm indebted to the Fraser Institute for inviting me to the 2024 Student Leaders Colloquium, their flagship program aimed at young student leaders. This exclusive, intensive enrichment program was hosted at their head office in Vancouver over the past weekend! It was exciting to be able to partake in conversations concerning public policy, economics, entrepreneurialism, and commerce with some of the brightest young minds in Canada. This opportunity was also excellent in solidifying my friendships and professional connections with these ambitious student leaders. I will continue to make contributions to and through the Fraser Institute's network."
—Sanjit Samanta, 2024 Student Leaders Colloquium Participant

For a look at of all our programs, webinar recordings, and student resources, visit **fraserinstitute.org/education-programs.**

Above: Our 2024 Student Leaders Colloquium Cohort.

Nearly 300 Teachers Better Understand the Realities of Socialism

With the exciting release of our "Realities of Socialism" series, we partnered with the Foundation for Teaching Economics to create several teacher lessons plans and workshops. These initiatives are designed to better equip Canadian high school teachers with the resources and knowledge regarding the dangers of socialism. To date, nearly 300 Canadian teachers have completed these programs, which explore what socialism is, what's missing in the system, and the downfalls of socialism.

Here is what some teachers have said about these resources:

"The lessons that were provided are an excellent addition to my classroom lessons. I really appreciate the activities, as well as the wealth of knowledge and perspectives that the professors shared with us. Thank you for providing this opportunity for lifelong learning to teachers in the classroom. This is a great connection for educators to real life and the economy."
—Teacher, British Columbia

"The Fraser Institute has a great track record for creating fabulous learning opportunities for teachers that are very helpful to classroom learning."—Teacher, Ontario

To find out more about our resources and programming for teachers and journalists, visit fraserinstitute.org/education-programs.

To find out more about the Realities of Socialism work, visit: realitiesofsocialism.org

STAFF PROFILE: THE FRASER INSTITUTE'S FOUNDERS

Patrick Boyle

Michael Walker

Csaba Hajdú

As the Institute celebrates its 50th anniversary in 2024, we thought it appropriate to recognize the founders in this issue's Staff Profile.

Patrick T. Boyle (Pat) was a vice-president of forestry giant MacMillan Bloedel when he began worrying about the state of British Columbia and Canada more broadly because of the deluge of bad ideas and bad public policies. More than any of his contemporaries, Pat understood the consequences of an economy directed by the state rather than by entrepreneurs.

Pat began discussions with MacMillan Bloedel's chief economist, Csaba Hajdú, who had seen the results of socialism up close in Hungary during the Russian invasion from which he narrowly escaped. During their discussions, Pat and Csaba became increasingly convinced that the only way to battle the bad ideas dominating Canada was to provide better ideas.

Csaba's time at the University of Western Ontario proved fortuitous as he shared an office with Newfoundland-born economist Michael Walker. Mike began his working career in Ottawa as an econometrician at the Bank of Canada and after four years moved over to the Department of Finance. Like Pat and Csaba, Mike was increasingly concerned about the direction of economic policy in Ottawa, which he was observing firsthand. As he later recalled, officials at the Department of Finance would regularly opine not only about the need but the necessity for central planning by experts to ensure prosperity.

The connection of these three extraordinary people—Patrick Boyle, Csaba Hajdú, and Michael Walker—and their concerns about the direction of the country, their skepticism of the benefits of top-down planning, and their commitment to a better country led them to create the Fraser Institute in 1974.

Pat served on the Institute's board and Mike was the founding executive director, serving in that capacity for 30 years. Without Mike's resilience and lifetime dedication, the Institute would not have survived and thrived.

The foundation created by Mike, Pat, and Csaba continues to influence the mission, culture, and values of the organization some 50 years later.

Read about our history in the Institute's 50th Anniversary book: ***People, Events and Experiences that Shaped the Institute in its First 50 Years*** at https://www.fraserinstitute.org/about/annual-reports

WE ARE PASSIONATE ABOUT BUILDING A BETTER CANADA

To commemorate our 50th anniversary, we are embarking upon a fundraising campaign to secure our future so we can have an even greater impact.

This campaign is a lasting investment in the Fraser Institute's long-term sustainability and will enable us to accelerate our research and public education efforts.

To support or learn more about our campaign objectives, please contact Elizabeth Pratt, elizabeth.pratt@fraserinstitute.org.

THIS YEAR, THE FRASER INSTITUTE IS CELEBRATING ITS 50TH ANNIVERSARY!

SINCE OUR FOUNDING IN 1974, WE HAVE BECOME CANADA'S MOST INFLUENTIAL THINK TANK REACHING TENS OF MILLIONS OF CANADIANS EVERY YEAR WITH OUR IMPORTANT RESEARCH.

THANK YOU FOR BEING A FRIEND AND SUPPORTER.