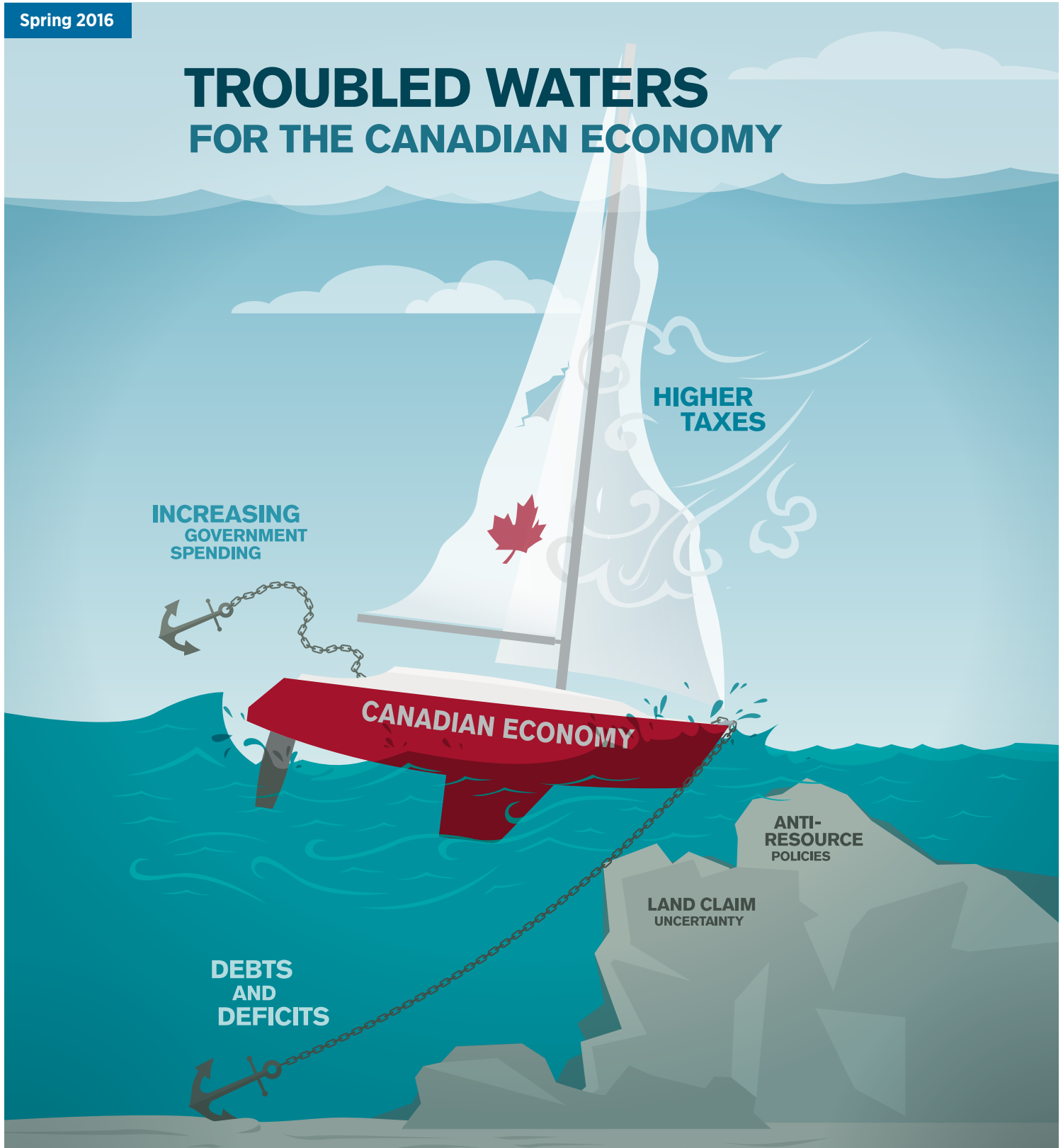




THE Quarterly

Spring 2016

TROUBLED WATERS FOR THE CANADIAN ECONOMY



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ALSO INSIDE

End of the Chrétien Consensus

Reasons to Oppose CPP Expansion

Cost of Government Debt



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

We're only two months into 2016 and most economic forecasters have already begun slashing their expectations of economic growth. The general consensus is for the Canadian economy to grow at a measly pace of between 1 to 1.5% this year. Unfortunately, much of the discussion around economic growth, both among economists and politicians, has been about the impact of lower commodity prices and reductions in investment spending. Obviously, lower commodity prices, in particular oil prices, have deeply affected Canada. However, rather than finding ways to mitigate the negative external shocks that are pummeling the economy, most governments in Canada have exacerbated the country's economic problems through poor policies and uncertainty.

As the cover of this issue of *The Quarterly* depicts, these are troubled waters for the Canadian economy. Damaging tax increases, spending-induced budget deficits, ballooning government debt, numerous anti-resource policies, and troubling Supreme Court rulings on aboriginal title are just some of the policies, implemented or proposed, that are threatening to sink an already weak economy.

This issue of *The Quarterly* contains a special feature section, *Troubled Waters*, that includes a series of excellent commentaries by Institute researchers and senior fellows highlighting several policy concerns. For example, Livio Di Matteo, Institute senior fellow and professor of economics at Lakehead University, discusses how Prime Minister Trudeau's personal income tax increases will scare away entrepreneurs and skilled, educated professionals (page 12).

On page 16, I and my colleagues Jason Clemens and Milagros Palacios explain how the Trudeau Liberals have rejected several of the successful policies of the previous Liberal government under then Prime Minister Jean Chrétien.

