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# THE Quarterly

FALL 2016

## HOUSING SUPPLY & PRICES HOW MUNICIPAL REGULATION NEGATIVELY IMPACTS HOUSING AFFORDABILITY



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**ALSO INSIDE**

Sustainability of  
Health Care Spending

What Middle Class  
Tax Cut?

CRTC at  
a Crossroads



**Niels Veldhuis**  
President, Fraser Institute

**Dear Fraser Institute Friends and Supporters,**

I hope you had a wonderful summer. Here at the Fraser Institute, our team has been busier than ever educating Canadians about critically important policy issues. Indeed, high-quality, interesting, and timely research and outreach are what we pride ourselves on.

We released *The Imperative of a Referendum* in June, which is the first in a series of essays on electoral reform in Canada—please see page 18 for a commentary based on the essay by author Patrice Dutil, professor in the department of Politics and Public Administration at Ryerson. This is a really important issue for Canada and as Prof. Dutil finds, without a national referendum, changes to the country's electoral rules are likely unconstitutional.

We also published a cutting-edge study on how municipal land-use regulation affects housing affordability (see page 2). The study, the first of its kind in Canada, covers 68 municipalities (including 18 of Canada's largest). It finds that onerous municipal regulations for residential development are reducing the supply of new homes in Canada's biggest cities and contributing to rising home prices.

Now that the school year is beginning, our new study on the diversity of independent schools in Canada has proven to be very timely (see summary on page 12). The study aimed to address the lingering myth about private schools that continues to cloud public perception in Canada—that private schools are only for the wealthy few. Our study found that only 4.7 percent of all independent schools in Canada were found to feature characteristics commonly associated with “elite” schools.

Lastly, I would highly recommend a commentary written by my colleagues Charles Lammam, Ben Eisen, and Milagros Palacios that explains why middle-class Canadians won't be getting the tax cut promised to them by the new federal government (page 28).

As always, I encourage you to pass this issue of *The Quarterly* on to your friends, family, or colleagues when you're finished reading it.

Thank you for your ongoing support.

Best,

A handwritten signature in blue ink, appearing to read 'Niels Veldhuis'.

Niels

## New Research



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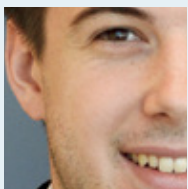
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# Cutting Local Red Tape Will Increase Housing Stock and Reduce Prices

Kenneth P. Green, Josef Filipowicz, Steve Lafleur, and Ian Herzog

**House prices have risen substantially in recent years, especially in Canada's largest cities. Many Canadians are concerned about this trend, and a number of solutions have been proposed.**

However, many of these solutions are unlikely to be effective. Taxes on luxury properties might be an easy source of revenue, but likely won't have a profound effect on the entire housing market. Targeting dishonest realtors can improve confidence in the market, but fraud and flipping are more likely to follow high prices than cause them. It's tempting to argue for curtailing immigration and foreign investment, but this would be hard to do without harming the many sectors of our economy that depend on investors and immigrants for growth. Indeed, focusing on small pieces of the housing market is unlikely to reduce prices because, ultimately, price growth is the result of supply and demand.



But regulatory reform—simplifying the processes of obtaining building permits where housing demand has grown—can reduce homebuilding costs, increase the number of homes on the market, and subsequently push down home prices.

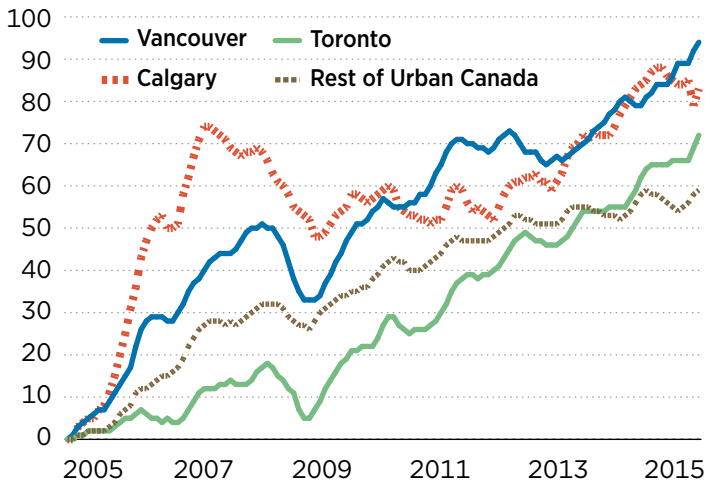
Housing tends to be less scarce, and less expensive, in markets where homebuilders are less constrained by geography or regulations. For example, Houston, Texas has

managed to remain affordable in spite of an economic boom, partly because its geography and regulations make homebuilding easier.

Closer to home, a new study by the Fraser Institute, *The Impact of Land-Use Regulation on Housing Supply in Canada*, found evidence that regulations causing long and unpredictable approval times for homebuilders have substantially reduced the amount of housing available in Canada's largest cities. This is because these regulations

make it more difficult, and less likely, for the housing supply to respond to demand with homebuilding.

### GROWTH (%) OF HOUSING PRICES IN CANADA'S METROPOLITAN AREAS, 2005-2015



Note: The eight-city composite index shown here as 'Rest of urban Canada' combines price growth in Victoria, Edmonton, Quebec, Winnipeg, Ottawa-Gatineau, Halifax, Hamilton, and Montreal. Weights are adopted from Teranet's 11-city composite index, which is weighted based on total metropolitan dwelling value in the 2006 census.

The study also suggests that relaxing and reforming the right regulations can encourage greater urban density, a stated goal of many local and provincial governments. This is largely because opposition to new building, long development approval times, and uncertainty, tend to be especially problematic in cities near metropolitan cores, where demand is strongest. So people who might prefer to live centrally end up commuting to Vancouver from Langley, to Calgary from Cochrane, or to Toronto from Brampton.

Reforming regulations to encourage new building won't be easy. It will take careful thought and ambitious reform for city planners to cut months off approval times, or to make timelines more predictable. But it can be done. In fact, our data show large differences in regulation between relatively comparable cities. Policymakers can look to their neighbours to find policies that might improve regulatory processes.

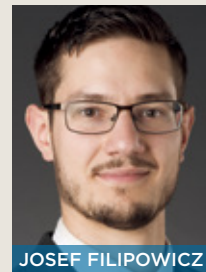
It is true that a growing housing supply means that some neighbourhoods change, and that some open fields become housing developments, but the benefits outweigh these costs. Municipal governments can address anti-growth pressures, streamline approvals, and mitigate uncertainty in residential development without compromising good planning. The additional homebuilding that would follow can provide good jobs while addressing rising house prices.

It's also important for policymakers to reconsider low-density zoning and provincial policies aimed at preserving rural areas such as Ontario's Greenbelt and British Columbia's Agricultural Land Reserve. These policies effectively take land off the table for would-be homeowners, with severe side effects. Development in Greater Vancouver has leapfrogged over parts of the Agricultural Land Reserve, leaving many to commute through patches of farmland that cut through Vancouver's suburbs.

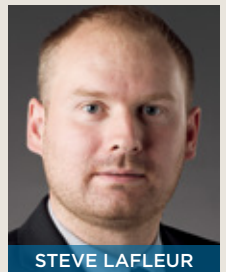
Despite these challenges, city governments hold a policy lever that can help address unaffordable housing. By carefully rethinking land-use regulations, they can encourage more supply and improve affordability without compromising good planning. [FI](#)



KENNETH P. GREEN



JOSEF FILIPOWICZ



STEVE LAFLEUR



IAN HERZOG

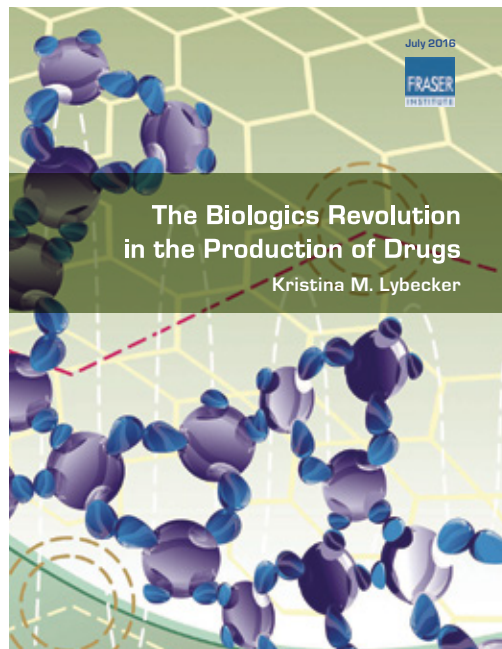
Kenneth P. Green is the senior director of natural resource studies. Josef Filipowicz, Steve Lafleur, and Ian Herzog are policy analysts at the Fraser Institute. They are co-authors of the study, *The Impact of Land-Use Regulation on Housing Supply in Canada*.

