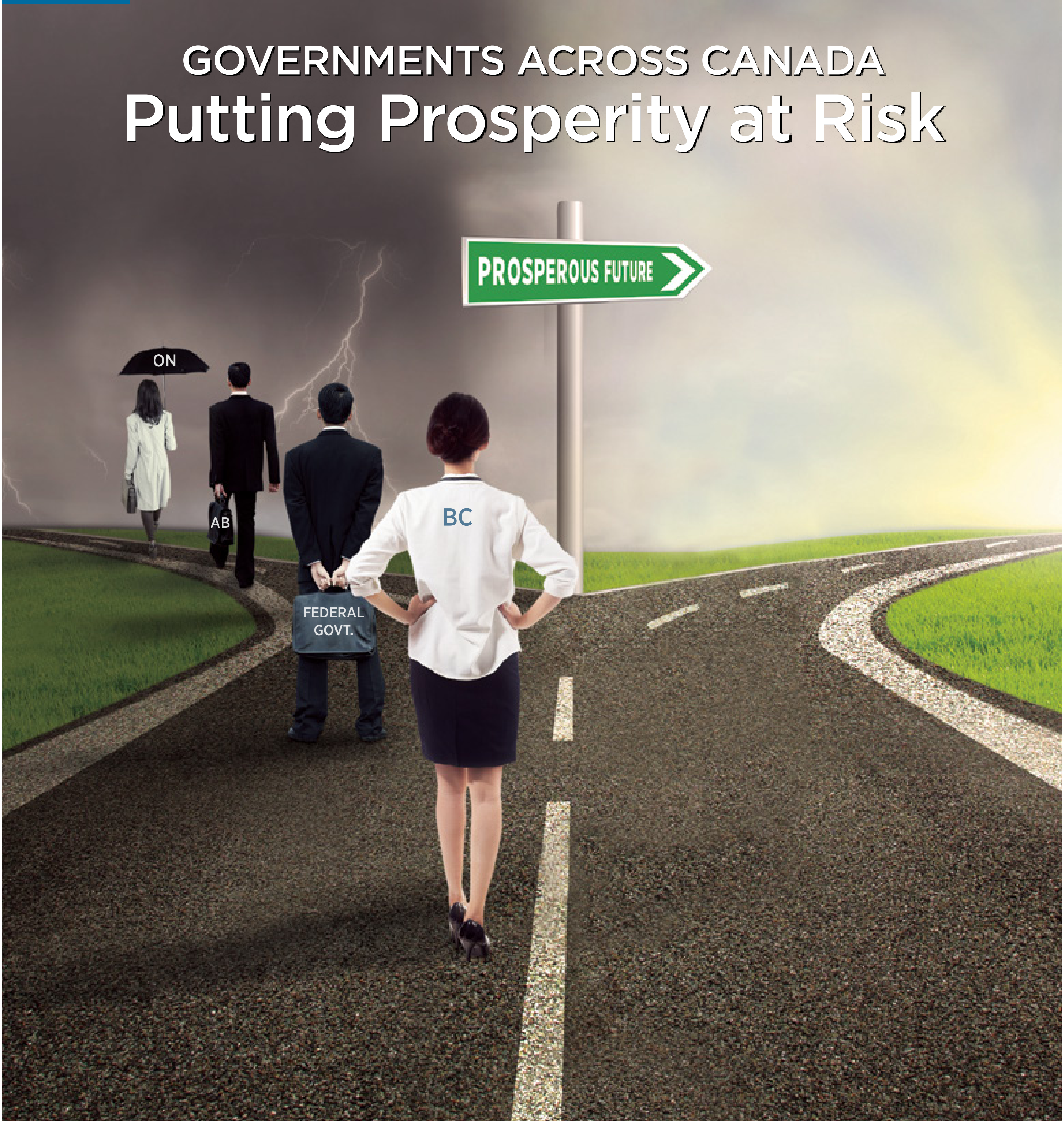
News and information for supporters and friends of the Fraser Institute

FRASER INSTITUTE

THE Quarterly

FALL 2017

GOVERNMENTS ACROSS CANADA
Putting Prosperity at Risk



CANADIAN PUBLICATION MAIL SALES PRODUCT AGREEMENT NUMBER 40069269

ALSO INSIDE

MESSAGE FROM THE INSTITUTE'S PRESIDENT

Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

At the end of the summer, you likely saw the media raving about Canada's economy with sensational headlines like "Canada's economy blows away forecasts with 4.5% growth." If that left you scratching your head, you're not alone.

Here at the Fraser Institute we are deeply concerned about the economic outlook for our country. Our view is that governments across Canada have put forth policies that have damaged our competitiveness and investment climate. This is particularly true in Canada's traditional economic engines—Ontario and Alberta and increasingly in British Columbia and at the federal level. And this comes at a time when emerging policy reforms in the United States could seriously harm Canada's economic interests.

This issue of *The Quarterly* highlights some of the great work the Institute has been doing to educate Ontarians, Albertans, British Columbians, and indeed all Canadians about the serious issues facing our country.

On page 20, you will find a recent commentary by me and my colleague Jason Clemens, which shows that the recent sensational economic growth headlines are unfortunately not an accurate depiction of the state of Canada's economy.

Philip Cross, former chief economic analyst for Statistics Canada, wrote an important new Fraser Institute study highlighting that Toronto's hot housing market is the one leg propping up Ontario's otherwise weak and vulnerable economy (page 4).

Fraser Institute senior fellow Lydia Miljan highlights the uncertainty in British Columbia caused by the recent election in which no party won a majority of the seats (page 12).

My colleagues Ben Eisen and Charles Lammam write about *Rae Days in Alberta*, noting that the first two years of Alberta's NDP government under Premier Rachel Notley look a lot like Bob Rae's first two years in office as NDP premier in Ontario in the 1990s, complete with undisciplined spending increases, a raft of tax increases, and large budget deficits—all of which have left Alberta less competitive (page 26).

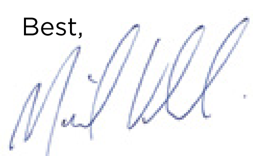
And as Charles Lammam notes on page 22, these same policies are being followed by Prime Minister Trudeau and his government.

While I apologize that this issue of *The Quarterly* is not more optimistic, we give Canadians the real goods about their economy and government.

We've added a special feature in this *Quarterly* to help ensure your friends, family, and colleagues have access to our work. Simply pass this issue along to them when you're finished reading it, and they can fill in the attached card to sign up for 4 free issues.

As always, thank you for your ongoing support.

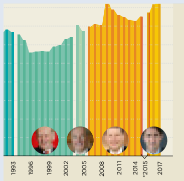
Best,



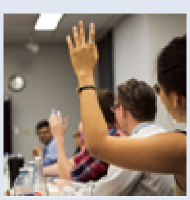
Niels

THE Quarterly

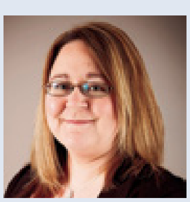
New Research



Recent Columns



Education Programs



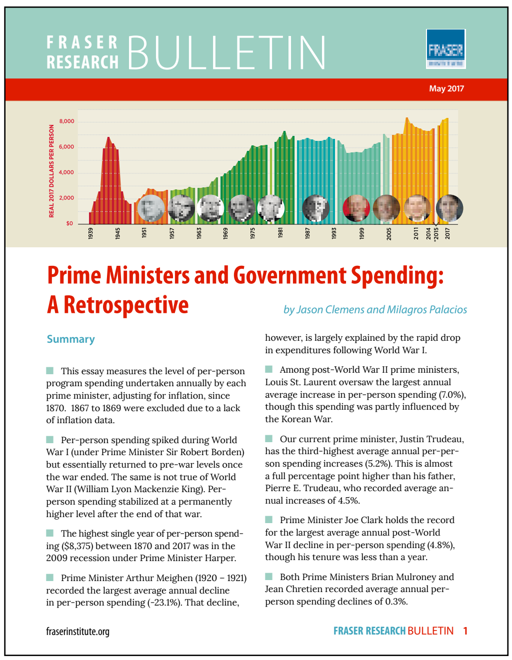
Staff Profile

RETURN UNDELIVERABLE CANADIAN ADDRESSES TO:
The Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, British Columbia Canada V6J 3G7

When Measured Against History, **Prime Minister Trudeau's Spending Near Peak Levels**

Jason Clemens and Milagros Palacios

Much has been made of the current federal government's ramp-up in spending, particularly its multi-billion dollar infrastructure initiative, and the corresponding deficits and debt being accumulated. What has been largely ignored is the historical context of such spending—an analysis made all the more timely by this year's 150th anniversary of Confederation.


FRASER RESEARCH BULLETIN

May 2017

Prime Ministers and Government Spending: A Retrospective

by Jason Clemens and Milagros Palacios

Summary

- This essay measures the level of per-person program spending undertaken annually by each prime minister, adjusting for inflation, since 1870. 1867 to 1869 were excluded due to a lack of inflation data.
- Per-person spending spiked during World War I (under Prime Minister Sir Robert Borden) but essentially returned to pre-war levels once the war ended. The same is not true of World War II (William Lyon Mackenzie King). Per-person spending stabilized at a permanently higher level after the end of that war.
- The highest single year of per-person spending ($8,375) between 1870 and 2017 was in the 2009 recession under Prime Minister Harper.
- Prime Minister Arthur Meighen (1920 – 1921) recorded the largest average annual decline in per-person spending (-23.1%). That decline, however, is largely explained by the rapid drop in expenditures following World War I.
- Among post-World War II prime ministers, Louis St. Laurent oversaw the largest annual average increase in per-person spending (7.0%), though this spending was partly influenced by the Korean War.
- Our current prime minister, Justin Trudeau, has the third-highest average annual per-person spending increases (5.2%). This is almost a full percentage point higher than his father, Pierre E. Trudeau, who recorded average annual increases of 4.5%.
- Prime Minister Joe Clark holds the record for the largest average annual post-World War II decline in per-person spending (4.8%), though his tenure was less than a year.
- Both Prime Ministers Brian Mulroney and Jean Chretien recorded average annual per-person spending declines of 0.3%.

fraserinstitute.org

FRASER RESEARCH BULLETIN 1

Our recent study, *Prime Ministers and Government Spending: A Retrospective*, calculated per-person spending by the federal government (excluding interest costs on the national debt) since 1870, adjusted for inflation, allowing us to directly compare the spending of different governments and prime ministers over time. Some of the results may be surprising to Canadians and informative about the current state of federal spending.

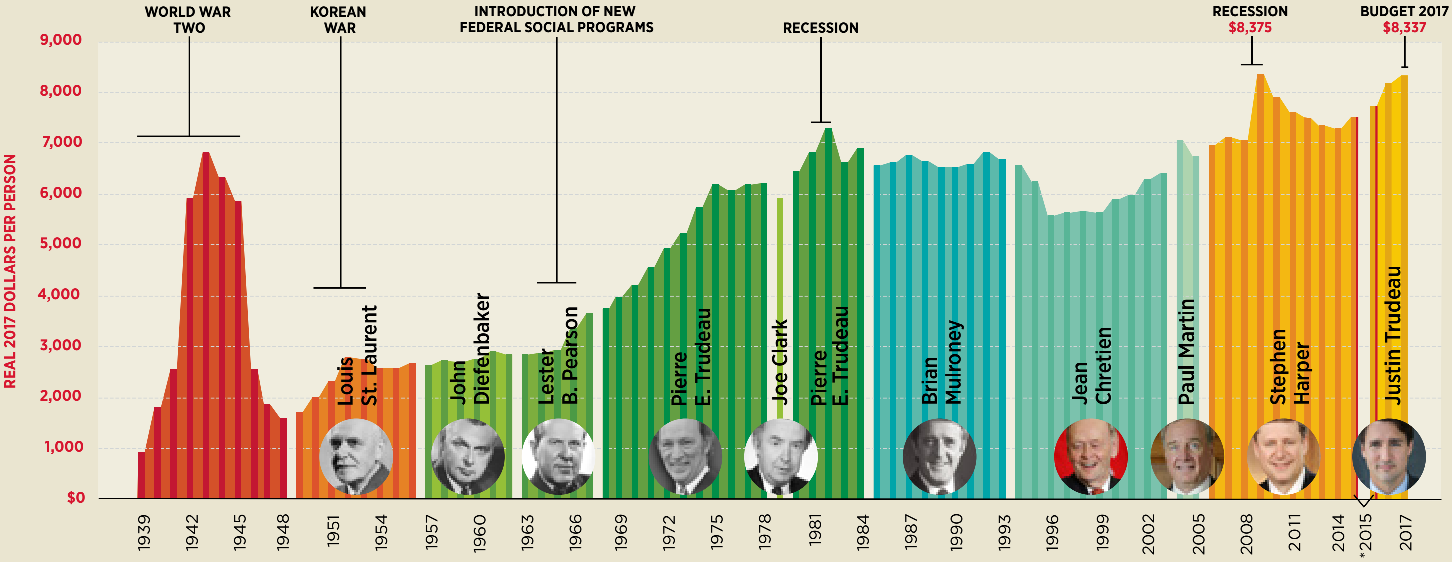
Prime Minister Justin Trudeau began to increase per-person spending immediately after his election in October 2015. The Harper Conservatives originally planned for per-person spending to reach $7,342 in 2015, but the Trudeau Liberals cranked up spending to $7,557. Put differently, the Trudeau Liberals increased per-person spending in 2015 by almost 3 percent more than the previous Harper government had planned.