Kenneth Green and Taylor Jackson analyze how policy changes in one of Canada's economic engines, Alberta, are hampering an already demoralized economy (see page 14). Ravina Bains, the Institute's director of aboriginal studies, highlights two Supreme Court decisions that will significantly impede resource development in Canada (see page 18).

Perhaps what is most worrying is that many Canadians do not seem to understand how these policies will negatively affect them and their families. Of course, that is why we're here.

Please pass this issue of *The Quarterly* on to your friends, family, and/or colleagues when you're done reading it.

As always, 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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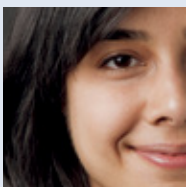
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Charter Schools, LARGELY IGNORED IN CANADA, OFFER GOOD RESULTS FOR DISADVANTAGED STUDENTS IN THE UNITED STATES



Deani Van Pelt and Lynn Bosetti



A common Canadian value is the equal opportunity for success that basic education offers young people. It is the reason why citizens accept and support the vast amount of resources spent on K-12 education across the country. Yet disadvantaged students continue to fall through the cracks. Charter schools, almost entirely absent from the Canadian education landscape, offer a real-world solution to improving education for disadvantaged students.

Charter schools are public schools that operate autonomously from their local school boards and are governed by independent boards of trustees. Typically charter schools are exempt from many statutes and regulations that govern traditional public schools. That means teachers are not part of a teachers' union

and schools are free to adopt non-traditional approaches to teaching or curriculum.

Charter schools aim to provide innovative or enhanced education programs designed to improve student learning. Since charter schools are public, they don't charge tuition and are fully funded for their operating expenses by government.

A recent study reviewed the large body of research on charter schools in the United States and found that they're particularly effective at educating students disadvantaged by poverty, minority status, poor baseline academic performance, and low parental education.

Leading research of several New York charter schools found, for example, that racial achievement gaps in math and reading were entirely closed by third grade for students who entered in early elementary school, and by ninth grade for those who entered in middle school. Another major study of urban Massachusetts

charter schools found significant improvement in math and reading scores relative to the local public schools for poor students who entered charter schools with low baseline achievement scores.

EXPANSION OF CHARTER SCHOOL LEGISLATION IN CANADA AND THE US



Minnesota passed the first charter school law in 1991. Growth in the numbers of states allowing charter schools has been strong. In 1994, 11 states had charter school legislation. By 2015, that number grew to 43 states (including D.C.).

Student enrolments also grew dramatically—almost seven-fold from 1999/00 to 2012/13, from about 340,000 students to nearly 2.3 million. On average, 4.4 percent of the student population (in states that allow charter

schools) attend a charter school. In a short period, parents without access to the more expensive alternatives suddenly had new options for their children’s education.

Currently, Alberta is the only Canadian jurisdiction to permit charter schools and, even then, not many exist. Alberta introduced charter school legislation in 1994 and allowed only 15 charters. Despite the observed demand for charter schools—analyses have shown lengthy wait lists—the number of charter schools in the province is still capped at 15. Enrolment in charter schools (8,418) as of 2012-13 still only represents 1.4 percent of total enrolment in Alberta.

If we care about disadvantaged students in this country and giving them a better chance at success, charter schools provide an opportunity for a promising way forward.

With credible evidence from the US of enhanced student outcomes for disadvantaged students poorly served by traditional public schools, education policymakers in Canada can no longer ignore the advantages offered by these autonomous public schools. [FI](#)



DEANI VAN PELT



LYNN BOSETTI

Deani Van Pelt, Director of the Fraser Institute’s Barbara Mitchell Centre for Improvement in Education, and Lynn Bosetti, Professor of Education at UBC, are co-authors of the recently released Fraser Institute study *A Primer on Charter Schools in Alberta*.

Patient User Fees are Compatible with Universal Health Care

Steven Gliberman

A prominent feature of Canada's health care system, as mandated by the Canada Health Act, is the absence of any charge for publicly insured health care services at the point of consumption. Unfortunately, this has led to the mistaken notion that such "first dollar coverage" is a necessary component of universal coverage for health care services. In fact, it has even been argued that user charges are incompatible with universal coverage.

On the contrary, most developed countries characterized by universal coverage do not outlaw user charges, and Canada is something of an outlier in this regard. Indeed, countries such as Australia, France, Germany, Italy, the Netherlands, New Zealand, Sweden, and Switzerland impose cost sharing on patients in the form of either deductibles and/or co-payments with annual limits and exemptions for vulnerable populations. These are all countries where either the government (like Canada) funds health services through the tax system (i.e., Norway) or where insurance coverage is provided to all residents through statutory health insurance funds (i.e., Germany).



A more plausible argument against cost sharing is that it may discourage the consumption of "necessary" medical services, with the potential consequence of much larger future costs being imposed on the health care system as patients' health status deteriorates. In fact, there's no consistent evidence that cost sharing results in adverse long-term health outcomes. In part, this is likely the result of safeguards built into the various user charge schemes. For example, in France, children and people with low incomes are

exempt from paying non-reimbursable co-payments. In Sweden, there is a national ceiling for out-of-pocket payments that caps an individual's spending on health care visits. In Switzerland, maternity care and a number of preventive services are exempt from deductibles, co-insurance, and co-payments.

The absence of evidence that user fees damage health care outcomes might also reflect the fact that cost sharing can improve the overall performance of the health care system. Specifically, user fees can promote the conservation of health care resources by discouraging low priority uses of the system. To the extent that the resources that are freed up are put back into the system,

SELECT COST SHARING IN UNIVERSAL HEALTH CARE COUNTRIES



waiting times can be reduced, and patients with relatively serious medical conditions will be able to receive services and treatments in a timelier manner than would otherwise be the case. More timely treatment of diseases and other health problems can help people remain productively in the workforce, or at least get them back to work sooner rather than later. It can also mitigate the pain and suffering that patients endure while waiting for consultations and treatments.