# Strengthening Canada's Intellectual Property Protections for Biologic Medicine May Save Lives

Kristina M. Lybecker

**Biologic medicines save lives and improve the quality of life for millions of people. To date, almost 200 biologic medicines have been brought to market. It's projected that by 2017, biologics could comprise seven of the top 10 global pharmaceuticals and account for up to 30 percent of pharmaceuticals under development. That's great news for patients. Unfortunately, biologic medicines are difficult and expensive to develop and manufacture, and Canadian policies, particularly Canada's weak protections of intellectual property, are making it even harder.**

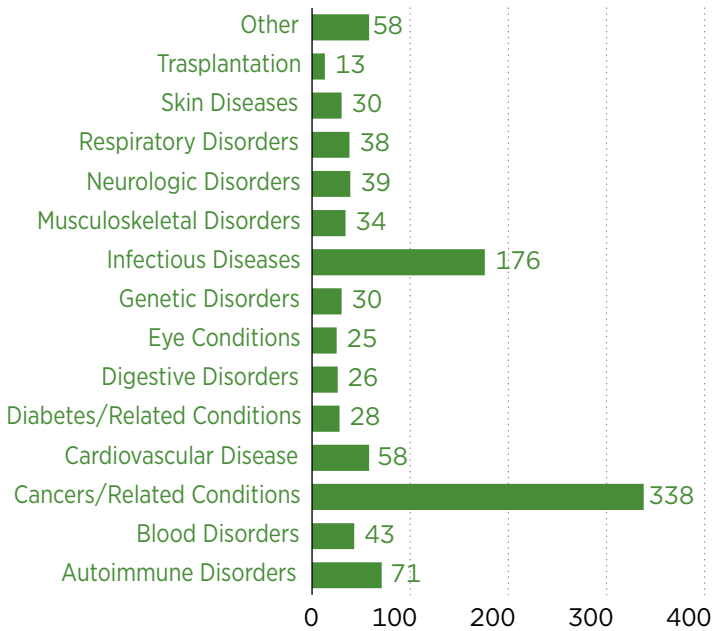
**H**istorically, medicines and the first drugs originated from plants and other natural sources. These drugs were followed by traditional pharmaceuticals, where the chemical structures are commonly well-defined. More recently, biologic medicines have been developed. They are typically produced by geneti-



cally engineering living cells rather than through traditional chemical synthesis. Each of the thousands of steps in the process of developing and manufacturing biologics is intricate, highly delicate, and requires a precise technique. As such, biologics are more difficult to manufacture than traditional pharmaceutical drugs. Consequently, quality control is even more critical and production complications are potentially more catastrophic.

Precision in manufacturing becomes even more important as the market for biologic medicines matures and generic versions—properly known in Canada as “subsequent entry biologics,” or SEBs—enter the market. The creation of SEBs is considerably different from the creation of generic versions of traditional pharmaceutical drugs because SEBs, unlike generic pharmaceuticals, are not identical to the pioneer version. This raises questions about interchangeability—whether or not a SEB can substitute safely for a pioneer biologic.

## BIOLOGIC MEDICINES IN DEVELOPMENT IN 2013



Also, due to the tremendous costs of bringing new biologic medicines to market and the ease with which biopharmaceutical innovations can be copied and sold by competing firms, the protection granted to innovators through intellectual property rights is disproportionately important for the biopharmaceutical industry.

Recent studies estimate that the preapproval cost of developing a biologic medicine approaches \$1.2 billion and that the time needed to recover the preapproval R&D costs is between 12.9 and 16.2 years. While the generic versions of traditional pharmaceuticals can be produced at a fraction of the cost of the innovative drug, biosimilars do not enjoy the same cost savings in production. Current studies estimate cost savings from biosimilars will be between 10 and 20 percent less than the cost of the pioneer biologic. Given the uncertainty that surrounds these investments and the unpredictable nature of discovery, it may be the case that too little is invested in the production of new knowledge.

Canada's protection of intellectual property (IP) in the life sciences significantly lags behind that provided by many other industrialized countries, including the

United States, the EU, and Japan. A 2011 Canadian Chamber of Commerce study found that Canada provides less robust IP protections for the pharmaceutical sector than the 31 peer countries used for comparison. This directly translates into less investment, less innovation, and fewer biologic medicines for Canadians.

While Canada possesses many strengths in the life science arena—world-class talent, outstanding universities, a strong health care system, and a rigorous regulatory framework—the existing gaps in the IP architecture significantly weaken Canadian competitiveness. In contrast to recent changes that have weakened IP protections in Canada, consider the 1987 and 1992 changes to Canada's Patent Act that strengthened IP protection in the life sciences. The result was a 1,500 percent increase in investment in pharmaceutical research and development between 1998 and 2002. Given the potential for a rigorous IP environment, Canada's existing level of intellectual property protection in the life sciences is strikingly disappointing.

This is particularly true in a global context. In 2012, the global biopharmaceutical industry invested US\$135 billion in research and development, with life sciences R&D spending projected to reach US\$162 billion by 2020. However, for Canadian pharmaceutical companies, total R&D expenditures have fallen below \$1 billion since 2011.

Moving forward, policymakers should reflect on what has worked in the past and work to increase levels of IP protection. For Canadian patients pinning their hopes on future biologic medicines, this protection is essential for creating the incentives for investment in new breakthrough therapies and cures. **FI**



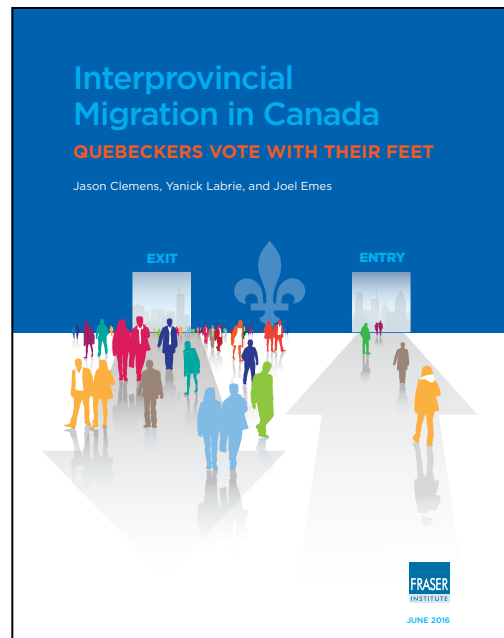
Kristina M. Lybecker is an associate professor of economics at Colorado College, senior fellow at the Fraser Institute, and author of the Fraser Institute study *The Biologics Revolution in the Production of Drugs*.

# Insights from Quebeckers Voting with Their Feet

Jason Clemens, Yanick Labrie, and Joel Emes

Observing migration patterns that reveal how Canadians choose to leave one province for another is a powerful way to gauge what's working and what's not. Uprooting one's family, disposing of assets, searching for a new job, and leaving the confines of what is known in search of something better is an incredibly costly decision and not one taken lightly. Thus the movement of people between provinces, what is known as interprovincial migration, is a key indicator of a jurisdiction's success or failure. By this measure, Quebeckers should be worried.

In a recent study, *Interprovincial Migration in Canada: Quebeckers Vote with Their Feet*, we examined the migration patterns of Canadians over a 44-year period starting in 1971-72 through to 2014-15. During this time, Quebec lost a net total of 582,479 residents (which ac-



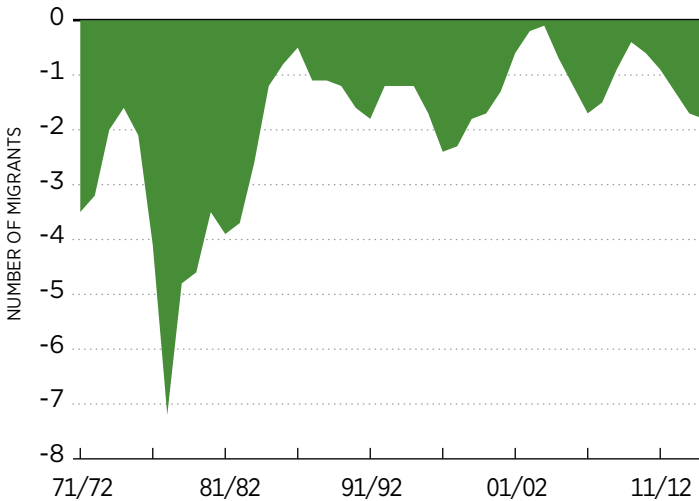
counts for both residents leaving the province and residents of other provinces moving to Quebec). In other words, on average, 13,238 more Quebeckers left the province annually than people from other provinces moved to Quebec. In fact, Quebec was the only province to experience a net out-migration of residents each and every year of the study period.

The headline of this story and its day-to-day reality are familiar to many Quebeckers. However, what has been missed so far are the details: why does Quebec lose so many residents compared with the other provinces? The first part of the answer lies in understanding that there are two flows of people that determine the net movement of Canadians: people moving out of a province and people moving into a province.

In a statistic that will shock Quebeckers, of all nine provinces, *la belle province* has the lowest level of people leaving the province. Specifically, on average, between 1971-72 and 2014-15, 5.4 people per 1,000 population left



**QUEBEC'S NET INTERPROVINCIAL MIGRATION PER 1,000 POPULATION, 1971/72-2014/15**



Quebec annually. The province with the next lowest out-migration rate, Ontario, saw 7.4 people per 1,000 population leave annually. Prince Edward Island had the highest out-migration levels at 23.4 people per 1,000 population.

So if Quebec has the lowest rate of out-migration of the 10 provinces, how can it record such dismal results in terms of people leaving the province over the last four-and-a-half decades? The answer says a lot about the province's economic problems.

*Quebec has the least dynamic population in Canada. The province has a dismal record of attracting people from other parts of the country.*

Recall that net migration is a function of both the number of people leaving and coming to the province. While Quebec records the lowest level of people leaving the province, it also has by far the worst record of being able to attract people to the province. One easy statistic high-

lighting the dismal performance of Quebec in attracting people is that between 1971-72 and 2014-15, Atlantic Canada attracted 75 percent more Canadians from other provinces than Quebec: 1.9 million people moved to the Atlantic provinces compared to 1.1 million for Quebec.

Over the period studied, on average, Quebec attracted 3.5 people to the province annually per 1,000 population. Ontario had more than double Quebec's rate of in-migration over the same period: 7.5 people per 1,000 population. Not surprisingly, Alberta recorded the highest level of in-migration at 26.8 people per 1,000 population.

Simply put, Quebec has the least dynamic population in terms of people moving in and out of the province. In particular, the province has a dismal record of attracting people from other parts of the country.

Many explanations have been offered over the years for why Quebec performs so poorly, particularly given that it has one of Canada's great metropolitan centres (Montreal). The reasons range from a high-tax, anti-business environment, to a relatively closed society, to the prominence of a minority language within North America (French).