Spending was further increased in 2016 and the federal government plans to spend $8,337 in the current fiscal year (2017-18). This is only $38 shy of the all-time high level of per-person spending recorded in 2009-10 by the Harper Conservative government ($8,375). The peak spending under the Harper government, however, was done during a marked global recession.

Conversely, the near-peak spending planned by the Trudeau government is done without any recession or large-scale military conflict, the two main characteristics of almost every other previous spike in federal spending.

For context, the current level of per-person spending (adjusted for inflation) is 22.1 percent higher than the

WHO SPENT WHAT? A LOOK AT FEDERAL PROGRAM SPENDING SINCE WORLD WAR TWO



*2015 spending for Prime Minister Harper is based on the planned 2015 Budget spending while the 2015 spending for Prime Minister Trudeau is based on actual spending in that year.

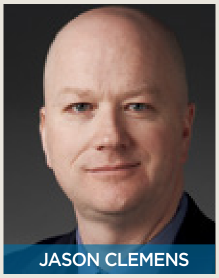
peak spending incurred during the depths of the Second World War in 1943 under Canada's longest serving Prime Minister, William Lyon Mackenzie King. It's also 14.4 percent higher than the peak of federal per-person spending reached under Prime Minister Pierre Trudeau.

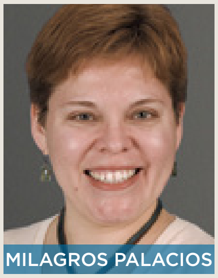
Unlike his father's record of spending, Prime Minister Justin Trudeau's current plan is to start reducing per-person spending next year—the federal government's most recent budget called for a 1.1 percent reduction in per-person spending by 2019-20. This stands in stark contrast to the prime minister's father who, along with his predecessor Prime Minister Lester Pearson, ramped up federal per-person spending (adjusted for inflation) from $2,837 in 1962 to a peak of $7,288 in 1982, a 156.9 percent increase.

Whether the federal government will follow through on its plan to reduce federal spending in the two years prior to the next federal election is a legitimate question, but it's nonetheless the current plan. That said, even with the planned 1.1 percent reduction in federal per-person spending, the federal government still expects a $23.4 billion deficit in 2019-20. To reach a balanced budget by 2019-20, which was the Liberal Party's original campaign commitment, the government would have to reduce per-person spending by 6.4 percent over the next two years.

There's no question that the current government has decidedly increased spending—and it comes at the cost of further deficits and mounting debt. It's questionable whether the government will be able to return to balance in the foreseeable future, and the degree to which Canadians benefit from this added spending remains unclear. Consider, for instance, that the main rationale for the additional spending was to "stimulate" additional economic growth. The problem for the government is that economic growth, and prospects for future growth, have steadily declined since 2015.

It's been 150 years since Confederation. During that time, only one other federal government has spent more per person than the current Trudeau government. And crucially, unlike previous dramatic increases in federal spending, there is no recession or large-scale military conflict to explain the increased largesse. Rather, the government has voluntarily decided to increase spending, but thus far has little to show for it except the concomitant deficits and debt. FI

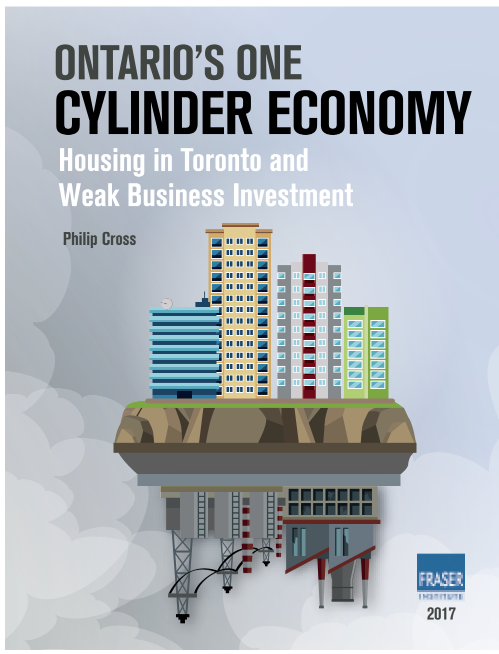




Jason Clemens is executive vice-president and Milagros Palacios is an associate director with the Fraser Institute. They are co-authors of *Prime Ministers and Government Spending: A Retrospective.*

Dependence on Housing Leaves Ontario Economy Vulnerable

Philip Cross



Ontario traditionally has been Canada's engine of growth. However, over the past decade it has slipped to "have not" status and now receives equalization payments.

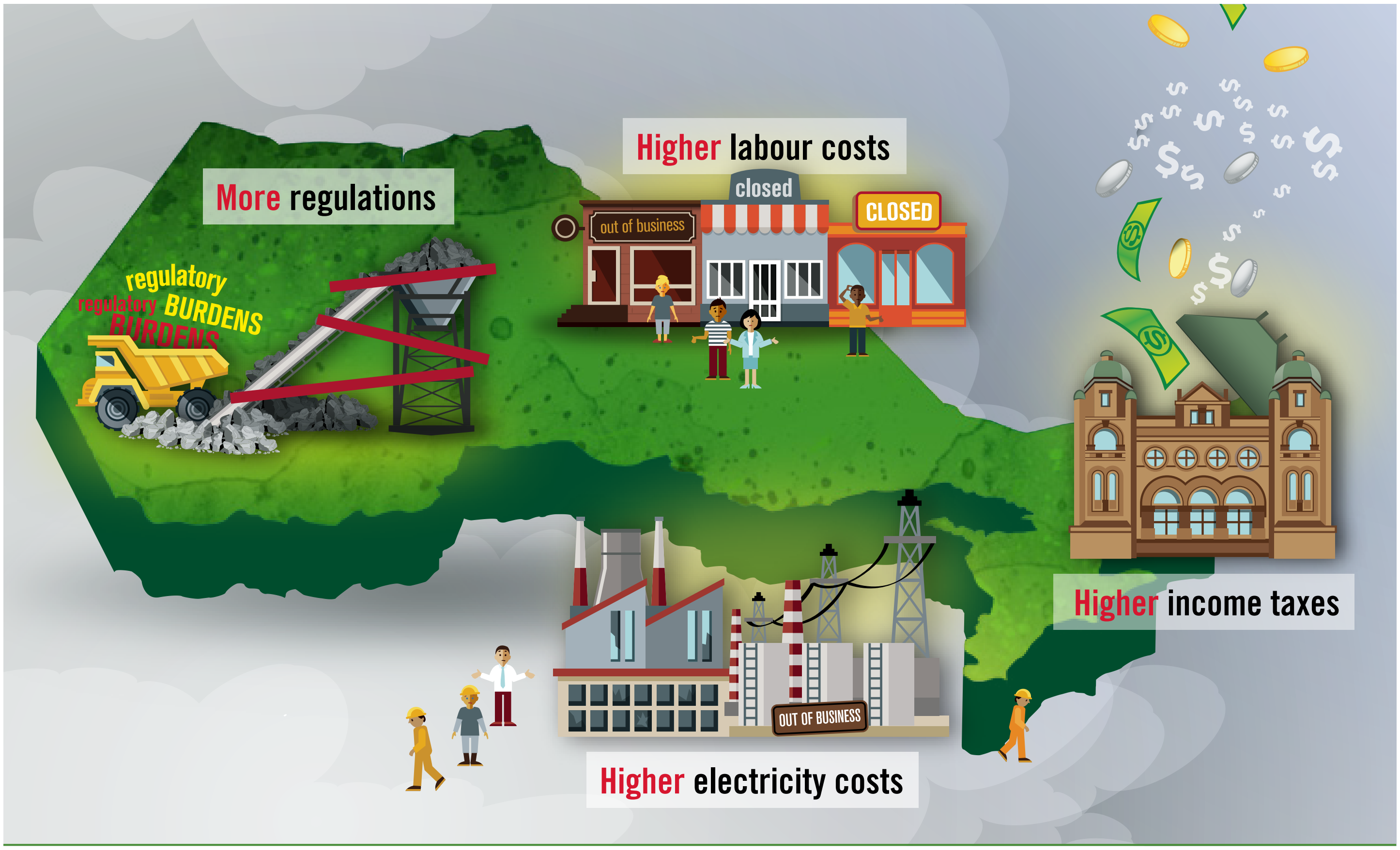
While housing recently has provided a temporary boost to Ontario's economy, concern about the province's longer term growth prospects grows. Specifically, Ontario suffers from chronically weak business investment. The investment slump, especially in manufacturing, which is the sector most exposed to international competition, is symptomatic of the high cost of doing business in the province.

Manufacturing remains critical to Ontario's economy—it is still the third largest employer despite its recent woes. Even Premier Wynne said manufacturing is "in Ontario's DNA," although she seems to have difficulty drawing the implication that competitive costs are important. That's why it's worrying that manufacturing sales in Ontario are little changed since 2003 compared with gains of 14 percent in Quebec and more than 20 percent in British Columbia and Alberta, despite the removal of impediments such as a high dollar and oil prices.

Some of Ontario's weakness reflects the long-term shift of auto production to the United States and Mexico. Several other components of its manufacturing sector, however, have fared even worse. Investment in Ontario has been halved since before the recession in industries such as computers and electronics, lumber, paper, printing, and rubber and plastics.

But it's not just manufacturing where there's a problem. Overall business investment—the lifeblood of any jurisdiction's long-term growth—has slumped. Overall, business plans to invest $50.9 billion in Ontario this year, down from $53.8 billion before the recession.

Sluggish business investment and manufacturing, at a time of growth next door in Quebec, suggest the reasons for the slump are specific to Ontario. The high cost of doing business is a major factor contributing to the decline. These costs include electricity rates, which are among the highest in North America and well above neighbouring Quebec, even with rebates for large industrial users. Meanwhile, unit labour costs are the highest outside Atlantic Canada and will go higher after the minimum hourly wage climbs to $15. Finally, Ontario has the second

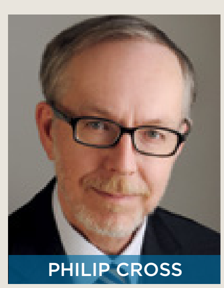


highest top marginal personal income tax rate in North America, and high levels of government debt promise further increases unless spending is curtailed.

With weak business investment, Ontario is increasingly reliant on its housing sector. In 2016, housing accounted for 29 percent of income growth. The boom in housing, which many call a bubble, has papered over the cracks in Ontario's economy and government finances. However, this dependence on housing leaves the economy and government finances vulnerable to a market downturn. Already, house sales in Toronto in the first half of June fell 50 percent from a year ago after governments introduced measures to cool the market.

While little noted in Ontario, the Quebec media gleefully trumpet every sign *la belle province* is narrowing Ontario's traditional lead in economic performance. Just last week, Standard and Poor's lifted its rating of Quebec's government debt above Ontario's, a reward for years of mild-but-consistent austerity while Ontario continues to pile up more and more government debt. Unemployment, traditionally several points higher in Quebec, fell to half a point below Ontario's in May.