It's likely no coincidence that countries with cost sharing programs in place have waiting times that are significantly shorter than those in Canada.

The overall message to be gleaned from the cost sharing experiences of other developed countries is that user fees can improve the overall performance of the health care system. Certainly, cost sharing raises concerns about fairness and undue hardships that might be suffered by specific groups in society. The related message in this regard is that safeguards can be built into

cost-sharing arrangements to protect vulnerable groups in society against undue financial hardship. The chosen safeguards for any country should reflect characteristics of that country including demographics, health status, and income distribution.

At the least, the experiences of developed countries that impose cost sharing on users of health care services should serve as illustrative guides to a full and fair consideration of introducing user charges in Canada. [FI](#)



STEVEN GLOBERMAN

Steven Globerman is the Kaiser Professor of International Business and a senior fellow at the Fraser Institute. He is the author of the recent Fraser Institute research bulletin, *Select Cost Sharing in Universal Health Care Countries*.

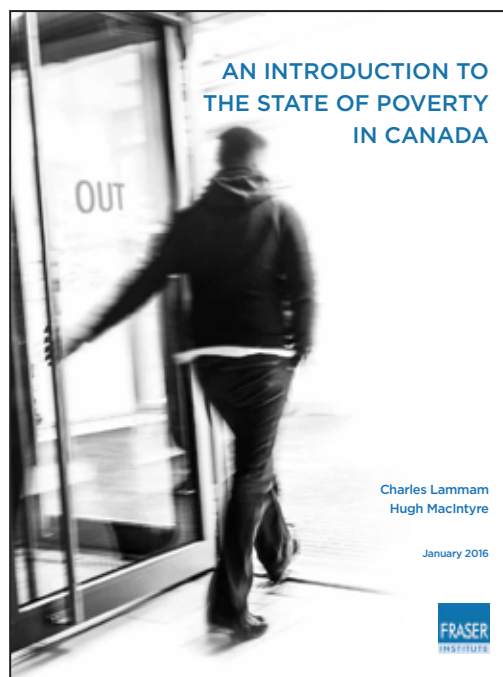
To Tackle Poverty, We Must First Distinguish Between Temporary and Persistent Spells

Charles Lammam and Hugh MacIntyre

As the newly-elected federal government contemplates a national “poverty reduction strategy,” a better and more complete understanding of the state of poverty in Canada is needed.

In a recent study, *An Introduction to the State of Poverty in Canada*, we lay out some basic yet important facts to help inform the public debate. Among them is an insight often lost: for the vast majority of Canadians that experience poverty, it’s a temporary, not a persistent, situation. This distinction is critical because the policy responses for helping those in persistent poverty are markedly different and more nuanced than those related to temporary poverty.

Temporary (or transitory) poverty can arise among young people, for instance, when they are students living on their own while attending school. But their situ-



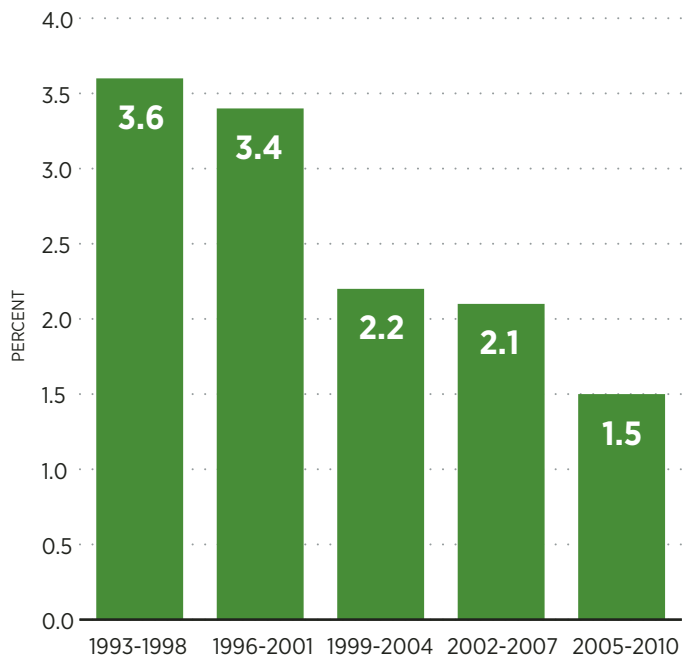
ation changes in short order as they embark on careers and gain skills and work experience. In other cases, households may encounter a temporary negative shock to their income, perhaps due to a loss of employment, from which they are able to recover relatively quickly.

Persistent poverty, on the other hand, occurs when a person is stuck in poverty year after year and unable to escape that

unfortunate circumstance. These are the people we should be primarily concerned about.

Unfortunately, when it comes to the data, activists and media headlines often focus on a snapshot in time of Canadians with low incomes, which exaggerates the extent of poverty and produces a misleading picture of our society. Meanwhile, data on the persistence of low income is generally overlooked.

PERCENT OF THE POPULATION IN PERSISTENT LOW INCOME EVERY YEAR DURING VARIOUS 6-YEAR PERIODS



Before presenting some of that data, let’s clarify how poverty is typically measured. While Canada has no official poverty line, Statistics Canada’s low income cut-off (LICO) can provide some important insights. LICO is not, strictly speaking, a measure of poverty, as in the deprivation of basic needs such as adequate shelter and food. Rather, it’s a measure of low income relative to other members of society.

The advantage of LICO, however, is that Statistics Canada has used it for tracking the movement of people in and out of low income over several six-year periods dating back to the early 1990s. This tracking allows us to measure the extent that Canadians experience persistent low income.