It's likely that all of these factors, plus some others, contribute to the province's lack of competitiveness in being able to attract people from other parts of the country. This inability to attract people is a sign of a deeper problem in the province that can only be solved once it's fully recognized and political leaders commit to a solution. Until then it will remain a regular fact of life. **FI**



Jason Clemens is the executive vice-president and Yanick Labrie and Joel Emes are senior fellows at the Fraser Institute. They are the authors of *Interprovincial Migration in Canada: Quebecers Vote with Their Feet*

# The Sustainability of Health Care Spending in Canada

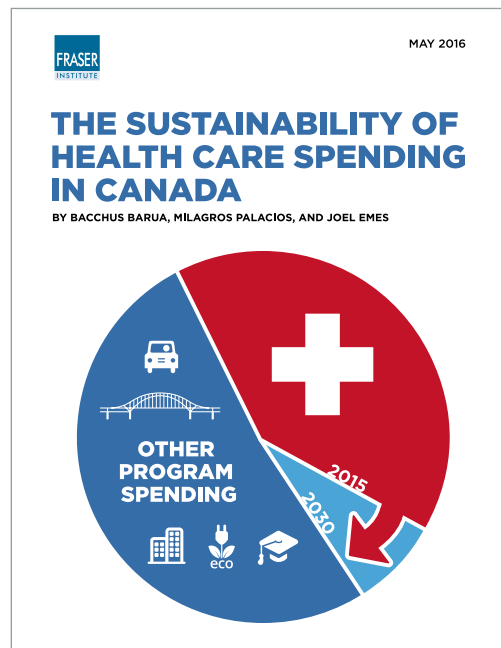
Bacchus Barua, Milagros Palacios, and Joel Emes

Health care is the single largest budget item for every province in Canada, ranging from 34.5 percent of total program spending in Quebec to 44.6 percent in Nova Scotia in 2015. Any changes in the amount spent on health care can have a significant impact on a government's fiscal balance (deficits or surpluses), the resources available for other programs such as education and social services, and/or tax competitiveness.

It is therefore vital that we routinely assess historical, current, and expected trends in health care spending in order to determine if such spending is sustainable.

While a number of indicators can help determine the sustainability of changes to health care spending, the most common and informative of these indicators are the share of program spending represented by health care and the ratio of health care spending relative to the size of the economy (GDP). An increase in the former may result in the crowding-out of other spending while an increase in the latter may require a change in the current tax system or deficits.

An examination of these two indicators of health care spending, that is health care spending as a share of program spending and health care spending as a share



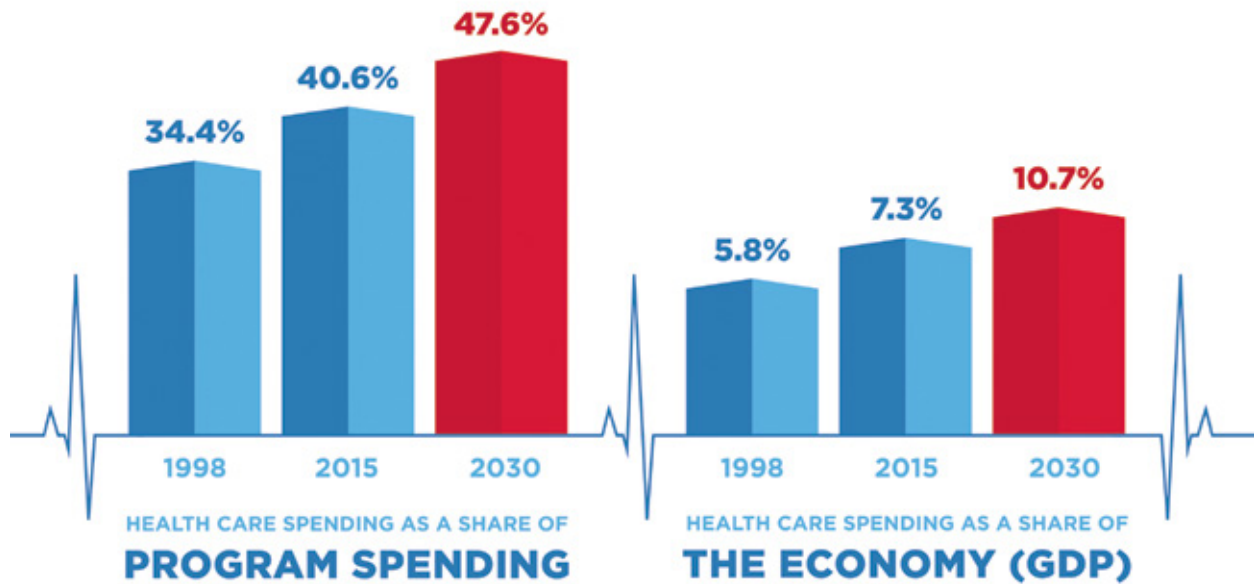
of the economy, shows clearly that the recent period of 1998 to 2015 saw provincial governments increase health care spending at an unsustainable pace. During this period, the share of program spending represented by health care for the provinces in total grew from 34.4 percent to 40.6 percent. Further, while provincial health care spending (in total) represented only about 5.8 percent of Canada's GDP in 1998, it had grown to represent 7.3 percent by 2015.

The pressing question today, however, is what can we reasonably expect to occur in the near future in the absence of any significant shift in government policy?

In order to answer this question, our recent study, *The Sustainability of Health Care Spending in Canada*, presents the results of two scenarios based on a model for projecting health care spending in the future based on demographic factors (population growth and aging), inflation (general and health-specific inflation), and other factors (which may include factors related to government policy, income elasticity, developments in technology, etc.).

The first scenario is based on reasonable expectations of general inflation and demographic trends in the future, as well as assumptions regarding health-specific inflation, and other factors based on trends observed

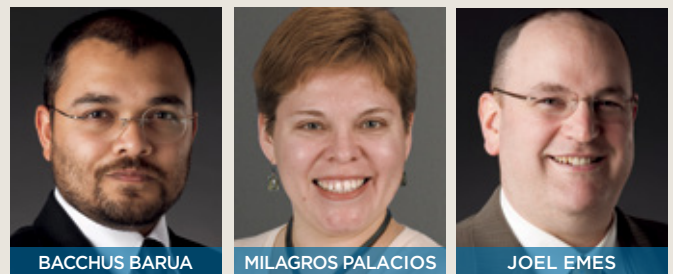
## HEALTH CARE SPENDING BY CANADA'S PROVINCIAL GOVERNMENTS IS UNSUSTAINABLE



between 1998 and 2013. Under this scenario, health care spending is projected to grow at about 6.3 percent per annum on average between 2015 and 2030. As a result, health care spending is expected to consume an increasing portion of total program spending—growing from 40.6 percent in 2015 to 47.6 percent in 2030. The range of results for specific provinces is a low of 36.6 percent in Quebec to a high of 54.2 percent in Prince Edward Island in 2030. Indeed, the projections calculated indicate that five provinces (PEI, Nova Scotia, New Brunswick, Ontario, and British Columbia) will see health care spending grow close to (or exceed) 50 percent of total program spending by 2030. As well, health spending in total is expected to grow from 7.3 percent of the economy in 2015 to 10.7 percent in 2030.

In the second scenario, the assumptions regarding health-specific inflation and other factors are altered to reflect trends between the shorter and more recent period between 2008 and 2013. Under this scenario, health care spending is projected to grow at about 4.6 percent per annum on average between 2015 and 2030. As a result, it is expected to consume a larger portion of total program spending—growing from 40.6 percent in 2015 to 45.3 percent in 2030. As well, health spending can be expected to grow from 7.3 percent of the economy in 2015 to 8.3 percent of the economy in 2030.

It is clear that under either scenario, the current ratio of health care spending to other program spending will be surpassed, as will be the current ratio of program spending to GDP. The rate of increase expected in health care expenditures will thus necessitate changes in other policies—either reductions in other spending to accommodate the increases in health care spending, or higher taxation, higher deficits and debt, or some combination of these three. Simply put, our study shows that the current health care arrangements, which result in the level of spending observed and expected, do not seem sustainable over the next 15 years from today's vantage point. [FI](#)



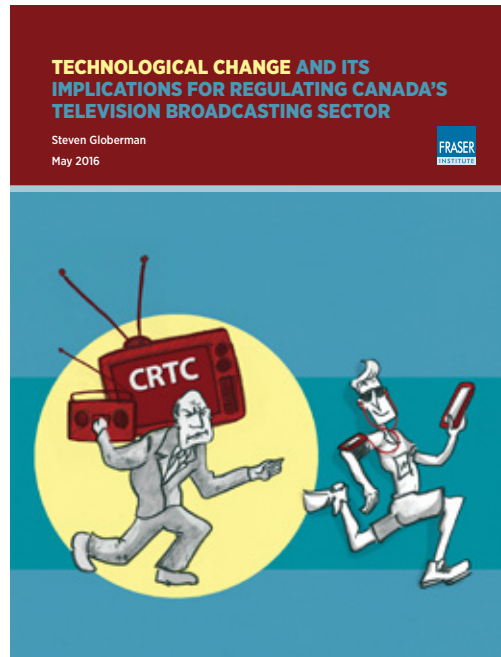
Bacchus Barua and Milagros Palacios are senior economists with the Fraser Institute. Joel Emes is a Fraser Institute senior fellow. They are co-authors of the study *The Sustainability of Health Care Spending in Canada*.

# CRTC at a Crossroads

Steven Globerman

The regulation of Canada's broadcasting sector by the CRTC is at a crossroads. Technological change, especially the proliferation of streaming video over the Internet, or so-called over-the-top (OTT) broadcasting, is seriously challenging the viability of the regulatory model that's been in place for decades. The government has recognized the challenges posed by ongoing technological developments in the recent call by Canada's heritage minister for a full review of the federal government's cultural policies with the goal of adapting to the digital age. Consultations are expected to begin this summer.

The regulatory model maintained for decades by the CRTC can be characterized as "protecting and subsidizing." Canadian content rules for broadcasters, and regulations requiring broadcast distributors to supply a majority of Canadian-owned channels, ensure that programming classified as Canadian content receives a major share of the shelf space on Canadian television. At the same time, Canadian programming services and broadcast distributors are required to contrib-



ute a portion of their revenues for the production of Canadian programming. Protection from non-regulated forms of competition, including US-originated signals, is essential to create the profits needed to subsidize the production of expensive Canadian programs.