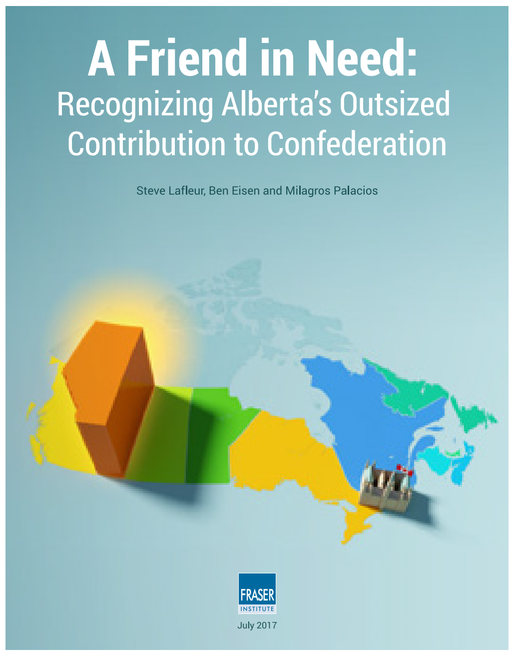
To ensure strong long-term growth, Ontario must attract business investment. Unfortunately, at least partly due to government policies driving up costs, this remains a critical weakness for Ontario's economy. FI



Philip Cross was formerly the chief economic analyst at Statistics Canada and is the author of *Ontario's One Cylinder Economy.*

What Would Canada's Finances Look Like Without Alberta?

Ben Eisen and Steve Lafleur



Until the recent downturn in energy prices and subsequent recession in the province, Alberta contributed disproportionately to Canada's economic growth. Between 2004 and 2014, inflation-adjusted annual economic growth in Alberta averaged 3.4 percent—more than twice the growth rate in the rest of the country (1.6 percent) during the same period. Without Alberta's strong performance, Canada's overall economic growth rate would have been much weaker than it was.

To look at another economic metric, consider that Alberta's provincial economy created more jobs than any other jurisdiction in Canada between 2004 and 2014, despite the fact that Ontario and Quebec have vastly larger populations.

The job-creation machine in Alberta has benefitted people from all over the country, many of whom moved to Alberta to seize economic opportunities and make a better life for themselves. In fact, approximately 270,000 more people moved to Alberta from the rest of the country than moved from Alberta to somewhere else in Canada over this 10-year period. Providing a destination where people could go and improve their families' economic circumstances is another way Alberta's strong economy has benefitted the rest Canada in recent years.

As important as any of these factors, however, is Alberta's outsized contribution to the health of Canada's public finances. Thanks to high incomes, a youthful population, and the fact the province does not receive equalization payments, Albertans send much more money to the federal government in taxes and other forms of revenue than they receive back in transfer payments and services.

Even during the recent recession, this gap remained large. In 2015, Albertans sent, on average, approximately $5,000 more to Ottawa then they received back in federal transfers and services. Over the years, this large

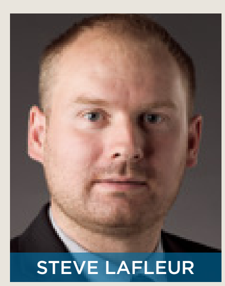
WHAT WOULD CANADA'S ECONOMY LOOK LIKE WITHOUT ALBERTA'S OUTSIZED CONTRIBUTION TO FEDERAL REVENUES?

positive net contribution has added up to truly staggering sums. Between 2007 and 2015, Albertans sent $221.4 billion more to Ottawa than the province received back.

It's therefore difficult to overstate how important Alberta's contribution has been to federal finances in recent years. If Alberta's net contribution per person was aligned with the Canadian average, the federal government would never have come close to balancing its budget at any point since the 2008-09 recession, and the deficit today would be more than $20 billion larger than it actually is.

Given the importance of a strong Alberta for a strong Canada, Canadians from coast to coast should be concerned that the provincial government in Edmonton is undermining many of the policies that have helped make Alberta an economic powerhouse. Debt-free public finances and strongly competitive taxes helped fuel economic growth in Alberta for many years. Unfortunately, provincial policy choices are quickly undermining those advantages.

Clearly, it's in the best interest of all Canadians for Alberta to get back on its proverbial economic feet. Although energy prices certainly matter, Alberta can help its own cause by restoring a fiscally sound, pro-growth policy framework. Given the importance of a strong Alberta to the economic health of our country, that's a goal all Canadians should support. FI



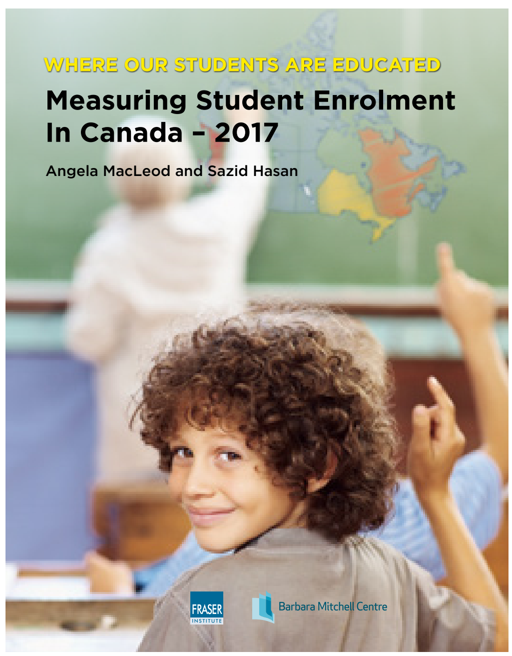
Ben Eisen is the director of provincial prosperity studies and Steve Lafleur is a senior policy analyst at the Fraser Institute. They are co-authors of the publication *A Friend in Need: Recognizing Alberta's Outsized Contribution to Confederation.*

Share of Students Attending Independent Schools Increasing in Every Province

Angela MacLeod and Deani Van Pelt

Barbara Mitchell Centre
FOR IMPROVEMENT IN EDUCATION

The share of students attending public schools in Canada continues to decline while an increasing share of students is choosing independent schools or home schooling for their K-12 education. According to changes in student enrolments, parents across Canada are increasingly choosing independent schools for their children—schools that exist outside of the public system.



Although the dominant form of education for students in each province is still public school, a recent analysis of education ministry data shows that compared to 2000-01, a smaller share of students in each province attended a public school in 2014-15 (the latest year of comparable data).

Canada does have fewer school-age students (5- to 17-year-olds) in every province except Alberta, which affects school enrolments across all types of schools. This is seen most dramatically in the Atlantic provinces, where each province has experienced a decline of at least 15 percent in its school-aged population. Indeed, Newfoundland & Labrador experienced the most pronounced decline in its school-aged population (24.5 percent), with Nova Scotia close behind with a decline of 24.3 percent.

Given the overall decline in the school-aged population across the country (excluding Alberta), what is most striking in the student enrolment data is the proportion of students in each province that attend a government school. In every province except Nova Scotia, a smaller share of students in 2014-15 attended a public school than did in 2000-01.

The most dramatic shift was in British Columbia, which saw its share of enrolments in public schools drop from 90.6 percent in 2000-01 to 86.8 percent in 2014-15. Next was Quebec, where the share of students enrolled in public schools dropped from 90.6 to 87.6 percent over the same period.

Ontario now has 6.1 percent of students attending independent schools. This is noteworthy because the government in that province, unlike the three just mentioned, offers no support to independent schools, which means that parents who choose independent schools in Ontario bear the full costs of that schooling (as they do throughout Atlantic Canada)."

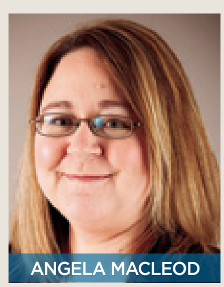
The declining share of students attending government schools is offset by an increasing number of parents choosing non-government options. Two main types exist in Canada: independent schools and home schooling.

Independent schools are independently owned and operated and are home to diverse religious and pedagogical orientations, such as, for example, Catholic, Christian, Jewish, Islamic, or Montessori or arts-based education. In every province the share of students attending independent schools increased. Independent schools in British Columbia now enrol the largest share of any province's students (12.9 percent) with Quebec following at 12.3 percent of its students. Manitoba at 7.9 percent has the third highest share of students enrolled in independent schools.

Even Ontario now has 6.1 percent of students attending independent schools. This is noteworthy because the government in that province, unlike the three just mentioned, offers no support to independent schools, which means that parents who choose independent schools in Ontario bear the full costs of that schooling (as they do throughout Atlantic Canada).

Home schooling enrolments have also grown slightly. Eight out of ten provinces showed an increasing share of students being homeschooled since 2007-08 (the most recent year of comparable data), with rates in British Columbia and Quebec holding steady. Still, compared to the share of students attending independent schools, the proportion of those choosing homeschooling is modest. Manitoba has the highest share of home schooled students—1.5 percent. Alberta and Saskatchewan follow with 1.4 percent and 1.2 percent, respectively.

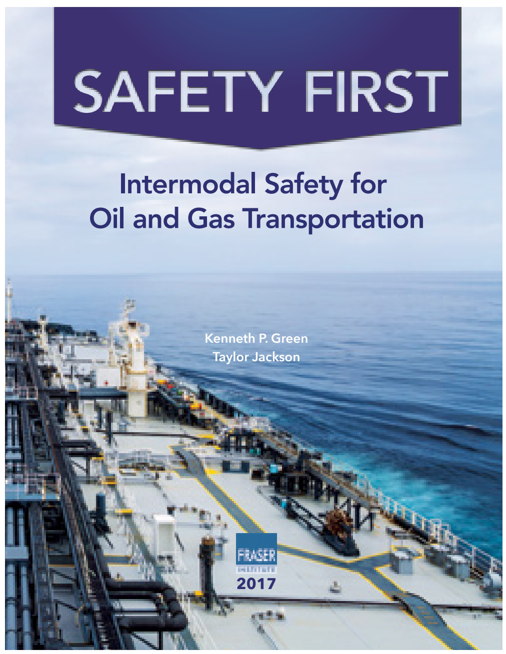
Shifts in K-12 student enrolments make at least one thing clear: parents are increasingly choosing non-government forms of education for their children. All across Canada, an increasing share of students and their families are choosing something other than government public schools for their children; they are opting instead for independent schools and home schools—even when in places like Ontario they are required to foot the whole bill. FI



Angela MacLeod is a senior policy analyst for the Barbara Mitchell Centre for Improvement in Education at the Fraser Institute. She is a co-author, with Sazid Hasan, of *Where Our Students Are Educated: Measuring Student Enrolment in Canada, 2017*. Deani van Pelt is a Fraser Institute senior fellow.

Safety Comes First in the Transportation of Oil and Gas

Kenneth P. Green and Taylor Jackson



A contentious road lies ahead for the construction of three recently approved oil pipelines (Trans Mountain, Line 3, and Keystone XL). Given continued opposition to oil and gas infrastructure, we have examined the latest data on the safety of oil and gas transport. In general, the transport of oil and gas is quite safe by all modes we examine: pipeline, rail, and tanker, though there are differences between the modes that should be considered when developing infrastructure.

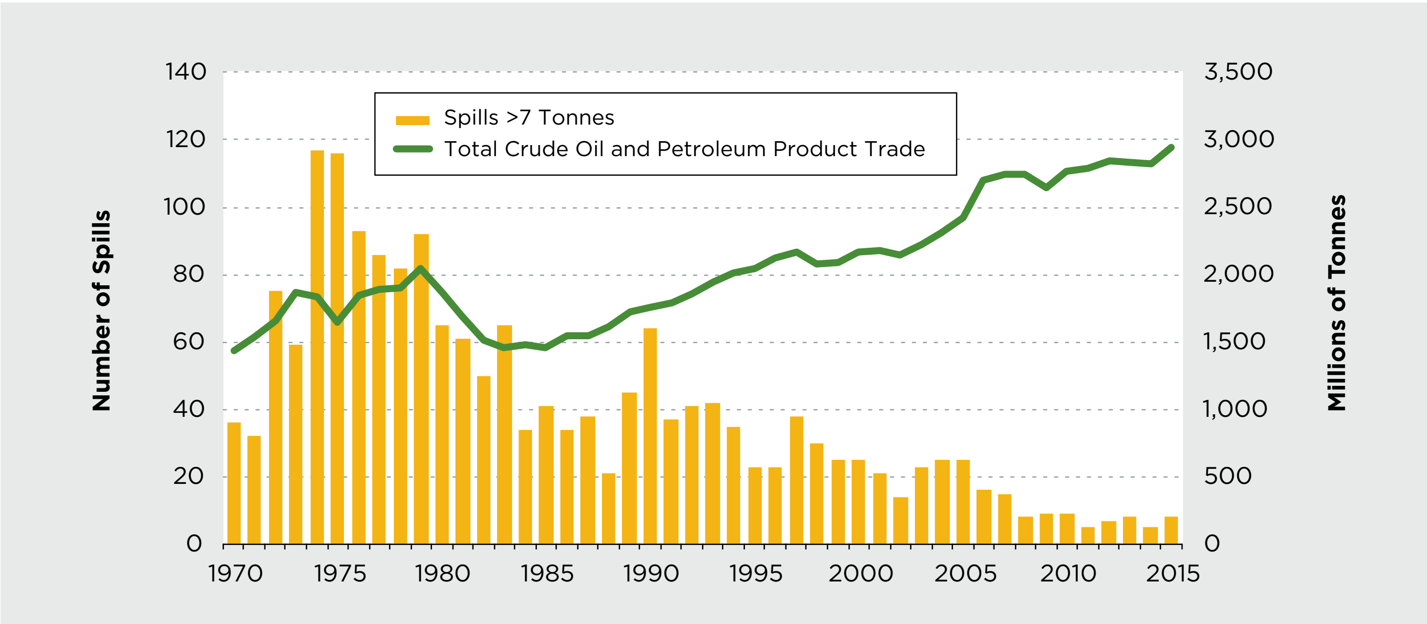
Pipelines suffer few occurrences (accidents and incidents) given the amount of oil and gas that is shipped through them. Overall, between 2004 and 2015, pipelines experienced approximately 0.05 occurrences per million barrels of oil equivalent (Mboe) transported.