The most striking insight from the data is that only 1.5 percent of Canadians remained in low income every year from 2005 to 2010 (the latest period of available data). In other words, a very small percentage of the Canadian population lives in persistent low income. En-

couragingly, the percentage of Canadians in persistent low income has fallen by more than half, from 3.6 percent in the first period of available data (1993 to 1998).

Thankfully, the perception that there’s a large and growing portion of Canadians trapped in low income is not borne out by the data.

The data also show that it’s common for many who experience low income in one year to escape it the following year. For example, more than a third of Canadians in low income in 2009 were no longer in low income in 2010. This reinforces the temporary nature of people’s exposure to low income.

However, for Canadians stuck in low income, Statistics Canada research has identified characteristics that put people at higher risk of living with persistent low income. Those include being physically or mentally disabled, belonging to a single-parent family, and having less than a high school education.

Strategies for reducing poverty should not only focus primarily on those stuck in low income, but must acknowledge that the specific policies that will help this group of Canadians are likely to differ depending on the root causes of poverty. As the federal and other governments develop poverty reduction plans, these are crucial things to keep in mind. [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 the Fraser Institute study, *An Introduction to the State of Poverty in Canada*.

The Cost of Government Debt in Canada

Charles Lammam, Ben Eisen, and Milagros Palacios

As Canadian governments begin to prepare their budgets, it's a good time to reflect on the state of government indebtedness in the country. Unfortunately, it's not a pretty picture. Governments have amassed considerable new debt over the past eight years, with tangible and immediate consequences for Canadians.

After reducing debt from the mid-1990s to late-2000s, Canadian governments reversed course in 2008/09, as many turned to deficit-financed spending in hopes of stimulating the economy after the recent recession.

Although economic research casts serious doubt on the effectiveness of efforts to stimulate the economy in this way, we are nearly seven years past the recession and governments continue to spend more than they collect while digging deeper into debt. This year, the federal government and eight of 10 provinces are projecting operating deficits.



SUMMARY

■ Budget deficits and increasing debt are key fiscal issues as the federal and provincial governments prepare to release their budgets this year. Combined federal and provincial net debt has increased from \$834 billion in 2007/08 to a projected \$1.3 trillion in 2015/16. This combined debt equals 64.8% of the economy or \$35,827 for every man, woman, and child living in Canada.

■ Debt accumulation has costs. One major consequence is that governments must make interest payments on their debt similar to households that pay interest on borrowing related to mortgages, vehicles, or credit card spending. Spending on interest payments con-

sumes government revenues and leaves less money available for other important priorities such as spending on health care and education or tax relief.

■ Canadian governments (including local governments) collectively spent an estimated \$60.8 billion on interest payments in 2014/15. That works out to 8.3% of their total revenue that year. To further put the amount spent on interest payments in perspective, it is more than what is spent on pension benefits through the Canada and Quebec Pension Plans (\$50.9 billion), and approximately equal to Canada's total public spending on primary and secondary education (\$62.2 billion, as of 2012/13, the last year for which we have finalized data).

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Since 2007/08, combined federal and provincial government debt has grown over \$450 billion, from \$834 billion to \$1.3 trillion. Federal-provincial debt now equals approximately 65 percent of the Canadian economy and represents \$35,827 for every man, woman, and child living in Canada.

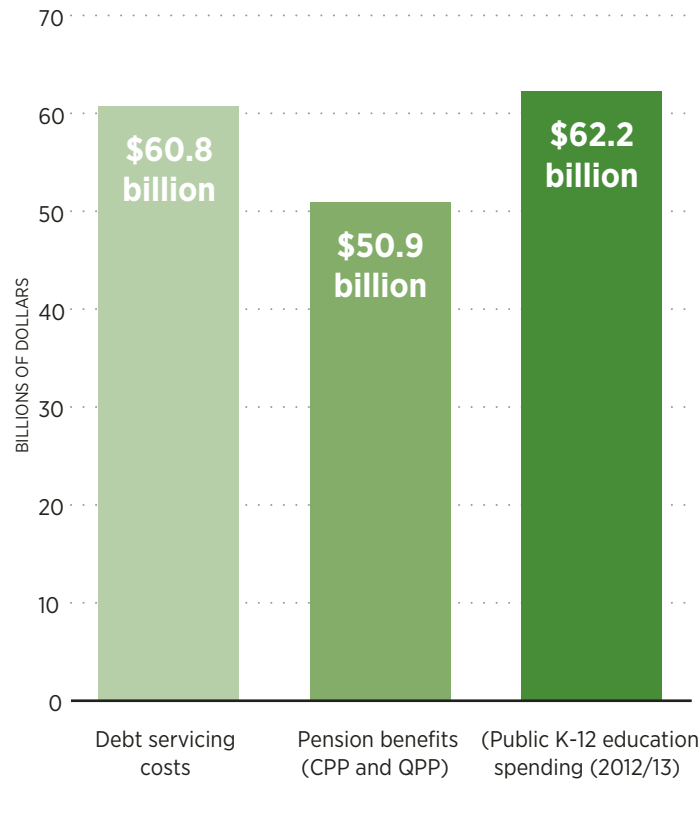
With the federal government and several provinces planning ongoing deficits and significant debt-financed capital spending,

the growth in debt is unlikely to halt anytime soon. But there are consequences to increasing debt.

Governments must make interest payments on their debt similar to families who pay interest on money they borrow for mortgages, vehicles, or credit card spending. Some Canadian governments, including the federal, Ontario, and Quebec governments, now spend between nine and 10 cents of every revenue dollar they collect simply to service existing debt. These interest payments leave fewer resources available for important priorities such as tax relief and spending on public programs such as health care, education, and social services.