OTT broadcasting threatens to undermine the CRTC's traditional regulatory model by essentially allowing viewers to bypass the regulated broadcasting sector. At present, streaming video delivered over the Internet is not a regulated broadcasting service. Hence, services such as Netflix are not covered by Canadian content rules, are not obliged to help fund the production of Canadian programs, and are therefore unburdened by the regulatory costs borne by conventional programming and broadcasters such as CTV, TSN, etc.

While there is disagreement about how quickly Canadians will adopt OTT programming and drop their subscriptions to cable and direct-to-home satellite services in favour of Internet viewing, there's little doubt that OTT program viewing is a growing phenomenon. For example, the average number of hours per week Canadians watched Internet television increased from 1.5 in 2008 to 7 in 2014. Furthermore, major companies such

as Amazon and Apple, as well as many smaller companies, are entering the business.

The CRTC is on record—it does not want to regulate the Internet, although it will face increasing pressure by vested interests that stand to lose financially if the protect-and-subsidize model is abandoned. The regulator took some tentative steps towards easing Canadian content rules and regulations in the wake of the *Let's Talk TV* hearings; however, the CRTC largely left in place the main features of its traditional regulatory model. Consequently the CRTC is rapidly approaching a cross-road where it will either need to expand the scope of its regulations to encompass OTT broadcasting or desist from regulating the broadcasting sector and allow market forces to prevail.

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*Services such as Netflix are not covered by Canadian content rules, are not obliged to help fund the production of Canadian programs, and are therefore unburdened by the regulatory costs borne by conventional programming and broadcasters.*

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The traditional rationale for government regulation is the likely failure of the market to produce and distribute output efficiently, usually because the market is uncompetitive. In the case of broadcasting, increasing competition in both the production and distribution of video content is rendering this rationale for regulation irrelevant. Indeed, the rapid changes in technology in the broadcasting sector are putting an increasing premium on entrepreneurship as an instrument of success, and regulation is anathema to entrepreneurship. Furthermore, dramatic declines in the cost of making and distributing video content means Canadian producers are at no significant competitive disadvantage to larger foreign producers, at least for many genres

of video programming. Given the likely proliferation of new sources of domestically produced programming content, as well as the presumed continued existence of the CBC, it's difficult to credit an argument that deregulating the broadcasting sector will result in shortages of Canadian content.

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*The rapid changes in technology in the broadcasting sector are putting an increasing premium on entrepreneurship as an instrument of success, and regulation is anathema to entrepreneurship."*

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To be sure, not all existing programming services and producers of programming content will survive in a deregulated environment. The traditional defense of subsidies for Canadian programming is that such programming makes an essential contribution to the Canadian identity. This assertion is intrinsically difficult to assess, and there are solid grounds for skepticism. However, if the government deems it important that certain types of domestically made programming continue to receive subsidies, it would be more transparent and democratic to make such subsidies available directly through taxes and transfers rather than the cross-subsidies that characterize the protect-and-subsidize regulatory model. [FI](#)



STEVEN GLOBERMAN

Steven Globberman is the Kaiser Professor of International Business and director of the Center for International Business at Western Washington University, and a senior fellow at the Fraser Institute. He is the author of *Technological Change and Its Implications for Regulating Canada's Television Broadcasting Sector*.

# Independent Schools in Canada—Not What You Think

Derek J. Allison, Sazid Hasan, and Deani Van Pelt



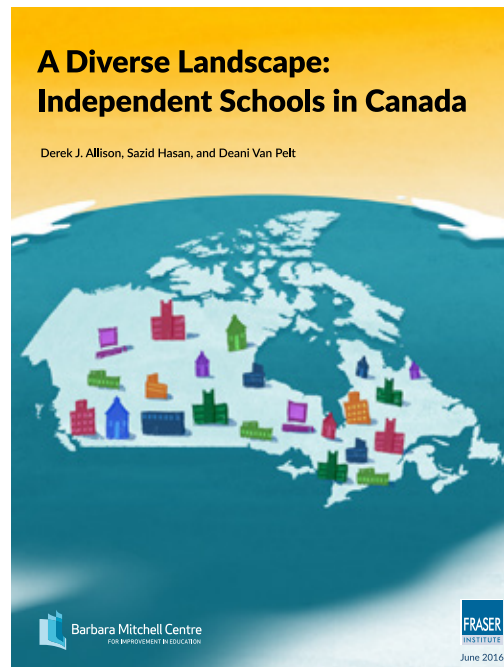
Barbara Mitchell Centre  
FOR IMPROVEMENT IN EDUCATION

**A lingering myth about private schools continues to cloud public perception in Canada—that private schools are only for the wealthy few.**

**A** recent study using 2013/14 enrolment data provided by provincial ministries of education for every independent school (that's a more appropriate term to describe schools not ensconced in the public systems) in Canada revealed a landscape contrary to the stereotype.

It turns out that rather than exclusive enclaves for the urban elite, independent schools in Canada come in a wide assortment of types and locations, and serve a remarkable range of educational preferences.

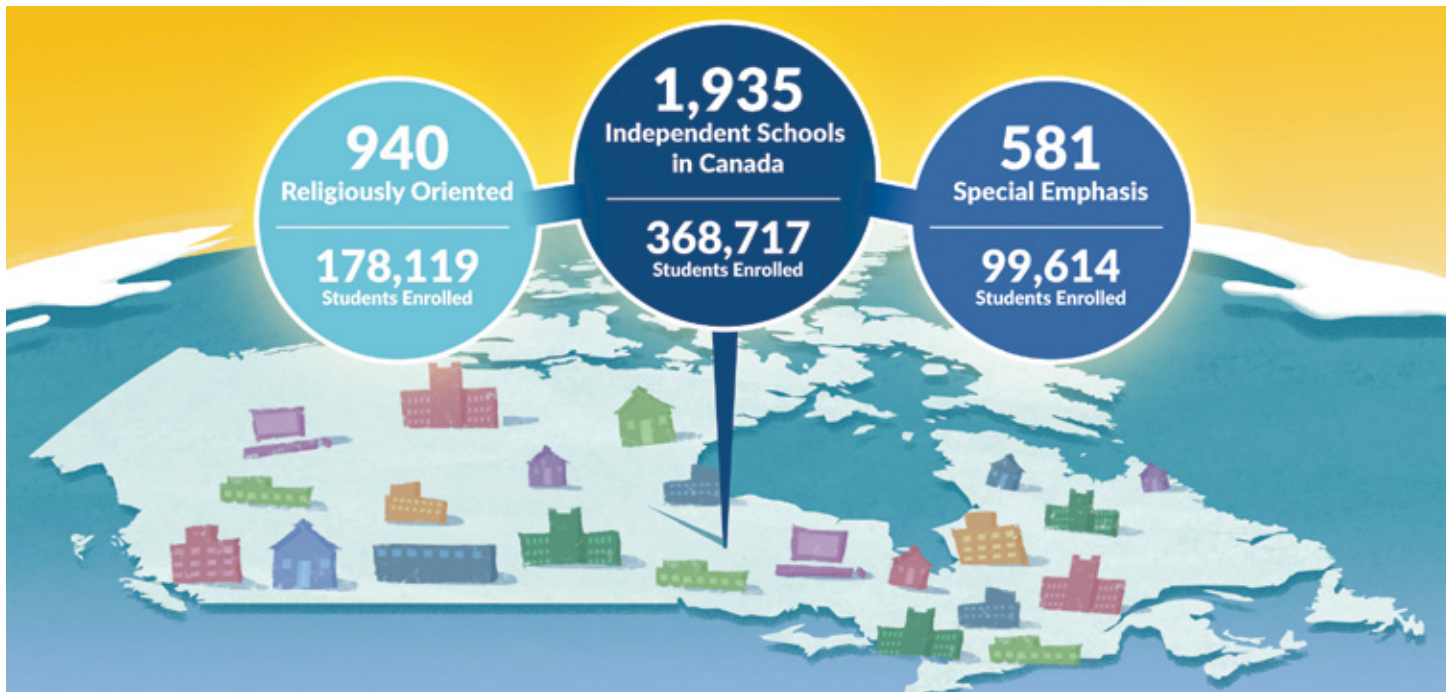
In 2013/14, Canada's 10 provinces were home to 1,935 independent schools, with 368,717 students from Kindergarten to Grade 12, accounting for 6.8 percent of total school enrolments.



Consider first the urban enclave stereotype. Although Canada is overwhelmingly an urban society (more than 80 percent of the population lives in urban areas), fully 37.1 percent of all independent schools are located outside of large urban areas, with 22.1 percent in rural areas and 15 percent in small or medium-sized centres. Clearly, the “urban” stereotype doesn't hold for Canada's independent schools.

Most importantly, consider the types of schools on the landscape.

Almost half (48.6 percent) of all independent schools in Canada have a religious orientation. The study found that a third (30.1 percent) of independent schools in the country are non-Catholic Christian, 8.4 percent are Catholic, 4.9 percent are Islamic, and 4.5 percent are Jewish. Together they enroll almost 180,000 students. It's not wealth but religion, and its accompanying cultural implications, that define these independent schools.



Independent schools also bring variety to Canada’s schooling landscape because of what they teach and how they teach. Almost one third of all independent schools (30.0 percent) in the country declare a special program emphasis or unique approach to teaching.

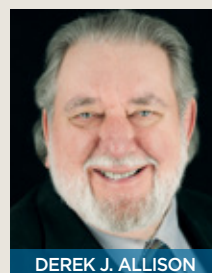
Some offer a special emphasis in curriculum by focusing, for example, on arts, athletics, language, or STEM (science/technology/engineering/math) subjects. Others, such as Montessori or Waldorf schools, offer distinct approaches to teaching and learning. Still others cater largely to special needs or distance-learning students. In 2013/14, taken together, these specialty schools enrolled almost 100,000 students.

But what about independent schools that might fit the “elitist” caricature? According to the study, only 4.7 percent of all independent schools in Canada feature characteristics commonly associated with elite preparatory schools. Of the almost 370,000 students attending independent schools across the country, less than 45,000 students (12.1 percent) attend this type of school.