When petroleum and natural gas goods are evaluated separately, we find that the transportation of oil results in fewer occurrences than the transport of natural gas. Indeed, transporting petroleum products by pipelines resulted in approximately 0.04 occurrences per Mboe compared to 0.07 for natural gas products. This means that the rate of occurrences for transporting natural gas products was 1.67 times greater than the rate of occurrences for petroleum products.

The focus on the occurrence rate only tells part of the story for pipeline safety. In addition to having low occurrence rates, almost 70 percent of pipeline occurrences result in spills of less than 1 cubic metre (17 percent result in no spill). Only 17 percent of pipeline occurrences take place in the actual line pipe, meaning that the vast majority of spills occur in facilities that often have secondary containment mechanisms and procedures.

The results were similar for rail, where the transportation of oil was found to result in fewer accidents per Mboe transported than natural gas. Also similar to the data on pipelines, most rail accidents occurred in facilities rather than in transit.

NUMBER OF OIL SPILLS GREATER THAN 7 TONNES VS. GLOBAL SEABORNE OIL AND PETROLEUM PRODUCT TRADE, 1970-2015



While both pipeline and rail transportation of oil and gas are quite safe, when comparing the two modes of transportation, pipelines continue to result in fewer accidents and fewer releases of product, when taking into consideration the amount of product moved.

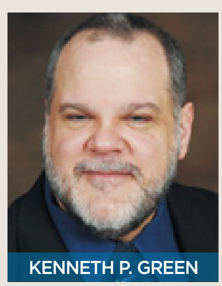
Specifically, based on petroleum product transport data from 2004 to 2015, pipelines were 2.5 times less likely than rail to result in a release of product when transporting a million barrels of oil.

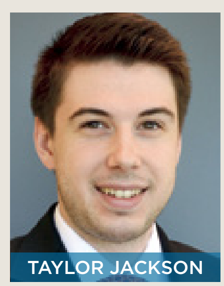
This study also evaluated marine tanker safety in light of the additional oil tankers that will result from the expansion of the Trans Mountain pipeline.

Since the mid-1990s there has not been a single major spill from oil tankers or other vessels in Canadian waters. One recent study conducted by the federal government on marine oil spill preparedness estimated that a major spill of over 10,000 tonnes was exceedingly rare and likely to only occur once every 242 years. Likewise, a spill of 100 to 1,000 tonnes is expected to occur once every 69.2 years.

Marine safety has also improved dramatically since the 1970s. For example, when comparing the number of spills in the 1970s to the 2010s (up to 2016) using international data, the number of spills between 7 and 700 tonnes has decreased from 543 to 35 and in this same period the number of large spills (>700 tonnes) has declined from 245 to 12. The amount of oil spilled has also dropped dramatically, falling from three million tonnes in the 1970s to only 39,000 tonnes in the 2010s.

In addition, compared to pipelines and rail, marine tanker transport is found to result in the fewest number of accidents per million barrels of oil transported. FI





Kenneth Green is senior director of natural resource studies at the Fraser Institute and Taylor Jackson is an independent policy analyst. They are co-authors of *Safety First: Intermodal Safety for Oil and Gas Transportation.*

Recent Election Prompts Wave of Uncertainty that Threaten Investment, Economic Growth in BC

Lydia Miljan

In the spring of 2017, British Columbia went through one of the most tumultuous and uncertain elections in years. First, there was the political uncertainty that resulted from the hung legislature as no one political party received the majority of seats. Second, there was the uncertainty regarding who the Green party would support.


FRASER RESEARCH BULLETIN

August 2017

Measuring the Impact of the 2017 Election on Uncertainty in British Columbia

by Lydia Miljan

SUMMARY

- Political uncertainty and policy uncertainty are linked and amplified under minority governments. Uncertainty in both spheres leads to lowered business investment and acts as a drag on the economy.
- This bulletin uses a proxy measure of newspaper coverage of the terms "uncertain" and "British Columbia" from 2009-2017 to show which events and policies increase uncertainty.
- The British Columbia measure shows that provincial elections have brought with them varying levels of political uncertainty, which were heightened in 2013 when there were concerns that the Liberal government might not win a fourth mandate, and in the most recent election held in May 2017, which resulted in no clear majority winner.
- The 2017 election saw proportionately the highest number of stories that include the word "uncertain." After previous elections, the uncertainty measure dropped dramatically and immediately, but that did not happen after the 2017 election.
- The 2017 election stories focus on both the uncertainty of who will govern and about the policy uncertainty created by the alliance of the NDP and Green parties.
- The policies most likely to be associated with uncertainty after the election were connected to energy and pipeline policy, taxation, and the economy.
- If the government proceeds with its commitment to electoral reform, British Columbia could face more coalition governments, which would lead to persistent political uncertainty and more policy uncertainty.

fraserinstitute.org FRASER RESEARCH BULLETIN 1

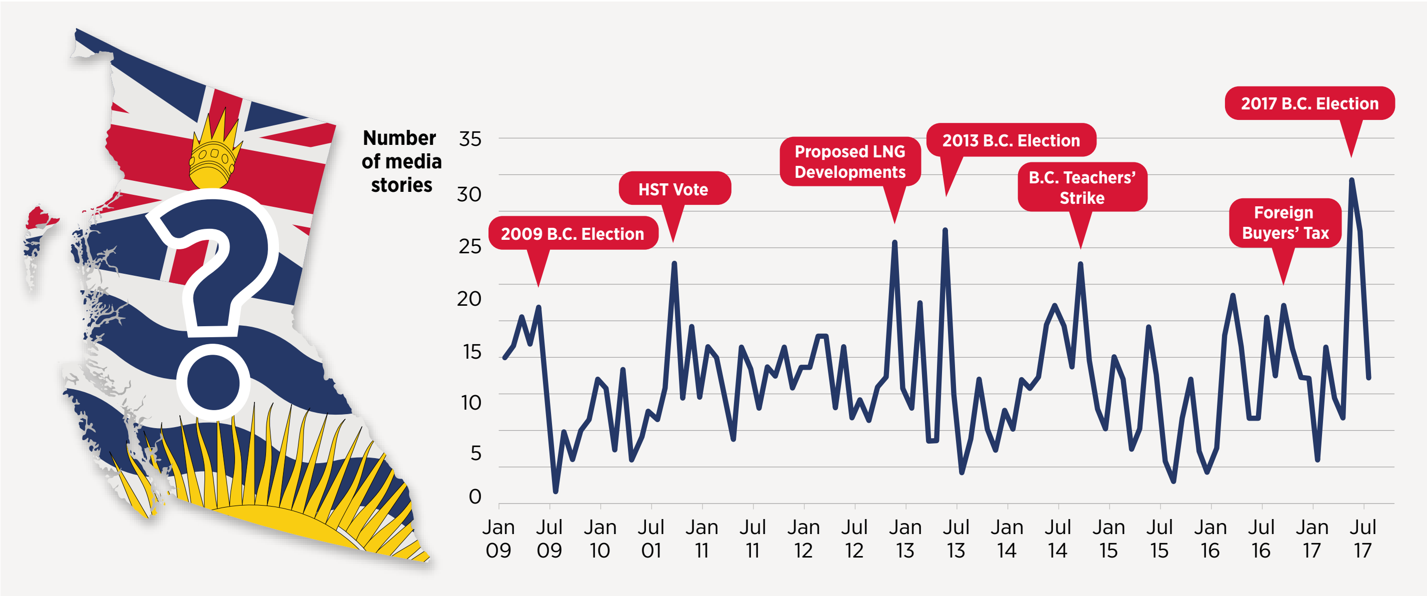
Finally, and more crucially from an investment perspective, there was policy uncertainty resulting from the NDP/Green party alliance. The commitments to increase personal income, business, and carbon tax rates, stop the Kinder Morgan pipeline, and raise the minimum wage to $15 per hour all introduce uncertainty for the province's economic future and increase uncertainty for investment. This is not an abstract problem. Research has shown that policy uncertainty can drive down business investment by between 6 and 10.5 percent.

To see how uncertainty in British Columbia was affected by the election, we created a proxy measure using newspaper reporting of the word "uncertain" in the province from 2009 to the present, inspired by the seminal work on American economic policy uncertainty developed by economists Scott Baker, Nick Bloom, and Steven Davis.

The BC analysis illustrates that uncertainty is typically higher around election time, as in 2013 when polling predicted that the Liberal government might not win a fourth mandate, and the most recent election in May where there was no clear winner.

While previous provincial elections also led to spikes in the number of stories about uncertainty, the 2017 election prompted more than double the number of such stories compared to Christy Clark's majority electoral win in 2013. In fact, in July 2013 and July 2009, following each year's provincial election, the number of stories that included "uncertainty" had declined to just three. Last month, "uncertainty" appeared in 12 newspaper stories in the province.

ELEVATED POLITICAL AND POLICY UNCERTAINTY IN B.C. THREATENS INVESTMENT



The issues most associated with uncertainty following the recent election—apart from the 31 percent of news stories that dealt with actual election results and who would form government—were energy and pipeline policies (24 percent), taxation (17 percent) and the economy (15 percent).

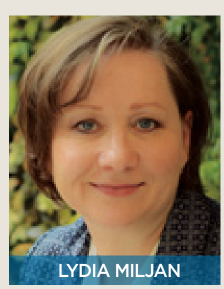
Another element of the NDP and Green Party association that could lead to greater uncertainty in future elections—and the economic policy environment more generally—is the commitment to change the electoral system to proportional representation (PR). While PR electoral systems are purported to be more democratic, they also result in a greater number of political parties and more minority governments. The experience in other countries with PR systems is that those minority governments form coalitions with minority parties. In parliamentary systems, coalition governments are often shorter in duration and are higher spenders and debt accumulators than single-party governments.

The reason for higher government spending is that coalition partners, knowing their time in office is limited, will increase spending to improve their electoral fortunes. Moreover, precisely because the government's tenure is short, the burden of paying for the higher spending can be pushed on to future governments. Of course, when governments incur debt, this leaves businesses and households uncertain about future tax hikes, and that uncertainty impedes current investment and entrepreneurship.

Any government can increase economic policy uncertainty. In British Columbia, the previous majority Liberal government initiated periods of uncertainty by implementing certain policies including, for example, the foreign homebuyers' tax. The tax was intended to introduce an element of uncertainty and thereby limit foreign investment in Vancouver's housing market with the hope of causing home prices to level off.

There are also numerous examples from other Canadian provinces where majority governments have increased government debt or created an uncertain investment climate. However, moving towards an electoral system that by design encourages minority governments is a recipe for persistent policy uncertainty because minority governments will have greater negative impacts on business investment than majority governments.

Given the current composition of political parties in BC, if the NDP/Green commitment to adopt proportional representation goes ahead, we can expect to see more coalition governments and more political and policy uncertainty in the future. FI



Lydia Miljan is an associate professor of political science at the University of Windsor, a senior fellow of the Fraser Institute and author of *Measuring the Impact of the 2017 Election on Uncertainty in British Columbia.*

NAFTA Negotiations— Canada Should Not Object to Increased Domestic Competition

Steven Globerman

Congressional rules in America being what they are, the US administration has already tipped its hand ahead of this week's NAFTA negotiations in Washington, DC.

The report released by the Office of the US Trade Representative last month set out, in broad strokes, the administration's negotiating strategy.

Not surprisingly, the overriding objective is clear: To improve market access for US exports in the agriculture, manufacturing, and services sectors, and to do away with what the administration sees as trade and investment barriers maintained by its NAFTA partners. From Canada's perspective, US demands will likely include scrapping restrictive dairy industry protections and, perhaps, other agricultural supply management programs. They will also include better access for US companies to Canada's telecommunications, cultural, and financial sectors, and non-discriminatory treatment of digital products transmitted electronically across borders, along with unrestricted cross-border data flows.