Consider the following examples from Canada's two largest governments whose interest payments are now comparable to key spending initiatives. In 2015/16, interest payments on the federal debt are expected to total \$25.9 billion, which is more than the Department of National Defence's entire budget (\$23.9 billion) and the \$19.3 billion to be spent on Employment Insurance benefits this year. In Ontario, the government expects to spend \$11.3 billion on interest payments—more than the entire \$11.1 billion budget for the Ministry of Community and Social Services and close to the \$11.9 billion being spent on infrastructure (roads, hospitals, schools, etc.).

CONSOLIDATED GOVERNMENT DEBT SERVICING COSTS COMPARED TO OTHER EXPENDITURES, 2014/15



Unfortunately for Ontarians, interest payments on the debt will continue to eat up a growing portion of the province's budget. The government's latest projections show debt interest payments growing at an average an-

nual rate of 6.7 per cent over the next three years—much faster than spending growth rates for health (1.8 per cent) and education (0.3 percent).

Collectively the story is equally sobering. All Canadian governments cumulatively spent \$60.8 billion on interest payments in 2014/15, more than spending on pension benefits through the Canada and Quebec Pension Plans (\$50.9 billion) and close to all spending on K-12 public education (\$62.2 billion as of 2012/13, the latest year of available data).

Importantly, these substantial interest payments exist despite historically low interest rates. If interest rates rise, the cost of government borrowing will go up as well. Governments that carry large debt burdens (such as Ontario and Quebec) are particularly vulnerable to interest rate hikes.

The bottom line is this: deficit spending and growing government debt have costs. Rising government debt can result in more resources going to interest payments and not public priorities that benefit Canadian families or improve the country's economic competitiveness. Now is a good time to reverse the trend and rein in government debt. [FI](#)



Charles Lammam is director of fiscal studies, Ben Eisen is associate director of provincial prosperity studies, and Milagros Palacios is a senior economist at the Fraser Institute. They are co-authors of *The Cost of Government Debt in Canada*.

Deficits in Good Times Lead to Trouble in Bad Times

Jason Clemens, Niels Veldhuis, and Milagros Palacios



While the Liberals campaigned on a marked increase in federal spending financed by deficits, Canadians view this approach more negatively than they did during the election campaign, according to a recent Angus Reid poll. Canadians are indeed wise to be skeptical.

Running deficits during recessions is understandable as revenues decline and spending increases. However, governments that prudently manage their finances purposefully return to balance as soon as possible once the economy recovers. Failing to do so places the country's finances at risk should the economy experience a slowdown or another recession.

The current federal plan includes deficits for the next four years before gradually returning to balance in

2019-20. As part of the plan to balance the budget, the Liberals need to overcome a host of issues, which include finding \$3.0 billion in “internal savings” within four years, pulling back spending in the third year of their plan (far easier said than done, particularly heading into an election) and overcoming the current deterioration in federal finances highlighted by the fall financial update. In addition, as a recent *Globe and Mail* story detailed, repeated studies have shown that the tax hike on upper-income earners likely will not raise the planned amount of revenue.

Even if the new government is able to overcome these hurdles, there is still a fatal error in their fiscal plan: it ignores the business cycle—the ebbs and flows of the economy that are outside of the government's direct control.

Consider that Canada has experienced a recession, or at the very least an economic slowdown, on average, every eight years since 1980. (Interestingly, a similar pattern exists in the United States.)

Recessions affect the federal treasury in two ways. First they reduce revenues. The deep recession in the early 1980s reduced revenues by 3.2 percent in just one year while revenues fell 1.8 percent over two years during the mild recession of the early 1990s. The slowdown (not technically a recession) of the early 2000s saw revenues fall marginally. In the most recent recession, revenues dropped by almost 10 per cent between 2007-08 and 2009-10, a portion of which is explained by the government's introduction of personal income tax and GST rate reductions in 2006.

Recessions also cause federal spending to automatically increase. There are a number of programs, often referred to as automatic stabilizers, which increase in times of economic slowdowns without any intervention or change in policy. One example is Employment Insurance. As unemployment increases, spending on EI increases. In the most recent recession, for instance, spending on EI increased \$7.3 billion over the three years between 2007-08 and 2009-10, which included both the automatic increase in spending due to the rise in unemployment as well as expanded benefits (policy change).

If the experience of the past three-plus decades holds, Canada will likely experience an economic slowdown—or worse, a recession—over the next two to three years, in which revenues of the federal government will actually decline. Such an event will mean that the revenues projected by the Liberals will not come to fruition and spending will be higher than planned. In other words, the deficits will likely be much higher than currently planned meaning that reaching a balanced budget in 2019-20 will require deep cuts to spending and/or much larger tax increases. The likelihood of such actions one or two years out from an election is slim.

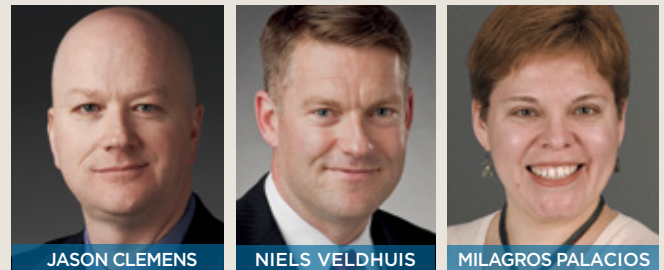
Consider the following hypothetical case. Assume Canada experiences a modest slowdown over the next two years as we did in the early 2000s. If federal revenues decline by a comparable amount, the annual hole in

federal finances would be roughly \$15-20 billion deeper than the currently projected deficits of \$10 billion.