The numbers tell the tale. Old myths about independent schools in Canada simply aren’t supported by the facts. They are not defined by exclusivity. They exist for parents and students who want something other than what they can find in public schools. One in 15 Canadian stu-

dents attend independent schools, which are often rural and have a religious or specialty emphasis. And again, less than 5 percent of these schools conform to the traditional stereotype of a private school.

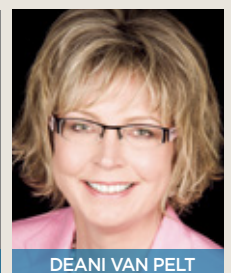
It’s time we recognize the diverse nature of “the other 95 percent” of independent schools in Canada. Public schools cannot and do not fulfill the needs of all parents and students. Parents are choosing independent schools to fulfill those needs. [FI](#)



DEREK J. ALLISON



SAZID HASAN



DEANI VAN PELT

Derek J. Allison is a senior fellow, Sazid Hasan is an economist and Deani Van Pelt is director of the Barbara Mitchell Centre for Improvement in Education at the Fraser Institute. They are co-authors of the study *A Diverse Landscape: Independent Schools in Canada*.

**Over the summer we concluded our teacher workshops and student seminars and focused on working with journalists to improve their understanding of basic economic principles.**

### ECONOMICS FOR JOURNALISTS

In May, the department held three sessions of our popular “Economics for Journalists” program in Vancouver and Toronto.

Participants came from all over Canada from a range of positions, including producers, reporters, feature writers, and editors. This year saw representatives from *CBC News*, *Global News*, the *Globe and Mail*, *Canadian Press*, *Huffington Post Canada*, *Radio Canada*, *National Post*, *Global News*, and *Maclean’s*, among other major news outlets across the country.



Engaged journalists participate in an activity led by instructors Scott Niederjohn, Mark Schug, and William Watson that illustrates the benefits of free trade.

To allow for plenty of discussion, each program is limited to 25 journalists, so each applicant was subject to a rigorous selection process in order to participate in this unique and fully-funded professional development opportunity.

During the three-day program, three economics professors introduced the journalists to basic economic concepts. They used a mix of presentations, videos, group activities, and real-life examples to give journalists the knowledge they need to explain financial terms, demonstrate why people behave the way they do, and analyze policies with confidence.

There were animated discussions on issues such as the minimum wage, the unemployment rate, and free trade, and journalists received a variety of economic resources to help them with their reporting. As well as the knowledge they gained, participants were able to network with peers from across the country.

*The program was absolutely worthwhile. I found it built on things I knew [and] it also helped me understand things I did not know. It really makes you think a bit differently.*

JOURNALISM PROGRAM PARTICIPANT

The feedback from the programs was overwhelmingly positive. Journalists agreed that the seminar had been invaluable to their career and they would highly recommend it to their colleagues. Some of the most valuable topics that the seminar covered included understanding the 2008 financial crisis and learning how to read a government budget.



Journalists take part in an activity that aims to explain the “tragedy of the commons” theory.



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*“[The program] exceeded expectations, [it was] well-organized, informative, [with] entertaining/interesting speakers.”*

*JOURNALISM PROGRAM PARTICIPANT*

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The John Dobson Memorial Scholarship is supported annually by the John Dobson Foundation, which was established to “help educate the public with respect to the free enterprise system and entrepreneurial activities in Canada.” John Dobson’s long-standing and generous support has contributed substantially to the success of the Fraser Institute and in 2010 he was inducted as a Lifetime Patron.

## SCHOLARSHIPS

**T**he Fraser Institute is pleased to announce the awarding of the first annual John Dobson Memorial Scholarship to Ian Herzog, a former Institute intern. Ian studied at the University of Guelph under Fraser Institute senior fellow Ross McKittrick. Ian was accepted to the University of Toronto to begin doctoral studies in economics, one of the country’s leading programs in the field. The scholarship provides funding for the next three years. He will be focusing on municipal-level issues that are a direct result of his work at the Institute over the last year.

## SUMMER 2016 INTERNS

**O**ur internships are a great way for students to learn more about working at a think tank, and have their research published by the Institute. This summer we welcomed interns Matthew Lau, Kyle Sholes, and Sasha Parvani to our team along with returning interns Kayla Ishkanian and Sazid Hasan. We have a close relationship with many of our former interns, some of whom have joined the Institute as staff members, and others of whom have gone on to high-ranking positions in academia, policy, and business. [FI](#)



Fraser Institute executive vice-president Jason Clemens, former intern Sazid Hasan, interns Kyle Sholes, Kayla Ishkanian, Sasha Parvani, and Matthew Lau, former intern Ingrid Timmermans, and president Niels Veldhuis.

# Foreign Purchase Tax Ignores Crucial Source of Unaffordability in Vancouver—Dearth of Housing Supply

Kenneth P. Green, Steve Lafleur, and Josef Filipowicz

**In response to the fear that foreign homebuyers are driving up Vancouver housing prices, the provincial government has decided to introduce an additional 15 percent property transfer tax on foreign home buyers in Metro Vancouver. This move diverts attention away from the underlying problem: the supply of new housing is not keeping up with demand—in large part due to onerous land-use regulations. Moreover, the tax may have**

**negative consequences for both the housing market in Vancouver and the rest of the province.**

**T**he new tax comes in response to a recent provincial analysis, which estimated that 10 percent of home purchases between June 10 and July 14 were made by foreign nationals (those without Canadian citizenship or permanent residency, as well as foreign corporations). While the new data suggest that foreign

ownership may indeed be greater than previously estimated (bear in mind this is a brief, six-week snapshot), it's important to remember that foreign buyers are only one component of the demand for housing in Metro Vancouver.

Rather than targeting a specific segment of the housing market for a tax hike, policymakers should look to factors hindering the housing supply from keeping up with all demand. Increasing the construction of new homes in the region would, eventually, put downward pressure on housing prices.

A recent study by the Fraser Institute, *The Impact of Land-Use Regulation on Housing Supply in Canada*, takes a closer look at the gap between demand and supply in several large Canadian urban regions, including Metro Vancouver. It finds that long and uncertain approval timelines for building permits, as well as onerous fees and local opposition to new homes, slow the growth of the housing stock. The result is that fewer new homes with a growing pool of buyers inevitably lead to rising prices.

In Metro Vancouver, the study found that a good deal of growth occurring in suburbs such as Coquitlam or Burnaby would likely have taken place in more central neighbourhoods west of Main Street. The fact that the growth hasn't occurred has likely contributed to the dramatic price increases in these highly sought-after neighbourhoods.

While the intention of the B.C. government's new tax is to dampen demand from foreign buyers, it isn't clear to what extent it will work. Local housing markets are complex. There are many factors that contribute to both the supply and demand of housing construction. Attempting to micromanage housing demand could lead to a whole host of unintended consequences. Plus, it will do little if anything to increase the supply of available housing, which is a key problem affecting affordability.

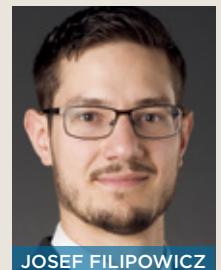
For instance, if this tax does affect demand for residential real estate in Vancouver, where might that demand migrate? The geographical limit of the tax may simply nudge buyers towards Victoria, Squamish, or Abbotsford, not to mention Canada's other major urban centres, presenting a new set of challenges. Additionally, it might send a signal to developers that they should

build more dwellings outside of Vancouver where the tax won't apply, which could theoretically exacerbate the underlying problem: a lack of new housing units in Metro Vancouver.

Policymakers are rightly concerned about housing affordability, but a jarring shift in policy could change market expectations, leading to unpredictable consequences. In the event that the tax does significantly shift demand, there could be serious adverse impacts for some sellers. Long-time owners could lose out on equity they planned to use for retirement. Conversely, families having recently entered the market may find themselves in difficult circumstances if their home values suddenly decline.

Rather than attempting to tweak market demand for housing in the Lower Mainland, the province and municipalities should use the tools they already have to ensure that regulations allow for timely construction of new housing to meet pent-up demand.

While introducing a tax on foreign homeowners may seem like an easy and politically expedient fix, it misses the most critical driver of Metro Vancouver's affordability woes: the housing supply is not keeping up with demand. Heavy-handed policies could have consequences that are worse than the problem they seek to fix. **FI**



Kenneth P. Green is senior director of natural resource studies. Steve Lafleur and Josef Filipowicz are policy analysts at the Fraser Institute. They are co-authors of the study *The Impact of Land-Use Regulation on Housing Supply in Canada*.

# Federal Electoral Reform in Canada: Why Convention Demands a Referendum

Patrice Dutil



**The Trudeau government wants to change the way Canadians elect their federal government, apparently without first specifically consulting Canadians via referendum. Yet with less than 40 percent of the vote last election, it has no mandate to transform the oldest practice of Canada's democracy. Any attempt to do so without consent from the electorate may be unconstitutional because it would not follow the conventional practice.**

**P**recedents and conventions matter. The “Jennings Test” (named after Sir Ivor Jennings, an English constitutional scholar) prescribes three conditions that must be met before a practice becomes a convention: Were there precedents? Did the key actors in the precedents feel bound by a rule? Would there be a constitutional reason for the rule?

In 1981, the federal government wanted to unilaterally reform the constitution. A majority of the Supreme Court said no; based on the Jennings Test, convention

dictated that the government had to first obtain agreement from the provinces.

Over the past decade, four provincial governments have pushed for electoral reform—Prince Edward Island (2005), British Columbia (2005 and 2009), and Ontario (2007). All have put the question to the people for approval. New Brunswick planned a referendum but then the government was defeated. PEI may have another one this year. This is a solid record of precedents.

To answer the second Jennings question: In all cases, government leaders felt bound by convention. In PEI, then-House Speaker Gregory Deighan eloquently stated that Islanders “should have a strong voice in determining how these electoral systems work because they do have significant bearing on the final results of an election.”

In BC, then-Premier Gordon Campbell said electoral reform was a “significant change” that required approval from “a great majority” in the province.