In making these demands, the US administration is actually acting as a champion of the Canadian consumer, whether it knows it or not. For example, it is estimated that the elimination of restrictive dairy industry protections could lower dairy costs for Canadians by as much as 40 percent. More competition in other sectors, from finance to data storage, can also be expected to lower prices and improve the quality of services for Canadians.

But while there are gains to be made for Canadians, there are also potential threats in what the US is likely to ask for; Canadian negotiators will need to be firm in some places—like dispute resolution, for example—to protect the investment environment in Canada.

Politically, opening up key Canadian industries to more competition is no easy task. Those industries affected will, or course, argue that meeting the US terms would do great damage to the Canadian economy. One can also anticipate any number of appeals to Canadian nationalism as the basis for rejecting the US demands.

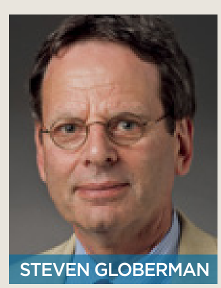
Perhaps the most problematic issue facing Canadian negotiators in the upcoming NAFTA talks is the ostensible US demand to get rid of the NAFTA dispute resolution process and to have US-initiated complaints about trade law violations adjudicated in US courts. This was a "red line" for Canada in the Canada-US free trade negotiations, and the demand should be strongly opposed by Canada in the upcoming NAFTA negotiations.

Industry participants in free trade debates are usually successful in positioning the public discussion around the issue of improving access to foreign markets. Economists would certainly agree that multilateral trade liberalization is more advantageous for the economies involved than trade liberalization by only one country. But this preference for multilateral trade liberalization does not negate the fact that increasing competition by lowering domestic trade barriers directly increases the real incomes of domestic consumers and also promotes improvements in efficiency by domestic producers.

The pronouncements of the Trump Administration suggest that it sees gains to the US only from increased exports with no benefits to Americans deriving from increased imports. One hopes that the Trudeau government does not share this view as a basis for Canada's negotiating position. Indeed, Canadian negotiators should seize upon opportunities to reduce border barriers wherever possible. In this regard, the US objective of reducing the harmful effects on trade flows of regulatory inconsistencies is an opening that Canadian negotiators should seize upon, as is the US objective of streamlining customs procedures. Canada should also push for easier cross-border movement of workers by, for example, expanding the categories of workers eligible for the TN (nonimmigrant NAFTA professional) program.

Perhaps the most problematic issue facing Canadian negotiators is the ostensible US demand to get rid of the NAFTA dispute resolution process and to have US-initiated complaints about trade law violations adjudicated in US courts. This was a "red line" for Canada in the Canada-US free trade negotiations, and the demand should be strongly opposed by Canada in the upcoming NAFTA negotiations. In taking the competition high road, Canada should push for circumscribing the application of trade rules (most often by the US) that are primarily invoked to protect inefficient domestic producers. Eliminating anti-dumping provisions is an example, as predatory pricing, both domestic and international, is rarely a profitable strategy for the alleged predator, at least in the view of most economists.

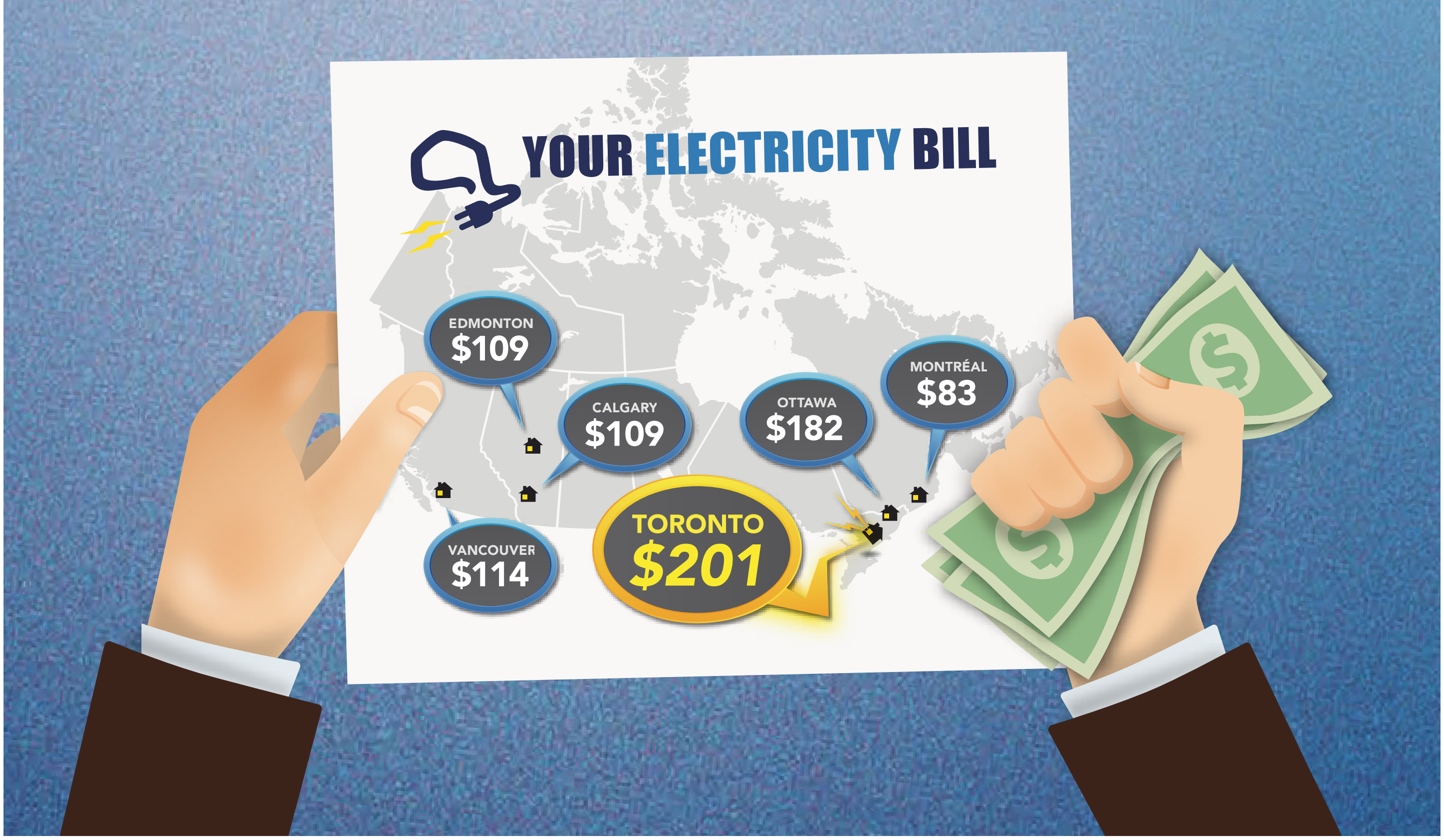
In short, Canadian negotiators should not object to measures that increase domestic competition. If red lines are drawn, they should be to expand and enhance competition on a North American-wide basis. FI



Steven Globerman is the Kaiser professor of international business at Western Washington University and a senior fellow at the Fraser Institute. He is a co-author, with Christopher Sands, of *The Fate of NAFTA: Possible Scenarios and their Implications for Canada*

Toronto has Highest Electricity Bills Among Major Canadian Cities

Taylor Jackson, Ashley Stedman, and Elmira Aliakbari



Ontarians are all too familiar with the rising cost of electricity. They see it on their hydro bills every month. But what's often been lacking in the public and policy debates, however, are the specifics of just how much hydro prices have increased and how Ontario's electricity bills now compare to other cities across Canada.

In a recent study, *Evaluating Electricity Price Growth in Ontario*, we analyzed electricity prices across Canada since 2008 to provide some context for Ontarians. According to data from Statistics Canada, from 2008 to 2016, electricity prices in Ontario grew by 71 percent—the fastest growth of any Canadian province—compared to just 34 percent in Canada as a whole. This means Ontario's electricity price increases were more than double the national average.

Consequently, Toronto and Ottawa now have the highest average monthly electricity bills when compared to other major cities across the country.

To get a sense of just how much more Ontarians pay than those in the rest of the country, consider a comparison of monthly electricity bills between Toronto and Montreal, Canada's two largest cities. In 2016, the estimated average monthly electricity bill (including taxes) for Torontonians was $201—or roughly $2,400 for the year. Residents of Montreal paid only an estimated $83 per month, or $1,000 per year. That leaves Montrealers with an extra $1,400 a year to spend on other priorities because of lower electricity prices.

> *According to data from Statistics Canada, from 2008 to 2016 electricity prices in Ontario grew by 71 percent—the fastest growth of any Canadian province—compared to just 34 percent in Canada as a whole.*

Torontonians also paid an estimated $1,000 per year more for electricity than residents in Vancouver and Calgary. (And Albertans have actually seen their bills decrease in recent years.)

Another way to understand how higher electricity bills might affect the finances of Ontario households is to compare the growth in electricity prices with the growth of per-capita disposable income—that's income left over after taxes have been paid. Between 2010 and 2015, electricity prices in Ontario increased two-and-a-half times faster than household disposable income—meaning that Ontarians contribute a greater share of their incomes to their electricity expenses.

So, while it's clear that Ontario's electricity prices have grown dramatically and that this growth is not the norm across Canada, the question still remains—what's behind the price increases?

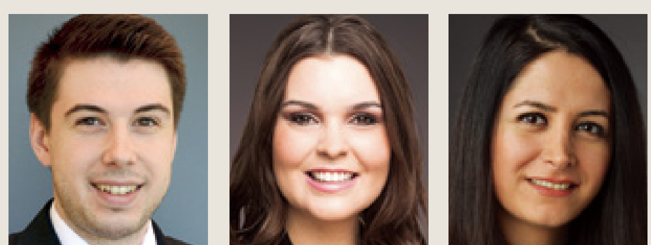
A large part of the blame rests on poor policy choices at Queen's Park. One such policy has been the government's poorly structured long-term contracts for renewable energy generation (wind, solar, etc.). These contracts place ever-increasing costs on consumers, while renewables accounted for only 6.8 percent of electricity generation in 2016.

The province's phase-out of coal-fired electricity has also proved costly and unnecessary. Indeed, in his study *Environmental and Economic Consequences of Ontario's Green Energy Act*, noted environmental economist Ross McKitrick found that Ontario could have achieved the same environmental benefits as the phase-out (at one-tenth the cost) by simply completing the retrofitting of Ontario's coal-fired plants.

Another issue is the imbalance between the supply and demand of electricity in the province. When the province's energy generation exceeds demand, it must be exported—quite often at a loss—leaving Ontario ratepayers to cover the difference.

And that's just the beginning. Other policy choices including costly cancellations of natural gas plants and necessary investments in transmission and distribution also add to the province's rising electricity costs.

In the end, what's most unfortunate is the toll that the rising bills are taking on Ontario families. Should electricity prices keep rising, the trade-offs that families have to make will become increasingly difficult to manage. FI



TAYLOR JACKSON ASHLEY STEDMAN ELMIRA ALIAKBARI

Taylor Jackson is an independent policy analyst, and Ashley Stedman and Elmira Allakbari are policy analysts at the Fraser Institute and are, along with Kenneth P. Green, coauthors of the study *Evaluating Electricity Price Growth in Ontario.*

Concerns Over Household Debt in Canada Are Overblown

Livio Di Matteo

With headlines like "Canadian household debt levels hit a record high" and dire warnings from top policymakers such as Bank of Canada governor Stephen Poloz, many Canadians may think household debt is out of control.