Rather than put Canada's relatively sound finances at risk, the Liberals ought to consider the experience of their predecessors, the Chrétien government. Just over 20 years ago, the Chrétien Liberals delivered the most important federal budget in a generation. After three decades-plus of consistent deficits, the Chrétien government delivered a budget that cut spending by almost 10 percent, reformed provincial transfers and federal programs, and placed the country on a path to a balanced budget in 1997, followed by tax relief and debt reduction for the following decade. As a result, the Chrétien era was a period of great prosperity for the country.

Unfortunately, the new federal government has rejected the successful policies of this period in exchange for deficit-financed spending and higher taxes. Canada's economy will suffer from poorer performance as it did in previous periods when such policies were followed. In addition, borrowing money to finance spending during good times (i.e., when the economy is growing) means when the inevitable downturn happens our country's finances will be that much worse.

We've seen this show before (in the 1970s, '80s, and early '90s), and unfortunately, we're about to go through it again. [FI](#)



Jason Clemens is vice-president, Niels Veldhuis is president, and Milagros Palacios is a senior economist at the Fraser Institute. They are co-authors of *Learning from the Past: How Canadian Fiscal Policies of the 1990s Can Be Applied Today*.

Trudeau Tax Changes Not About Fairness or Performance Enhancement

Livio Di Matteo



The new Trudeau government is planning to make good on its promise to raise personal income taxes on the top one percent of Canadian income-earners in order to fund a personal income tax decrease for the middle class.

According to Statistics Canada, to be in the top one percent in 2013, a tax filer needed to have a total

income of at least \$222,000, while to be in the top 10 percent, they required \$89,200. The Liberal plan calls for a new 33 percent federal marginal tax rate on Canadians who earn more than \$200,000—up from the previous top rate of 29 percent—and a reduction in the rate from 22 percent to 20.5 percent for those earning between \$44,702 and \$89,401.

There are two reasons why this strategy should be revisited.

First, while the top one percent earns about 10 percent of the Canadian income distribution, they currently provide about 20 percent of personal income tax revenue. This suggests that the Canadian income tax system is already quite progressive in terms of the top one percent paying more than its share of income. Raising this rate is not about greater fairness, but simply getting the top one percent to pay more.

It would be a shame if our recent progress on more internationally competitive corporate tax rates was neutered by poorly thought-out personal income tax changes that resulted in the loss of entrepreneurial high-income earners.

Moreover, in 2014, of 25,453,210 Canadian tax filers, a total of 16,792,270, or about two thirds of Canadian tax filers, reported a total income less than \$45,000. Two-thirds of Canadian tax filers—the bottom two-thirds—will see no tax relief at all from this tax cut. If this were truly about a more just society, it would be fairer (and efficiency enhancing) if the Trudeau government simply brought in a broad-based income tax reduction for all tax filers.

Second, there is no guarantee that raising taxes on the top one percent will generate the necessary tax revenue to replace the revenue decline from middle-class incomes.

Economist Jack Mintz has already noted that with the Trudeau four-point tax hike, Canada will go from having the seventh highest to the third highest top tax rate in the OECD. Those who recall the hump-shaped Laffer

Curve relationship between tax rates and government revenue will note that raising tax rates increases revenues at lower tax rates—but as rates rise, a work disincentive effect kicks in as well as a stronger incentive to tax plan that erodes revenues. In other words, there is a rate of taxation that maximizes revenues. At the seventh highest rate in the OECD, we are likely already at the revenue maximizing rate range.

Moreover, higher rates may encourage entrepreneurial high-income earners to migrate to lower tax jurisdictions, depriving the economy of their skills. As a case in point, in 2012 Quebec created a new income top tax bracket for people earning at least \$100,000, raising their rate to 25.75 percent from 24 percent. It's likely no coincidence that in Statistics Canada's recent report on high-income tax filers, Quebec in 2013 was the only province to report a fall in the number of top one percent of tax filers, from 43,360 in 2012 to 40,825 in 2013.

In the end, tax systems and tax rates are important ingredients in international economic competitiveness. It would be a shame if our recent progress on more internationally competitive corporate tax rates was neutered by poorly thought-out personal income tax changes that resulted in the loss of more entrepreneurial high-income earners while doing little for the personal income tax situation of the vast majority of Canadians.

When it comes to either equity or efficiency, this tax plan is not geared to enhancing performance. **FI**



Livio Di Matteo is a senior fellow at the Fraser Institute and a professor of economics at Lakehead University in Thunder Bay, Ontario.

Investor Confidence Waning in Alberta

Kenneth P. Green and Taylor Jackson



For the past decade, investment in Alberta's vast oil and gas resources has allowed the province to become Canada's economic leader. Even when compared to other energy producing provinces and American states, Alberta was a top performer on economic indicators such as real GDP growth and private-sector employment growth between 2001 and 2012. Albertans have benefited greatly from the prosperity that was generated during this period.

But policies are changing in Alberta, and so too are perceptions about Alberta's attractiveness to investment in oil and gas extraction. Some of the policy changes we have seen so far include increasing corporate income taxes by 20 percent, instituting a new review of the province's oil and gas royalties, and a new slate of environmental taxes and regulations. These new policies and changes hamper Alberta's competitiveness and may act as a deterrent to future investment.

Indeed, this was reflected in responses for Alberta in

this year's iteration of the Fraser Institute's *Global Petroleum Survey*. The survey tracks the perceptions of investors in jurisdictions around the world about whether various aspects of policies that govern the oil and gas industry—such as royalties and taxes, duplicative regulations, etc.—make a jurisdiction attractive to investment, or might deter investment.

When focusing purely on whether policy acts as a deterrent to investment, Alberta fell from the 16th most attractive jurisdiction in the world in 2014 to 38th of 126 jurisdictions in 2015, a drop of 22 spots. This puts Alberta well behind competitors like Texas—the 4th most attractive jurisdiction in the world based on policies—and Saskatchewan and North Dakota, ranked 8th and 9th, respectively.