And former Ontario premier Dalton McGuinty said that “electoral reform is so fundamental, so basic” that the government must ask the “people of Ontario for their judgment in this matter.”

In all four cases, incidentally, the people said no.

The convention of going to the people on electoral reform also exists in other parliamentary democracies such as the United Kingdom, Australia, and New Zealand. Most recently, following the 2010 general election in the United Kingdom, the coalition government committed to holding a referendum on the question of electoral reform. Liberal Democratic Party leader Nick Clegg said “the final decision should be made not by us, but by the British people,” while Prime Minister David Cameron called the referendum, which was held in 2011 (with the reforms rejected), a “democratic step.”

As for the third Jennings question—whether there’s a constitutional reason for the rule—the answer is yes. Canada adopted a Westminster-style system of Parliament that created a balance of power between the Crown, the two Houses of Parliament, and the Courts. The electoral system was a fundamental part of that bargain, based on conventions. It follows that any change to that balance—including electoral reform—would have

to be ratified by those most affected. In this case, that would be the people.

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*The Canadian electoral system functions on law, but also on a system of conventions—a recognition that strong public support clearly expressed in referenda is essential before any changes are made.*

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The Canadian electoral system functions on law, but also on a system of conventions—understandings based on precedents, a recognition that strong public support clearly expressed in referenda is essential before any changes are made, and an obvious understanding of how a Westminster-style parliamentary system works to deliver effective government. To change that, past governments have agreed that the question must be put to a referendum.

Why should it be different for the government led by Mr. Trudeau? [FI](#)



PATRICE DUTIL

Patrice Dutil is a professor in the Department of Politics and Public Administration at Ryerson University in Toronto and author of *The Imperative of a Referendum*, a Fraser Institute essay on electoral reform.

# Ontario's Climate Change Strategy: More Taxes, Spending, and Economic Micromanagement

Ben Eisen and Taylor Jackson



**Ontario's provincial government recently released its *Climate Change Action Plan*. The document consists of nearly 80 different proposals, subsidies, and command-and-control regulations aimed at reducing greenhouse gas emissions.**

**U**nfortunately, the government's action plan is yet another example of the same misguided approach

to economic management that has led to numerous policy failures over the past decade. More specifically, the plan represents an additional effort to micromanage the provincial economy from Queen's Park.

If a government wants to decrease emissions, economists almost universally agree that the most efficient way to do so is to put a "price on carbon" through a carbon tax or similar mechanism. Further, many econo-

mists argue that carbon taxes should be “revenue neutral,” meaning they are offset by cuts to other more economically harmful taxes, such as the personal income tax, to ensure no increase to the overall tax burden on the economy.

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*Ontario’s climate change action plan is the very model of a tax-and-spend policy approach.*

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An approach that met these criteria, however, would not satisfy the seemingly insatiable appetite of Ontario’s provincial government to spend more money and meddle intrusively in the private economy.

Rather than putting all revenues from its cap-and-trade scheme back into the private economy through tax reductions, the government plans to spend much of the proceeds on a variety of pet projects including initiatives to “support cycling and walking.” Ontario’s climate change action plan is the very model of a tax-and-spend policy approach.

The government is also ignoring economists’ advice by actively interfering in the decision-making of individuals and private companies through a slew of regulations and subsidies to support producers of specific products. For example, the government plans to subsidize electric vehicles to the tune of up to \$14,000 per car. The government admits in its own document that these subsidies will only yield small emissions reductions.

In short, the government’s climate change action plan marries a tax-and-spend approach to government finances with an active micromanaging approach to regulation and subsidies.

Unfortunately, these features of the climate change plan are representative of the Ontario government’s approach to economic development over the last decade. Consider that the provincial tax burden on Ontarians has increased significantly over the past decade,

and yet it still hasn’t been enough to keep pace with the government’s appetite to spend money. The result has been a rapid run-up in provincial debt.

Similarly, on regulatory interference in the economy, the plan represents more of the same for the provincial government. And this is not the first time the provincial government has actively intervened in the provincial energy market.

The 2009 Green Energy Act sought to promote renewable energy in the province through a variety of subsidies, incentives, and other centrally-planned measures. Partly as a result, power prices have risen substantially and a recent auditor general’s report showed how Ontario now exports power at a loss and pays twice as much for wind, and three-and-a-half times more for solar than neighbouring American states.

For more than a decade, the government in Queen’s Park has tried to solve Ontario’s economic problems through higher taxes, increased spending, and increased regulation of the provincial economy. If this approach worked, the streets in Ontario would by now be paved with gold. Instead, we have become a have-not province neck-deep in debt.

The failures of its approach to economic management to date, however, apparently won’t stop the government from making the same mistakes again through its climate change strategy. [FI](#)



BEN EISEN



TAYLOR JACKSON

Ben Eisen is director of the Ontario prosperity initiative and Taylor Jackson is a senior policy analyst with the Fraser Institute.

# Not All First Nations Oppose Oil and Gas Development

Tom Flanagan



**The Federal Court of Appeal recently overturned the federal government approval of the Northern Gateway pipeline because of insufficient consultation with First Nations. This decision dramatizes the dilemma of Canada's oil and gas industry.**

Opposition to pipelines and tanker traffic, particularly by First Nations, threatens to strand Canada's enormous hydrocarbon resources, cutting them off from international markets where they can be priced

at their full value. From reading the news headlines, it sometimes seems that all First Nations are opposed to all oil and gas development.

The true situation, however, is much less one-sided. The Indian Resource Council (IRC) has announced its concern over "pipeline gridlock" and will hold an October conference in Calgary to discuss possible solutions. The IRC is an organization of 174 First Nations interested in oil and gas development.



At the present time, many wells are shut down due to low prices (only 29 First Nations are currently producing oil and 37 producing natural gas). However, other IRC members have produced oil or gas in the past, and may wish to do so in the future, so the potential is there for much more First Nations involvement in the industry. Furthermore, beyond the royalties from production, thousands of First Nations and Métis people are employed in the industry, especially, though not only, in the oil sands.

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*It would be ironic in the extreme if the small and remote rural communities whose best opportunity for improving their standard of living is development of their natural resources were to be permanently frustrated by other First Nations and green activists.*

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The IRC started as an advisory group to Indian Oil and Gas Canada (IOGC), the Crown corporation that supervises exploration and production on reserves. Historically, IOGC's approach was paternalistic, leaving First Nations as passive recipients of royalties rather than active entrepreneurs. But the IRC is now working with IOGC to upgrade First Nations participation, to make them active investment partners.

First Nations received \$163 million in royalties and fees from IOGC in the 2014-15 fiscal year, which is not trivial, but the returns are potentially much greater if First Nations become partners in owning drilling and well-service companies, pipelines, and refineries.

That helps to explain why the IRC is speaking out now. Most of their members are not located in trendy urban areas where they can make money by opening casinos and building condominiums. These are small and remote rural communities whose best opportunity for improving their standard of living is development of their

natural resources. It would be ironic in the extreme if they were to be permanently frustrated by other First Nations and green activists.

Members of the IRC undoubtedly remember what happened to the Mackenzie Valley natural gas pipeline. After 30 years of environmental reviews and aboriginal title negotiations, most First Nations in the Mackenzie Valley were ready to support the pipeline. Like the 26 First Nations who are ready to take an equity share in Northern Gateway, they saw it as a way to improve their standard of living without endangering the natural integrity of their homeland.

But there was one holdout group; and, like the coastal First Nations who have challenged Northern Gateway, they went to the Federal Court of Canada, alleging inadequate consultation. This last delay proved fatal and the Mackenzie Valley pipeline was never built, because natural gas prices had fallen in the meantime.

Perry Bellegarde, the National Chief of the Assembly of First Nations, recently said that more than 130 First Nations are categorically opposed to petroleum development. Even if that statement is accurate (and he did not give any source for it), about 500 First Nations remain open-minded on the subject. Yet once again, some First Nations are blocking potential prosperity for others.

Recent court decisions and political trends have given First Nations something close to a veto over major pipeline projects. The IRC's challenge will be to reach out to the open-minded First Nations, to persuade them that responsible development of oil and gas can be profitable while respecting environmental values. Maybe they can have greater success where corporations and governments are failing. **FI**



Tom Flanagan is professor emeritus of political science at the University of Calgary and a Fraser Institute senior fellow.

# In Ontario, Hard Work Doesn't Pay

Ben Eisen and Niels Veldhuis



**Professional families in Ontario can face up to a 70% tax rate on additional income earned**

**If ever there was a statistic that confirms that Ontario is no longer “a place to prosper,” consider the one for average incomes in Ontario: after taxes, those average incomes have slid from being 20 percent higher than the rest of Canada to now being materially below it.**

**G**ood opportunities and high incomes in Ontario used to be a beacon for immigrants and people

from other provinces. However, over the past 12 years, there has been a continuous net exodus of Ontarians to other provinces. Today, only 38 percent of new immigrants to Canada choose Ontario, down from 60 percent just over a decade ago.

The root of Ontario's decline can be found in a decade of failed government policies, particularly growth-killing tax increases.

This year, the average Ontario family will pay more than \$46,000 in taxes—42.5 percent of the \$108,600 the average Ontario family will earn.

While Ontarians have faced a host of tax increases, none have been more damaging than the increases in personal income taxes on highly skilled, educated workers—entrepreneurs, business professionals, engineers, lawyers, and doctors.

Consider that Ontario's top personal income tax rate (federal and provincial combined) is now 53.5 percent. If Ontario were a country, its top tax rate would rank as the sixth highest among 34 industrialized countries and second highest among G7 countries, behind only France.

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*While the intent of tax rates that increase rapidly as Ontarians earn more income is not to stop people from working and being more successful, a large body of research proves they have that very effect.*

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But that's just personal income taxes. When the 13 percent HST and other taxes are added, the total tax rate on additional income for many professionals, entrepreneurs, and skilled workers is more than 70 percent!

When 70 cents of every additional dollar a family earns and consumes goes to taxes, hard work and entrepreneurial risk-taking simply don't pay.