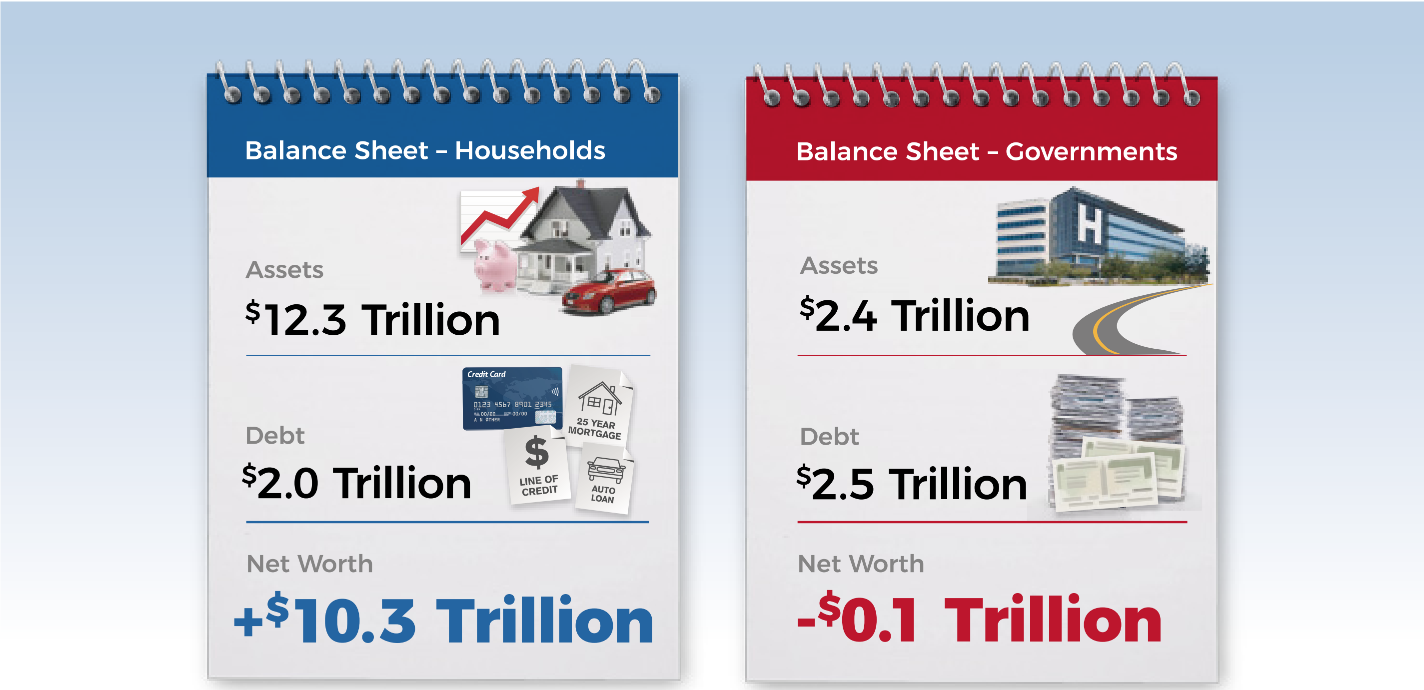
The concerns, however, often fail to properly account for the other side of the balance sheet. Yes, Canadian households have taken on more debt over time. But they have used this debt to finance assets—real estate and retirement savings, for example—that grow over time, causing their net worth to swell, also to unprecedented levels. More on that shortly.

By the end of last year, household debt eclipsed $2 trillion, up from $357 billion in 1990. The lion's share of this debt (two thirds, in fact) is for mortgages, while the remaining third is split between consumer credit (29 percent) and other loans (5 percent). Moreover, despite the pre-occupation with overheated real estate markets, the mortgage share of total household debt has remained stable. The $2 trillion-plus in household debt now equals approximately 170 percent of household disposable income compared to just 90 percent in 1990.

So does this mean Canadians are being irresponsible with debt? The short answer is no.

For starters, the above data ignore that the growth in household debt has partly been a rational response to plummeting interest rates. For instance, the Bank of Canada rate has fallen dramatically from nearly 13 percent in 1990 to 0.75 percent at the end of last year. Perhaps not surprisingly, as the cost of borrowing has dropped, Canadian households have borrowed more.

HOUSEHOLDS IN CANADA HAVE POSITIVE NET WORTH WHILE CANADIAN GOVERNMENTS DO NOT



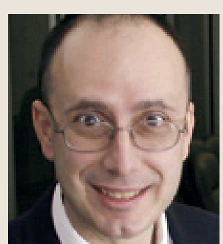
The drop in interest rates has been so significant that the interest burden of servicing debt has declined as a share of income, despite growing household debt. Today, interest payments on household debt consume 6 percent of disposable income compared to almost 11 percent in 1990.

Which brings us back to the other side of the balance sheet—household assets. While household debt has grown substantially over the past 26 years, households are borrowing to invest in appreciating assets such as real estate, pensions, financial investments, and businesses. In fact, Canadian household assets rose dramatically from $2.2 trillion in 1990 to $12.3 trillion in 2016.

The significant investment in assets has meant that household net worth (which is total assets minus liabilities) surged from $1.8 trillion to $10.3 trillion, a record-setting level, during the same 26-year period. As a share of GDP, household net worth rose from 265 percent to 498 percent. While government policymakers fret over household debt, the irony is that unlike government, household net worth is positive and increasing over time.

In the end, debt is a tool and the concern should be not with debt per se, but debt that's not manageable given the economic circumstances the households face. The greatest risks to the management of household debt are a) economic shocks that lead to job losses that make it harder for people to service their debt and b) increases in interest rates that raise debt-servicing costs.

To date, even with any small forecast increases, interest rates remain low and the Canadian economy has performed adequately in terms of employment with relatively low unemployment rates. Moreover, while these macroeconomic factors are of concern, they should also be kept in context. Despite record high levels of household sector debt, there are also record high levels of net worth. FI


LIVIO DI MATTEO

Livio Di Matteo is a professor of economics at Lakehead University, a senior fellow at the Fraser Institute and author of the study *Household Debt and Government Debt in Canada.*

Don't be Fooled—Canadians Ought to be Deeply Concerned About the Economy

Niels Veldhuis and Jason Clemens

Given the sensational media headlines hyping Canada's recent economic growth, it's hard to blame Canadians for being complacent. "Canada's economy steamrolls ahead—4.5% annualized rate of expansion" declared the *Globe and Mail*. "Canada's economy blows away forecasts with 4.5% growth" proclaimed the *National Post*.

While these headlines may leave Canadians feeling positive and optimistic, they are unfortunately not an accurate depiction of the state of Canada's economy—and worse still, they mask the serious economic storm clouds that are gathering on the horizon.

But let's start with the positive—Canada had a relatively strong second quarter with the economy growing at 1.1 percent over the past three months. That's good growth, but let's put it into perspective. Canada's economy has grown at or above 1 percent in 18 different quarters since 2000. This is really nothing new, or special.

How then did the *Globe* and *Post* (and most other media outlets) come up with their headlines of 4.5 percent growth? They used Statistics Canada's "annualized growth" number—the projected growth rate for the entire year that would result if the economy were to keep growing at the same rate as it did last quarter (again, 1.1 percent).

While Canada has had quarterly growth at or above 1 percent many times since 2000, we have not had consistent growth at this level over an entire year—and therefore not had annual growth anywhere near 4.5 percent. The bottom line—one quarter does not a year make.

In addition, we should have expected a positive bump in growth since Canada is coming off two of its most difficult years, with growth at a mere 0.9 and 1.5 percent in 2015 and 2016, respectively. This was in part due to the contraction in the energy sector. With the energy sector now coming off its lows, economic growth should be higher. In fact, nearly 40 percent of the increased economic activity in the second quarter can be directly related to the energy sector. And this would be significantly higher if spin-off impacts are properly accounted for.

Beyond this year, however, the economy is not expected to continue on its recent growth path. But don't take our word for it. In February, the federal government released its 2017 budget and predicted average annual economic growth of 1.8 percent over the next five years.

In July, the Bank of Canada had the following view: "Largely reflecting the surge in growth at the start of the year, real GDP is anticipated to expand by 2.8 percent in 2017 before moderating to 2.0 percent in 2018 and 1.6 percent in 2019."

This obviously is a very different picture than Canadians receive from the media and perhaps it's why many people are blissfully unaware that private businesses and international investors are losing confidence in Canada as a competitive place to do business.

According to data from Statistics Canada, investment by private businesses in plants, machinery, and equipment has plummeted from $232.5 billion in 2014 to $197.3 billion in 2016, a decline of 15.2 percent. Expectations are that investment will continue to decline this year and next. Even business investment in the much-promoted high-tech sector is down almost 13 percent since peaking in 2012.

Unfortunately, the federal government and many provincial governments have greatly contributed to this drop by implementing policies that discourage investment, entrepreneurship, and economic growth.

Take, for example, the significant increase in personal income taxes for skilled, educated workers and business owners that have occurred in Ontario, Alberta, and at the federal level. (British Columbia's new government is expected to follow a similar path.) In addition, Ottawa has created huge uncertainty, first with a proposal to increase capital gains tax (it refuses to even clarify whether these hikes are still in the works) and now with its plan to increase taxes on small businesses.

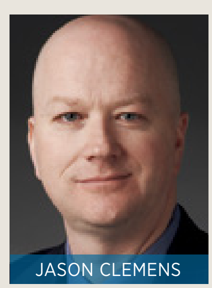
The federal government is also mandating carbon pricing (ie., taxes and regulations) by all provinces in the face of other governments either cancelling plans or outright eliminating their existing programs (as has been done in Australia).

The federal and many provincial governments are also neck-deep in deficits with mounting debt, which implies the possibility of even higher taxes in the future.

Additional regulations for doing business have also been imposed by Ottawa and many provincial governments. These new regulations come at a time when Canada is already uncompetitive, ranking 22nd on the World Bank's most recent index of the cost of doing business.

Simply put, the federal and many provincial governments have made it more expensive to do business in Canada and have reduced the rewards (ie., increased tax rates) for success. Why would anyone, domestic or foreign, choose Canada as a destination for investment or entrepreneurship when markedly more hospitable environments exist?

Don't be fooled by headlines. Canadians ought to be deeply concerned about the medium- and long-term economic outlook for our country. This is especially true now when emerging policy reforms in the United States could further harm Canada's economic interests.



Niels Veldhuis is president and Jason Clemens is executive vice-president at the Fraser Institute.

Blame Game Aside, the Federal Government Should Accept Responsibility for Its Spending Choices

Charles Lammam and Ben Eisen

On the campaign trail in 2015, Justin Trudeau's Liberals promised to hold federal deficits to $10 billion or less during their first few years in office before returning to a balanced budget in 2019/20. It was a major campaign promise. Unfortunately, that's not how things turned out. This year's deficit is an expected $28.5 billion. And the government will not commit to a specific timeline to balance the books.

In a recent press conference, Prime Minister Trudeau blamed the deteriorating condition of federal finances on the previous government, claiming he inherited an $18 billion "baseline deficit" in his first year in government. This is a remarkable and unjustified exercise in blame shifting. In reality, the Trudeau government's spendthrift ways are a key reason for the larger-than-promised budget deficits.

Let's look at the numbers. Back in the 2015/16 fiscal year, when the Liberals were elected, federal program spending totalled $270.9 billion—a significant 6.7 percent increase over the previous year. This increase was a function of both the Conservatives in the first half of the year and the newly elected Liberals in the second half.

Notably, however, that year in their 2015 budget, the Conservatives, led by Stephen Harper, planned to spend $263.2 billion. The Trudeau Liberals assumed power in October 2015 and program spending ultimately increased by $7.7 billion to $270.9 billion. Since revenues ended up $5.2 billion higher than planned in the 2015 budget, the government recorded a small deficit of $987 million, equivalent to 0.3 percent of total federal spending.

The very next year, with the Trudeau government fully in charge of federal finances, spending increased by a whopping 7.4 percent. Except for the post-recession spending in 2009/10, that's the highest year-over-year spending increase by Ottawa since 2006/07. In addition, the 7.4 percent increase dwarfed the average annual increase in federal spending over the preceding six years (1.5 percent).

This year's deficit is an expected $28.5 billion. And the government will not commit to a specific timeline to balance the books.

Fast-forward to the current fiscal year. The Trudeau government is planning yet another significant boost in federal program spending—5.0 percent. All told, the Liberals will have added $34.6 billion in new program spending over the past two years (not counting any extra spending from 2015/16), which represents a remarkable 12.8 percent jump.

While it's true that the economy has slowed since the Trudeau government assumed power, dampening revenue growth, the marked spending increases have no doubt contributed to the larger-than-promised deficits we see today.

Despite a weaker economy, the Trudeau government could have kept the deficit to $10 billion this year (2017/18) by exercising some spending restraint and limiting the total increase in program spending over the past two years to $19.1 billion (or 7 percent). This level of spending growth, incidentally, would have more than offset cost pressures from rising overall prices (inflation) and a growing population.

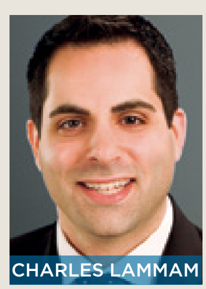
In short, if the Trudeau government increased spending more modestly, it would have kept its promise of a $10 billion deficit this year and been on track to achieve a balanced budget on schedule.