Digging into Alberta's ranking helps illuminate why the province fell so much in the eyes of investors. Consider the measure of fiscal terms and royalties. In 2014, only 14 percent of respondents said the province's fiscal terms were a deterrent to investment. In 2015, amongst the uncertainty of a new royalty review, 39 percent of Alberta's respondents said that this area of policy was acting as a deterrent to investment. By comparison, only five percent of respondents in Saskatchewan and two percent of respondents in Texas said that fiscal terms were a deterrent to investment.

Fiscal terms aren't the only area where investor concern grew. The general tax system, uncertainty from environmental regulations, and political stability were all rated by investors as being much larger deterrents to investment over the previous year.

Ironically, the only area where Alberta experienced a large improvement, according to investors, was in the availability of labour and skills, likely reflecting the growing pool of potential labour that exists due to large layoffs in the wake of low oil prices.

Albertans should be concerned that perceptions about the province's investment climate are changing. As we saw with the last royalty review, perceptions can often become realities. When the province last reviewed its royalty system and implemented changes under the Stelmach government in 2007, investor confidence

in Alberta deteriorated, and so too did actual investment, while both British Columbia and Saskatchewan experienced increases in exploration and development spending.

Policy does matter. Adding costs and uncertainty to an industry already hampered by low oil and gas prices is not the way to go.

It's not all bad news for Alberta, though. The province does still have some of the world's largest oil and gas reserves and these will continue to provide that province with opportunities for investment in the years ahead.

However, policy does matter. Adding costs and uncertainty to an industry already hampered by low oil and gas prices is not the way to go. Doing so will only act to deter future investment and perhaps some of the prosperity that comes with it. At this time, the province should be focused on pursuing policies that are both stable and competitive. **FI**



KENNETH P. GREEN



TAYLOR JACKSON

Kenneth P. Green is senior director and Taylor Jackson is a policy analyst in natural resource studies at the Fraser Institute. They are the coauthors of the Institute's annual *Global Petroleum Survey*.

End of the Chrétien Consensus in Canada?

Jason Clemens, Niels Veldhuis, and Milagros Palacios



1995 André Querry Flickr photo

Canada enjoyed an economic and fiscal renaissance starting in the mid-1990s that lasted more than a decade. The boom was rooted in sound fiscal policy (balanced budgets, focused spending, and tax competitiveness), which we have referred to as the Chrétien Consensus. The question for Canadians, given the undisputed success of this period, is why it is being entirely rejected for a set of alternative policies that have consistently failed.

Canada's economy was faltering in the early 1990s. From 1990 to 1992, real growth in the economy averaged -0.4 percent. Unemployment reached 11.2 percent in 1992. Slow growth and all the costs it entails were the norm. (Does this sound familiar?)

Slow economic growth coupled with a long record of governments across the country failing to control spending meant that the finances of the federal and most provincial governments were in serious peril. According to federal data, in 1992-93, the federal deficit

reached \$39.0 billion or 5.5 percent of GDP. Interest costs on the federal debt (net of financial assets), which had reached \$487.0 billion, totalled \$41.3 billion in 1992-93. This meant that 0.33 cents of every dollar collected by Ottawa in 1992-93 went to paying interest on past spending rather than on current programs and services.

And the provinces compounded the fiscal irresponsibility of the federal government. Collectively the provinces ran a \$25.0 billion deficit in 1992-93. All 10 provinces were in deficit and spending more than \$15 billion annually on interest costs to service existing debt.

But beginning in 1992, a group of political leaders, transcending political parties, confronted their own constituencies and made difficult political decisions to genuinely tackle the country's deteriorating finances.

Notably, the fiscal revolution started in Saskatchewan under NDP Premier Romanow. Program spending (spending excluding interest costs) was reduced by 12.0 percent between 1991-92 and 1993-94. This was followed by large-scale reform in Alberta led by Conservative Premier Ralph Klein. Program spending in that province was reduced by 21.6 percent over three years (1993-94 to 1995-96). Critically, both premiers not only reduced spending but also introduced broad reforms to focus on value for money for taxpayers.

In 1995, the Chrétien Liberal government introduced the most important budget in a generation, reducing spending by almost 10 percent over three years, cutting the public sector, reforming provincial transfers, and broadly reviewing all federal spending to focus on "smarter government."

The leadership exhibited by Romanow, Klein, and Chrétien was replicated by several other governments transcending political parties. The results were extraordinary: in short order the federal government and a majority of the provinces achieved balanced budgets and began to reduce debt. Elimination of deficits was not an end, though, as the federal and several provincial governments, particularly Alberta, started to reduce taxes to regain competitiveness.

The federal government, for instance, started reducing business tax rates and twice cut the capital gains tax.

Alberta implemented the country's first single-rate personal income tax. Ontario and Saskatchewan both began reducing both personal and business income tax rates. British Columbia followed suit, albeit not until 2001-02.

The ensuing decade from 1995 through to roughly 2005 marked a period when Canada enjoyed one of the strongest economies of any industrialized country. Incomes rose, jobs were created, and opportunities for progress abounded. It's hard to look back at the decade with any serious complaints. They were good economic times.

And yet the lessons from this period, namely how the Chrétien Consensus ushered in economic prosperity by focusing on balanced budgets, value-added government spending, and tax competitiveness, seem to have been entirely rejected in Canada, perhaps outside of BC.

Ontario, Alberta, and now the federal government have explicitly rejected the Chrétien Consensus. The policies pursued and defended by these governments are ongoing deficits (in some cases purposeful), pronounced increases in government spending, and higher tax rates, regardless of the implications for competitiveness. It's as if the bipartisan lessons of the 1990s didn't exist.