To understand why, think of the fines imposed on people who drive above the speed limit. The more you speed above the limit, the greater the fine. We have these progressive fines because we want to discourage fast driving. While the intent of tax rates that increase rapidly as Ontarians earn more income is not to stop people from working and being more successful, a large body of research proves they have that very

effect. This is something leaders across the political spectrum used to understand.

Former Liberal Prime Minister Paul Martin understood: "Lower personal taxes would also provide greater rewards and incentives for middle- and high-income Canadians to work, save and invest."

Former Conservative Prime Minister Stephen Harper understood: "Canada needs lower personal income tax rates to encourage more Canadians to realize their full potential."

Former Federal NDP Leader Thomas Mulcair understood: "Look at a province like New Brunswick. They will have a tax rate of 58.75 percent... How is New Brunswick going to be able to attract and retain top level medical doctors when they're going to be told, 'Oh, by the way, our tax rate is now going to be close to 60 percent'?"

Improving incentives to work hard, invest, and take entrepreneurial risks is not a partisan issue, it's simply good economic policy.

If Premier Wynne's government wants to re-establish Ontario as a place to prosper, improving incentives through tax reductions would be a good place to start. [FI](#)



Ben Eisen is the director of the Ontario prosperity initiative and Niels Veldhuis is president of the Fraser Institute.

# Return on CPP Contributions Still Meagre After Expansion

Charles Lammam and Hugh MacIntyre



**The expansion of the Canada Pension Plan (CPP), announced in June by Canada's federal and provincial finance ministers, has sparked important questions about what the changes will mean for individual Canadians. And rightfully so given that the CPP is one of the key pillars of our country's retirement system.**

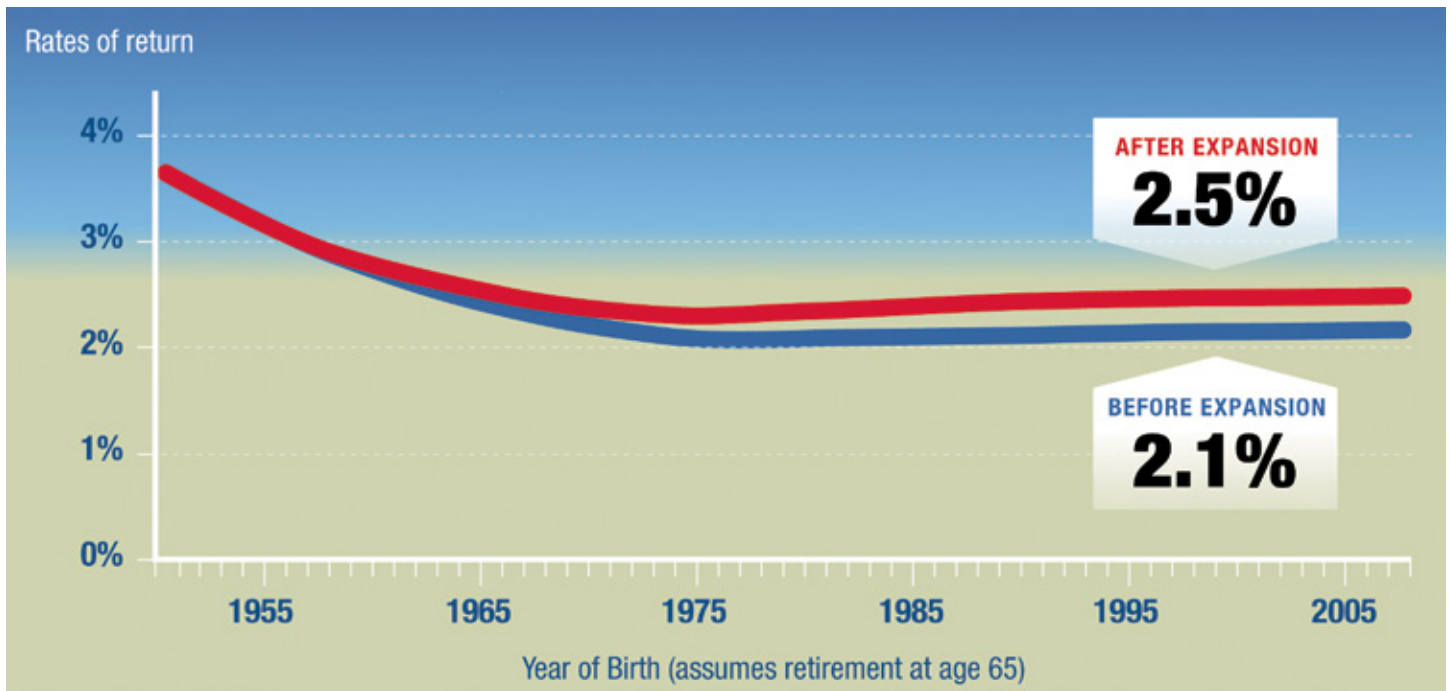
**A** particularly important question is: how will the expanded CPP affect the rate of return for Canadians contributing to the program? After all, some people have tried to justify expansion of the CPP on the grounds that it provides a competitive—even a high rate of return—for retired Canadians.

The available data do not support this claim. The rate of return that working Canadians—especially younger workers—can expect to receive on their CPP contributions is meagre under the current system and will remain so even after expansion.

A recent Fraser Institute study, *Rates of Return for the Canada Pension Plan*, calculated the rate of return under the current, pre-expansion CPP system by analyzing the contributions of Canadians over their working lives and comparing them to the benefits received during retirement. It found that for Canadians born after 1956, the rate of return is a meagre 3 percent or less (after inflation). The rate of return declines to 2.1 percent for those born after 1971.

The rate of return will increase after the announced changes to the CPP are implemented, but only slightly.

Starting in 2019, workers will be required to pay more into the program in exchange for higher CPP retirement benefits. Once fully implemented in 2025, the total CPP contribution rate (which is split notionally in half between employees and employers) will increase from the current rate of 9.9 percent to 11.9 percent of eligible earnings up to a maximum of \$72,500. In addition, earnings between \$72,500 and \$82,700 will also be subject



to mandatory CPP contributions, albeit at a lower rate of 8 percent.

While some technical issues on the changes to the CPP have not yet been clarified, we re-calculated the new rate of return that Canadians can expect based on the available details. The results are not impressive. Canadians born in 1971 or after can now expect to receive a rate of return from their CPP contributions of between 2.3 percent and 2.5 percent (depending on their specific year of birth). In other words, there is only a small increase in the rate of return for younger Canadians under the expanded CPP—2.5 percent or less after expansion versus 2.1 percent before expansion.

People who believe the CPP offers a high rate of return often confuse the individual rate of return (again, just 2.5 percent or less for Canadians born after 1971) with the 11.4 percent average return earned over the past five years by the Canada Pension Plan Investment Board (CPPIB), which manages the investable funds of the CPP.

In reality, CPPIB returns have no direct effect on the benefits received by retirees. CPP retirement benefits are determined by the number of years a person works, their annual contributions (up to a maximum of \$5,089 this year), and the age they retire—not CPPIB rates of return.

Notably, the CPPIB itself must generate a 4.0 percent return (after inflation) simply to keep the program actuarially sound. In other words, Canadian workers born in 1971 or after are required to contribute to a fund that must generate a 4.0 percent rate of return in order to sustainably provide recipients with a return that is 2.5 percent or less.

The claim that the CPP provides Canadians with a strong rate of return does not withstand scrutiny. Younger Canadians will continue to receive a meagre return for their CPP contributions even after expansion. [FI](#)