To govern is to choose, as the old saying goes, and it was the Trudeau Liberals who cut the rope on several short-lived "fiscal anchors" in order to facilitate a spendthrift approach to governance. They should accept responsibility for the consequences rather than shifting blame to a defeated government that has been out of office for more than a year and a half.

The Trudeau Liberals should accept responsibility for the consequences of their actions rather than shifting blame to a defeated government that has been out of office for more than a year and a half.

None of this is to praise the Harper Conservatives' management of federal finances. At various points, they too increased spending markedly, which contributed to large deficits.

The decision makers of the day are responsible for their choices, and clearly Prime Minister Trudeau and his government bear responsibility for the larger-than-promised deficits facing the country today. FI



Charles Lammam is director of fiscal studies and Ben Eisen is the director of provincial prosperity studies at the Fraser Institute.

Higher Taxes, Less Competitive Economy Potentially on the Way for British Columbia

Niels Veldhuis and Charles Lammam

Amidst all the political speculation as everyone waited to find out who would form a government in British Columbia, it was easy to lose sight of the real impact of policy changes awaiting British Columbians.

Take tax policy, for example, which will directly hit the pocketbooks of British Columbians and have significant ramifications for BC's economy. With the formation of an NDP-Green alliance, average BC families will be forced to pay higher taxes and the province will become a much less attractive place to invest, work, and engage in entrepreneurial activities.

Consider the tax increases listed in the NDP-Green power-sharing agreement and those common to both parties' election platforms. These include higher carbon, personal income, and business taxes. Specifically, the agreement calls for a 67 percent increase in BC's carbon tax—from $30 per tonne to $50 per tonne by 2022—and commits to expanding the types of activities covered by the carbon tax. Both parties also want to raise personal income tax rates. The NDP wants to increase the personal income tax rate on British Columbians earning more than $150,000 to 16.8 percent from 14.7 percent while the Green Party wants to increase the share of personal income taxes paid by those earning more than

$108,460 by 3 percent. And both parties want to raise the general business tax rate from 11 to 12 percent.

What do these tax hikes mean for average British Columbians?

Once fully implemented, the tax hikes will add a further $1.4 billion a year to the tax burden of British Columbians.

Once fully implemented, they will add a further $1.4 billion a year to the tax burden of British Columbians. That works out to $594 more in taxes for the average British Columbian family, led mainly by a $482 increase in fuel and carbon taxes. Crucially, even though the NDP-Green agreement proposes that a portion of the increased tax revenue be used to fund carbon tax rebates, the details of the rebate have not been specified. However, even a doubling of BC's existing Climate Action Tax Credit (paid quarterly with the federal GST credit) would not protect average families since the credit is fully phased out for families with incomes above $54,000.

Higher carbon, personal income, and business taxes will also make the province less attractive for business investment and entrepreneurs.

While it's possible, perhaps even likely, that the rebates will protect low income groups, families with incomes ranging from $50,000 to $100,000 will pay nearly $400 more in taxes while those with incomes at the upper end ($150,000 to $250,000) will pay more than $1,000 in higher taxes.

Unfortunately, these increases, which cross the income spectrum (including, again, a nearly $600 annual hit to the wallets of average British Columbian families), are not the only pending damage. Higher carbon, personal income, and business taxes will also make the province less attractive for business investment and entrepreneurs. And they will make it more difficult to attract and retain top talent including entrepreneurs and business professionals, harder to attract businesses, and will particularly penalize our energy intensive industries.

The end result is less investment, lower rates of job creation, and fewer opportunities for British Columbians to prosper.

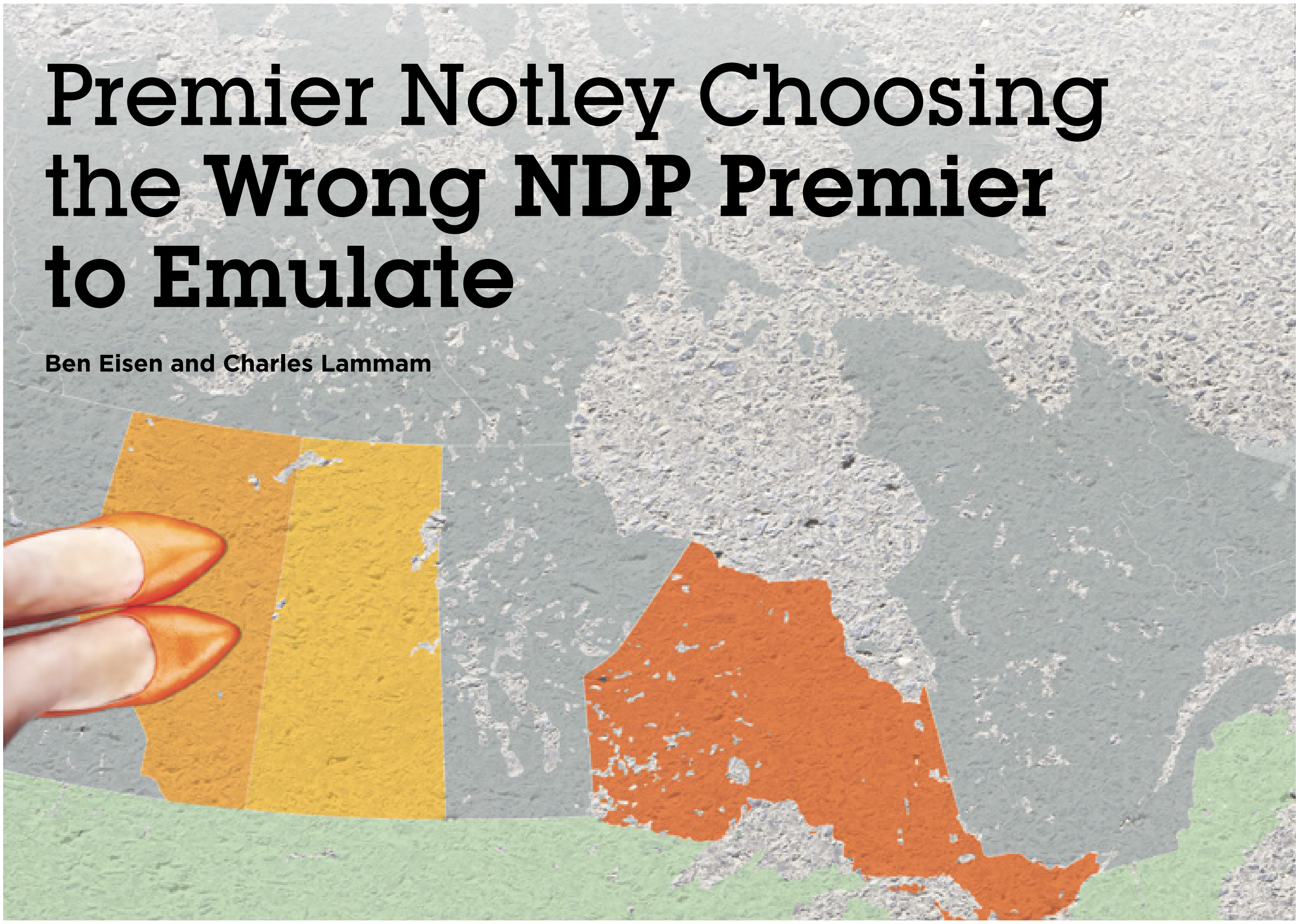
Finally, given the spending initiatives outlined in the NDP-Green agreement and the billions of dollars of uncosted promises in the NDP election platform, the NDP government, propped up by the Green Party, will almost certainly institute even higher taxes beyond those listed above and/or run annual budget deficits, which is simply taxation deferred into the future.

Policy choices have consequences. With the formation of an NDP-Green alliance government, average families in BC will face a higher tax bill and a less competitive economy. FI

Niels Veldhuis is president of the Fraser Institute and is co-author of the study, *The Impact of Proposed NDP-Green Tax Changes on British Columbian Families.* Charles Lammam is director of fiscal studies at the Institute.

Premier Notley Choosing the **Wrong NDP Premier to Emulate**

Ben Eisen and Charles Lammam



None of us can control all the circumstances we face. What we can control is how we respond to challenges. These choices often make the difference between positive and negative outcomes. It's no different for governments. New governments are not responsible for the fiscal problems they inherit. They are, however, responsible for choices they make in office, which can either help solve those problems or make them worse.

For example, Premier Rachel Notley's government undoubtedly inherited a very difficult set of circumstances in Alberta. But there's nothing unusual about a new government taking office only to find a fiscal mess waiting for it. Indeed, Canadian history is replete with such examples.

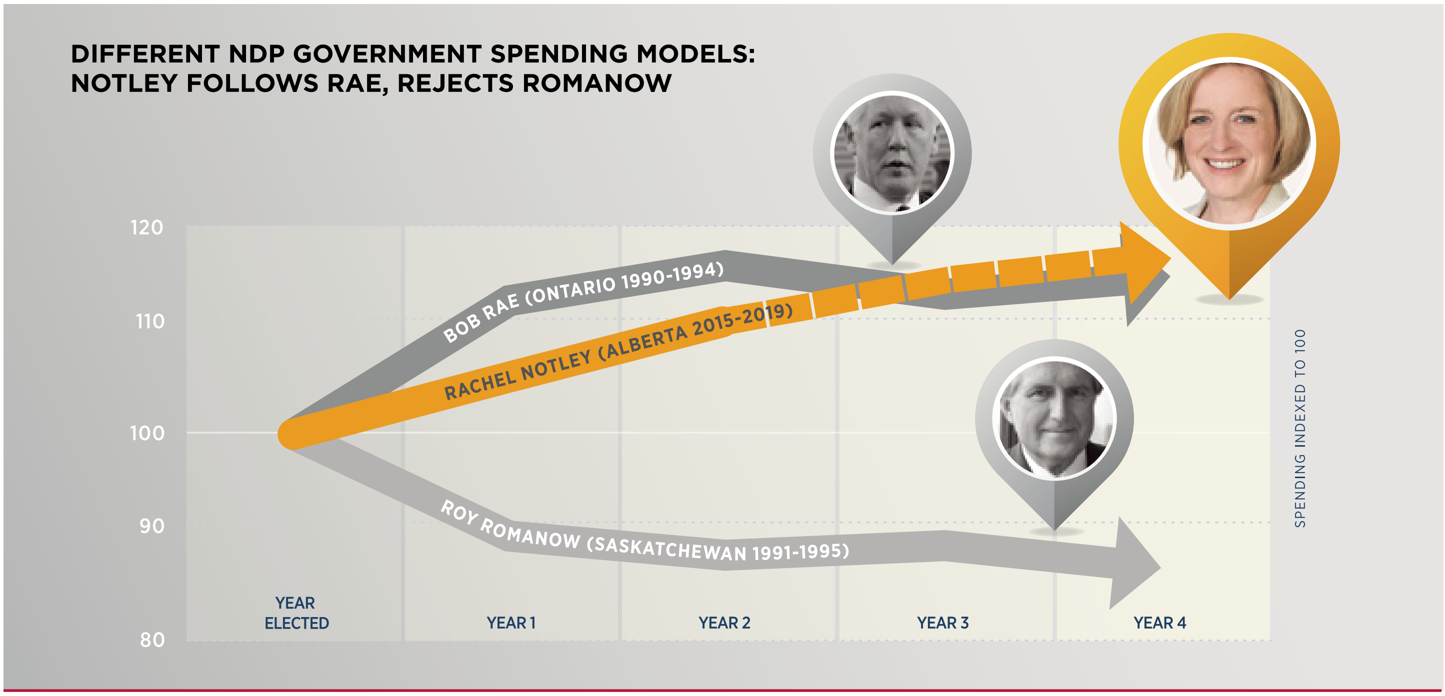
Prime Minister Jean Chretien's government inherited the legacy of nearly three consecutive decades of budget deficits and debt that was reaching a crisis point just as the Liberals assumed power.

Around the same time, Bob Rae's NDP government took office in the midst of a nasty recession in Ontario as economic pain was spreading and a big budget deficit loomed. When Roy Romanow's NDP government took power in Saskatchewan, also in the early 1990s, the province faced a genuine fiscal crisis.

And thanks to years of unsustainable spending growth from its predecessors and a recent downturn in resource revenues, Premier Notley's NDP government walked into a $6 billion budget deficit upon entering office.

All these governments were dealt bad fiscal hands. Where they differ is how they played their cards.

While Jean Chretien and Roy Romanow recognized the urgent need to reform and reduce spending, both Bob Rae and Rachel Notley implemented big spending in-



creases notwithstanding the red ink that drenched their budgets. Predictably, these different approaches produced very different results.

The Chretien Liberal government reduced spending and significantly shrank the size of the federal government, swiftly eliminating a large deficit and restoring federal finances to good health for the first time in decades. Similarly, Romanow cut program spending by more than 10 percent and eliminated Saskatchewan's deficit in just three years, bringing the province back from the brink of insolvency.

But when Bob Rae took power in Ontario, his government increased spending, despite big deficits, with predictably disastrous consequences. Provincial net debt soared from 13.4 percent in 1990/91 to 30.3 percent in 1995/96. And the province's finances never fully recovered.

Today in Alberta, Premier Notley is closely following the Rae model. In her first two years in office, marked spending increases have swelled the deficit even further, sparking a run-up of net debt that is projected to total about $10,000 per Albertan by 2019/20—up from essentially zero in 2015/16.

Clearly, governments that inherit difficult circumstances can choose to deal with them in very different ways. And you can't predict how well a party will perform by looking solely at their political label.

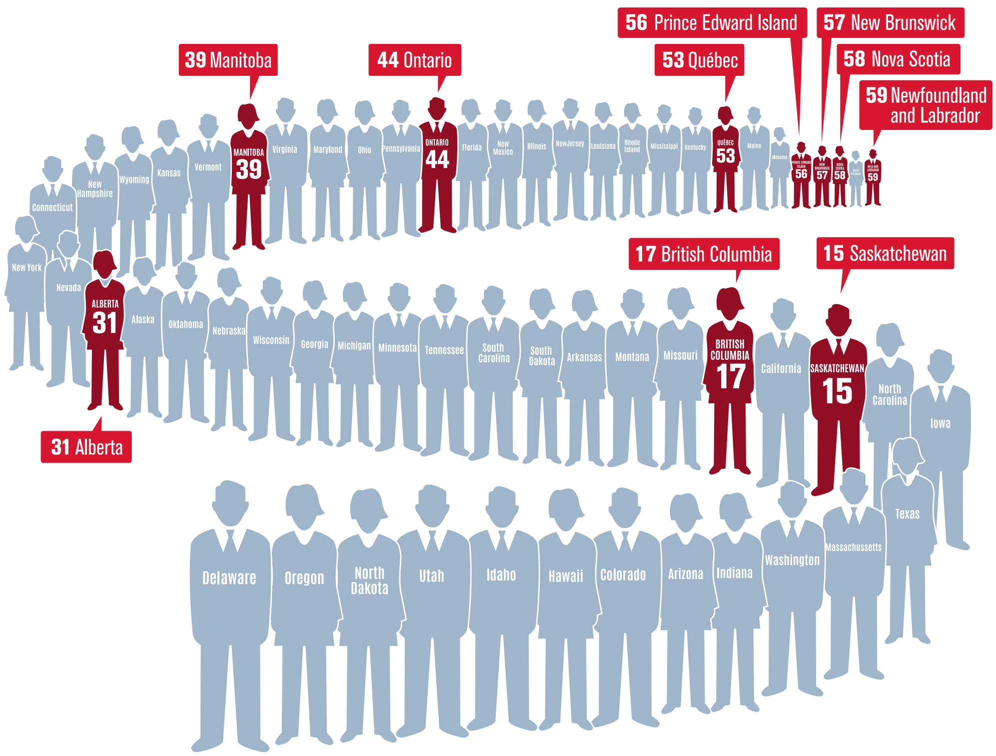
The Romanow years in Saskatchewan prove that NDP governments can slay deficits and provide sound fiscal management. Chretien's government proves the same of Liberals, as does Ralph Klein's Progressive Conservative record in Alberta. And on the flip side, all major parties in Canada have featured governments with records of poor fiscal management.

Unfortunately, by following the Rae model of spending hikes and rapidly growing debt, the Notley government is exacerbating—not solving—the problems it inherited. FI

Ben Eisen is the director of provincial prosperity studies and Charles Lammam is director of fiscal studies at the Fraser Institute. They are co-authors of *Rae Days in Alberta: The Notley Government at Two Years*.

Canadian Workers had Little to Celebrate this Labour Day

Charles Lammam and Hugh MacIntyre



Over the recent long weekend, Canadians and Americans both enjoyed traditional Labour Day fare—picnics, parades, and the winding down of summer vacations.

Canadian workers, however, have less to celebrate than their American counterparts, as labour markets in Canada have performed poorly compared to those in US states in recent years.

Labour markets are one of the most important components of Canada's economy, through which we allocate one of our most valuable and productive resources—the work, effort, creativity, and ingenuity of Canadians. Labour markets match these human skills, supplied by individuals seeking to earn a living, with the demand for labour. In a high-performing labour market, opportunities abound with rapid job-growth, low unemployment, and high productivity.

Consequently, the public is often inundated with media stories about the labour market, usually focusing on employment levels or unemployment rates. However, such stories do not generally provide a clear picture of how any specific jurisdiction's labour market is performing. Therefore, it's crucial to more comprehensively measure labour market performance to make comparisons.

To properly judge the strength of Canada's labour market, we must look beyond the headlines stating how many jobs were created last month or whether unemployment has ticked up or down.

In a recent study, *Measuring Labour Markets in Canada and the United States: 2017 Edition*, we measure the labour market performance of Canada's 10 provinces and the 50 US states from 2014 to 2016. The study creates an overall index score (from 0 to 100) for each jurisdiction based on five indicators including job-creation, unemployment, and worker productivity (measured by the average value of goods and services each worker generated with his or her labour). Higher scoring jurisdictions ranked better.

Overall, Canada has performed poorly relative to the United States.

Canada's national rate of average annual total job growth was less than half the US rate. Canada also had a higher average unemployment rate and much lower worker productivity.

Canada's national rate of average annual total job growth (0.7 percent) was less than half the US rate (1.6 percent). Canada also had a higher average unemployment rate (5.9 percent versus 5.4 percent in the US) and much lower worker productivity (CA$109,190 versus CA$147,397). Nationally, the US labour market has given American workers more opportunity to prosper over the period examined.

In a breakdown of the results by province and state, the story of Canadian underperformance persists. All but two Canadian provinces ranked in the bottom half of the 60 jurisdictions. This includes the traditional economic engines of Canada—Alberta (31st overall with a score of 52.9) and Ontario (44th overall with a score of 47.7).

Troublingly for Ontarians, the province ranked near the bottom for worker productivity, which is a key driver of compensation (ranked 52nd at CA$108,271 per worker). Low worker productivity is ultimately reflected in lower relative wages.

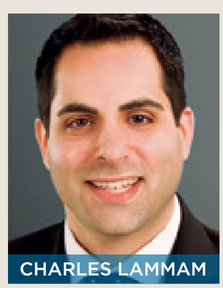
Quebec, Canada's second most populous province, ranked 53rd with a score of 41.3. The Atlantic provinces fared even worse, making up four of the five lowest ranked Canadian and US jurisdictions. Newfoundland & Labrador, for example, is tied with West Virginia for last place, each with scores of 30.3.

The highest performing Canadian provinces are Saskatchewan (15th with a score of 59.8) and British Columbia (17th with a score of 58.9). But even these provinces fail to crack the top 10. Notably, British Columbia had the highest annual job-growth in Canada (1.7 percent), but this rate is still less than half the annual growth in top-ranked Oregon (3.6 percent).

Like Canada's national labour landscape, provincial labour markets tend to show slow employment growth, relatively high unemployment, and low worker productivity. All of this translates into fewer job opportunities and less prosperity for Canadian workers.

While there are many reasons for Canada's overall weak performance, federal and provincial governments have generally not done the labour market any favours. A series of policy choices has made Canada less attractive for investment, businesses, entrepreneurs, and skilled workers. Those policies include higher tax rates, rapid debt accumulation, soaring electricity costs (especially in Ontario), higher minimum wages, and more stringent labour and environmental regulations.

So on Labour Day, Canadians may have been a little envious of Americans. After all, when it comes to labour market performance, and the jobs and prosperity that come with it, the grass is greener on the other side. FI



Charles Lammam is director of fiscal studies and Hugh MacIntyre is a senior policy analyst at the Fraser Institute. They are co-authors of the study *Measuring Labour Markets in Canada and the United States, 2017 Edition.*

EDUCATION PROGRAMS

As the 2016-17 school year came to an end, we concluded our teacher workshops and shifted our focus to programs for journalists and student leaders.

TEACHER WORKSHOPS

Three teacher workshops were held over the last quarter. Sixty teachers learned economics from award-winning professors by immersing themselves in lectures, interactive lesson plans and activities that illustrate how to apply economics to everyday life.

> *"Easily the best professional development I have been to. I look forward to attending future Fraser Institute workshops."*
>
> *ECONOMIC WAY OF THINKING WORKSHOP ATTENDEE*

Langley, BC, hosted our *Economic Way of Thinking* workshop, which showed how to best educate students on more advanced economic concepts such as exchange rates, recessions, and public choice theory. Our recently updated *Myths of the Canadian Economy* workshop was held in Toronto, where teachers focused on learning about government programs, budgets and policies. Meanwhile, our first teacher workshop in Saskatchewan was a great success.

> *"Enlightening and engaging discussions about complicated concepts [were] delivered in an approachable way."*
>
> *ECONOMICS FOR JOURNALISTS ATTENDEE*

JOURNALISM PROGRAM

Three sessions of our "Economics for Journalists" program were held in Vancouver and Toronto in May and June. New and seasoned producers, reporters, feature writers and editors from the *Toronto Sun*, the *Globe and Mail*, *Financial Post*, *National Post*, *Calgary Herald*, 660 NEWS, CBC News, Global News, and CKNW, among others, participated in the program. The 74 attendees were given the tools to explain economics and analyze policies with confidence. We received overwhelmingly positive feedback from those participating.

Teachers in our Saskatoon teacher workshop participate in an activity that explores the costs and benefits of the division of labour.

Mark Schug delves into the intricacies of minimum wage laws, weighing the costs and benefits of this type of policy.

STUDENT LEADERS COLLOQUIUM

After a 10-year hiatus, the Student Leaders Colloquium was revived in June and the program welcomed 17 extraordinary students from five different provinces and 15 disciplines to our Vancouver office for two days. Outstanding undergraduate and graduate students were invited to apply for this program and those with the most exceptional applications were selected to attend.

> *"This colloquium was very well organized and very interesting. It was a great atmosphere to learn as well as engage in active conversation with people with firsthand knowledge on many subjects."*
>
> *STUDENT LEADERS COLLOQUIUM ATTENDEE*

Under the guidance of Institute research staff, these future decision makers and opinion leaders engaged in animated discussions on complex policy issues ranging from energy and human prosperity to housing.

We are excited to have this program once again in our lineup. Due to the positive response from students, we are expanding the program to welcome more students in 2018!

Throughout the sessions our experts answered some thoughtful questions and stimulated conversations and discussions that allowed the students to express their opinions.

Student leaders network and share their expectations for the program during the welcome reception.

Angela MacLeod

What's your role at the Institute?

I am a senior policy analyst for the Barbara Mitchell Centre for Improvement in Education.

How did you arrive at the Institute?

A friend and former colleague contacted me to say that through her network she had heard about a new role at the Fraser Institute that she thought I would be well suited for. She passed my name along and a few days later I was contacted by the Institute with a request for my resume. I have long admired the Fraser Institute's work, and it was a bit of a dream to be able to come and work here. I have been employed by the Institute since March of this year.

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

One of the most interesting and important aspects of our work in education policy is attempting to separate myth from fact. There are a lot of preconceived notions about the sorts of people who choose independent schools and how much provinces are spending on public schools. We are currently working on a study that will compare the incomes of families choosing independent schools versus public schools in Alberta, which will be released later this fall.

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

I spend a great deal of my personal time volunteering with Girl Guides of Canada. I am extremely passionate about this organization and its mission to enable girls to be confident, resourceful, and courageous. I have held administrative roles in the organization and I have led units at various age levels, planned camps with up to 150 participants, and last summer took a patrol to a national camp of 2,000 teenage girls. I first got involved because my daughter's unit needed a leader, but I sometimes wonder if I get even more out of Guiding than she does.

Connect with the Fraser Institute

Sign up to receive four FREE issues of The Quarterly

Visit: www.fraserinstitute.org/quarterly/signup to receive four free issues of *The Quarterly*.

Stay connected with us:

>> Mobile-friendly website **www.fraserinstitute.org**

>> Blog **www.fraserforum.org**

>> Facebook >> Twitter @fraserinstitute

FRASER INSTITUTE