CHARLES LAMMAM

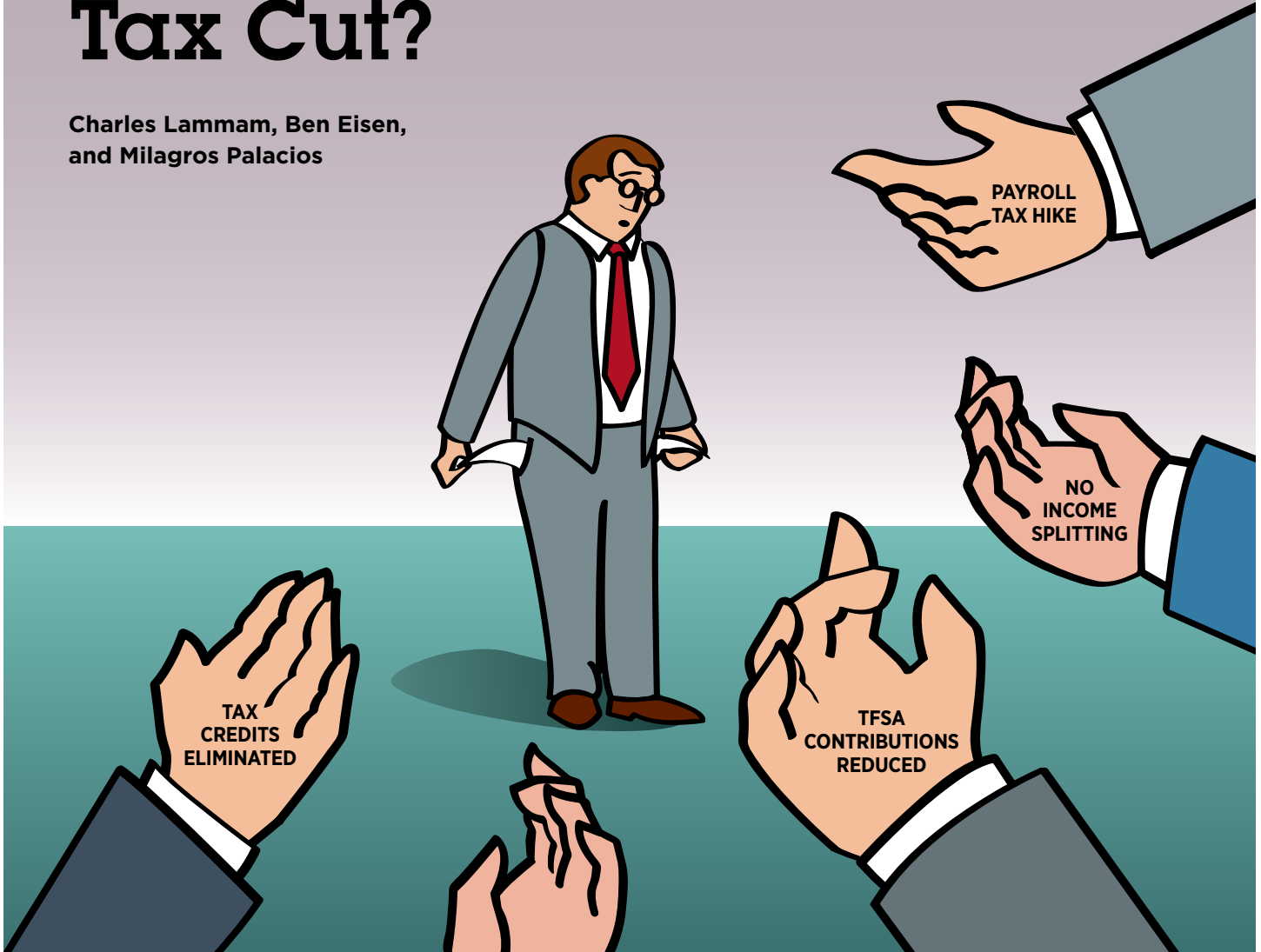


HUGH MACINTYRE

Charles Lammam is director of fiscal studies and Hugh MacIntyre is a policy analyst at the Fraser Institute. They are co-authors of *Rates of Return for the Canada Pension Plan*.

# What Middle Class Tax Cut?

Charles Lammam, Ben Eisen,  
and Milagros Palacios



**On the campaign trail in the fall of 2015, the Liberals promised to cut taxes for middle-class Canadians to ensure that “middle-class Canadians have money in their pockets to save, invest and grow the economy.” Once elected, the Liberals did reduce the income tax rate on the second-lowest federal tax bracket from 22 to 20.5 percent.**

On its own, this tax relief would be welcome, especially since the average Canadian family currently

pays more than 40 percent of its annual income in taxes. However, since assuming power, the Liberals have also implemented or announced a host of tax hikes that will more than wipe out the benefits of the income tax cut. Far from leaving more “money in their pockets,” the federal government will actually reduce the take-home pay of middle-income Canadians.

The latest tax increase announced is the payroll tax hike that will be used to finance the expansion of the Canada Pension Plan (CPP). Once fully implemented in 2025,

the total CPP contribution rate (which is split notionally in half between employees and employers) will increase from the current rate of 9.9 percent to 11.9 percent of eligible earnings up to a maximum of \$72,500. In addition, earnings between \$72,500 and \$82,700 will also be subject to the CPP tax, albeit at a lower total rate of 8 percent.

These changes represent a substantial tax increase that, again, will more than wipe out the benefits of the recent income tax rate reduction for middle-income Canadians.

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*The CPP tax increase is just one of many tax increases imposed by the new federal government on middle-income Canadians.*

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Consider, for example, someone with taxable income of \$54,900—the current maximum earnings threshold for CPP contributions. The income tax rate reduction will reduce this person’s income tax by \$144. However, if we assume the CPP changes were to be fully implemented this year, that person would pay an additional \$514 in CPP taxes. And this doesn’t account for the additional CPP taxes paid by the employer on his behalf (another \$514).

Yes, the federal government has said that additional contributions to the CPP will be tax-deductible for income tax purposes, so this worker would get some of their increased CPP contributions back by claiming a tax deduction. But it’s clear that the net effect of these tax changes is a tax hike—not a reduction.

Things look even worse for a Canadian with a taxable income of \$45,282—the lowest income level of the tax bracket where the Liberal tax cut applies. This person will receive no benefit whatsoever from the income tax reduction but will have to pay \$418 in additional CPP contributions (\$836 including employer contributions).

Even for Canadians earning more, the outlook for tax relief doesn’t look good. An individual with a taxable

income of \$90,563—the income level at which they receive the maximum amount of personal income tax relief from the Liberal income tax rate cut—will save \$679 in income taxes. But this person will pay an extra \$821 in employee contributions to the CPP. Tax deductibility on new CPP contributions will provide this individual with some savings. But once you factor in the \$821 in employer contributions (the cost of which will be passed on to the employee through slower wage growth and/or a reduction in other benefits), even this higher-income Canadian won’t receive a tax cut on balance.

Finally, the CPP tax increase alone is just one of many tax increases imposed by the new federal government on middle-income Canadians. The elimination of income splitting for couples with children, the cancellation of several widely used tax credits, and the reduction in annual TFSA contribution limits, will potentially increase the tax burden for middle-income Canadians.

With all these tax hikes in mind, the net effect of recent tax changes is less money in the pockets of Canadians. The campaigning Liberals promised to reduce the tax burden on Canada’s middle class. In office, they have failed to deliver. **FI**



Charles Lammam is director of fiscal studies, Ben Eisen is director of provincial prosperity studies, and Milagros Palacios is a senior economist with the Fraser Institute.

# A Federal Carbon Tax— A Cash Grab that Could Damage the Economy

Kenneth P. Green



TAX

**According to a report in the *Globe and Mail*, Finance Canada is quietly promoting the idea of a federal carbon tax, or at least, a minimum carbon price, in order to reduce greenhouse gas emissions as Canada has pledged to do in last December's *Paris Agreement*.**

**T**he problem is that Canada's track record at implementing economically benign carbon pricing is not very good: three of the four Canadian jurisdictions

with carbon taxes or pricing are in complete violation of economic theory about benign carbon pricing.

Carbon taxes in Quebec and Alberta (or recently proposed carbon trading in Ontario) are not revenue-neutral (defined as neither increasing nor decreasing tax revenues), they are not imposed uniformly across the economy, they exempt (or worse, reward) the largest emitting industries, and they are layered on top of regulations, all of which damages the economy.



British Columbia's carbon tax comes close to a "text-book" implementation of a revenue-neutral carbon tax, but given that it's piled on top of, instead of in lieu of, a raft of climate-related and economically distorting regulations it's probably far less benign than it seems, and in recent years, has morphed into an instrument of industrial policy, with virtually all the growth in revenues from the tax, post 2013, being directed to governmentally favoured industries such as agriculture and the entertainment sector.

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*Carbon taxes and carbon pricing are all the rage, but they are overwhelmingly likely to violate the benign economic models that economists like to talk about on television, and instead, largely function as energy taxes to generate a new source of revenue for cash-hungry governments.*

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A federal tax or mandate would almost certainly promote more of the same. Media reporting on the idea already suggests that federal tax requirements would allow spending on green policies as long as the revenue doesn't leave the province. (Tell that to Ontario, which is expected to buy carbon credits from California as part of their cap-and-trade plan.)

Environmentalists (and many economists) posit carbon taxes as the best approach to controlling carbon. But the way carbon taxes have been implemented in Quebec and Alberta, and are proposed in Ontario, clearly show that governments are not inclined toward fully revenue neutral carbon taxes. Instead, they implant indirect energy taxes to generate new revenue streams that let governments dictate how energy is

produced and consumed, reward their friends, and punish their opponents.

These new "carbon" taxes or trading schemes will further distort energy markets, raise energy prices, raise food prices, increase energy poverty, and reduce economic competitiveness in the province.

And again, it has to be said, there is virtually no environmental benefit—Canada is such a small emitter of GHGs that shutting down the entire country would not produce measurable impacts on climate change. In fact Canada's global share of emissions is shrinking as China's and India's emissions grow. And, China and India will not likely be swayed by Canadian leadership.

Well, but perhaps carbon pricing will buy social license for Canada to develop its energy resources. Tell that to Alberta, which has rolled out massive new carbon taxes and a climate action plan that hamstring future oil sands development with its 100 megatonne annual emission limit—where's that pipeline, Premier Notley? Where are the ENGOs saying, "Okay, you've paid your social license, we'll stop opposing your infrastructure now?"

Finally, as for the whole green tech/green jobs shtick, let's get real: industrial policy is a serial loser, and green jobs programs in Europe have been shown to displace more jobs than they create.

Carbon taxes and carbon pricing are all the rage at present, but don't be fooled. They are overwhelmingly likely to violate the benign economic models that economists like to talk about on television, and instead, largely function as energy taxes to generate a new source of revenue for cash-hungry governments. [FI](#)



Kenneth P. Green is senior director of natural resource studies at the Fraser Institute.



## Taylor Jackson

### What's your role at the Institute?

I am a senior policy analyst working primarily in the Centre for Natural Resource Studies where we assess how government policies surrounding energy and natural resources affect the lives of Canadians. In addition, I work on a number of other projects at the institute, including being part of a series of essays on electoral reform.

### How did you arrive at the Institute?

When I was completing my BA at Simon Fraser University I received a lot of mentorship from Fraser Institute Senior Fellow Professor Alexander Moens, which culminated in me applying for and receiving an internship in the summer of 2013. I came back to do another internship the next summer after finishing my MA course work, and shortly after arriving I was offered a full-time position.

### Tell us something exciting that you're working on now for the immediate future.

I am particularly excited to be working on the issue of electoral reform. I recently completed an essay on the fiscal policy consequences of a shift to a proportional representation (PR) electoral system. The effect of electoral systems on public policy is an issue that typically doesn't find its way into debates. We found that countries using PR systems have higher levels of both government spending and debt. I am also working on analyzing what a shift to an alternative vote system would mean for the competitiveness of Canadian elections.

### What do you enjoy doing in your spare time that your colleagues might not be aware of?

I recently got engaged, so wedding planning is something that is taking up an increasing amount of my spare time! In the rest of my free time, you will often find me reading a good book (mostly nonfiction) or watching sports, and when I can I love to get outdoors and go fishing.

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We are delighted to announce that Peter Munk is donating \$5 million to launch The Peter Munk Centre for Free Enterprise Education at the Fraser Institute. The gift will allow the Institute to greatly expand its education programs in Central Canada, with a particular focus on Ontario.

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