Unfortunately Canada will suffer the same results as we did before when these types of policies were implemented: slower economic growth and deteriorating government finances. The Chrétien Consensus served Canadians well for more than a decade and can do so again. [FI](#)



Jason Clemens is vice-president, Niels Veldhuis is president, and Milagros Palacios is a senior economist at the Fraser Institute. They are co-authors of *Learning from the Past: How Canadian Fiscal Policies of the 1990s Can Be Applied Today*.



Historic Court Ruling Also Raises Questions for First Nations Pursuing Aboriginal Title

Ravina Bains

In mid-October, as noted in the recent Fraser Institute study *Economic Development in Jeopardy*, the Supreme Court of Canada upheld an earlier BC Court of Appeal ruling that will allow the Nechako Nations (Saik'uz First Nation and Stellat'en First Nation) to bring forward a damages claim against Rio Tinto, an aluminum industry giant.

The First Nations claim that the Kenney Dam, which has operated for more than 60 years on the Necha-

ko River, is causing significant environmental harm to the river and thus adversely affecting their fishing resources. The Nechako Nations are claiming aboriginal title on the land, which houses the Kenney Dam. However, they have yet to prove title to the land. This judgment allows the First Nation to move forward with a damages claim without having proven aboriginal title. Allowing the Nechako Nations to do so could result in future aboriginal title litigation between First Nations and private parties—litigation that was previously only brought against governments.

This judgement allows the First Nation to move forward with a damages claim without having proven aboriginal title.

In addition to exposing private parties to litigation that was previously only brought against governments, this judgment will also affect economic development opportunities in places like British Columbia where the number one impediment for mining investment is uncertainty over disputed lands.

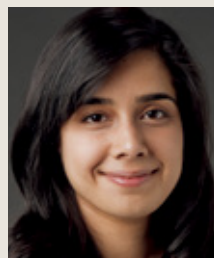
Furthermore, for First Nations pursuing aboriginal title claims, this case raises several fundamental questions. For example, if First Nations are now able to prove aboriginal title on land through litigation against private parties, will governments recognize that title? Or will governments require First Nations to re-litigate the case against the Crown?

In addition to exposing private parties to litigation that was previously only brought against governments, the Saik'uz decision will also affect economic development opportunities in British Columbia where the number one impediment for mining investment is uncertainty over disputed lands.

These are important questions for First Nations, such as the Nechako Nations, to ask, because it could mean an additional 20 years of litigation.

For example, the *Tsilhqot'in* title case—the 2014 historic decision granting title for the first time on land outside a reserve—took more than 20 years to conclude. So if the provincial or federal governments do not recognize aboriginal title granted through litigation between a First Nation and private party, it could mean First Nations would have to re-litigate their case against the Crown. Doing so would not only be costly for the First Nation, but could add another decade before they are granted title from governments.

Through the recent *Saik'uz First Nation and Stelat'en First Nation v. Rio Tinto* decision, the Nechako Nations now have the opportunity to pursue a damages claim against Rio Tinto and prove aboriginal title to their claimed territory in the process. It remains to be seen if they will move forward with this claim. But before they do, the Nechako Nations ought to seek clarity on these important questions. **FI**



Ravina Bains is associate director of the centre for aboriginal policy studies at the Fraser Institute. She is the author of *Economic Development in Jeopardy? Implications of the Saik'uz First Nation and Stelat'en First Nation v. Rio Tinto Decision*.

In 2015, more than 34,000 high school and university students reaped the benefits of the Institute's student programs, and nearly 1,000 people were on wait lists hoping to attend one of our various programs. With 2016 now well under way we aim to expand our outreach even further.

POST-SECONDARY STUDENT SEMINARS

In the last quarter, seminars targeted to university and college students were held in Toronto and Vancouver. Three hundred students spent a Saturday learning about current public policy issues, asking questions of experts, and exchanging ideas with like-minded individuals interested in or simply curious about the benefits of markets. Among the students in attendance in Vancouver were 58 who participated in our travel bursary program. That program provides students from outlying regions with travel and accommodation so that they can attend the seminar at no cost.



Students line up to keep the animated discussion on the complexities of the Bitcoin movement going with Paul Szczesny.

The Vancouver seminar featured Ravina Bains, Associate Director of the Centre for Aboriginal Policy at the Fraser Institute, along with Chief Karen Ogen of the Wet'suwet'en First Nation, detailing the opportunities to increase First Nations employment through partnerships with LNG projects. Students also had the opportunity to hear from Paul Szczesny, co-founder of Cointrader Exchange and Bitcoiniacs, who explained how Bitcoin

works, the criticism it is facing from both law enforcement officials and banks, and what its future entails. At our Toronto seminar, Bill Watson of McGill University had students talking about the causes of inequality and whether or not all inequality is bad. Paul Zak, meanwhile, gave students much to think about with a fascinating talk on the ground-breaking work he has pioneered in the field of neuroeconomics that has led to the identification of a "moral molecule." Over the course of the two seminars, students heard from ten experts in all; their presentations led students to enthusiastically engage in animated discussions throughout the day.

The talk given by Dr. Brett Belchetz was informative, inspirational, and provided a well-sourced, measured look at how public biases influence a misreading of the true state of the Canadian health care system.

VANCOUVER POST SECONDARY STUDENT

HIGH SCHOOL STUDENT SEMINARS

Over 600 students from 15 schools attended four high school seminars in November. Targeted at kids in grades 7 to 12, these popular programs are marketed to our extensive network of teachers and fill up in a matter of days.

The presenter was fantastic. He really brought it down to the students' level.

HIGH SCHOOL TEACHER

Economics is Everywhere! Applying Basics Concepts to Everyday Life is offered to students in grades 7 to 9. This exciting program is similar in format to our senior student program, but introduces economic concepts at



Pulitzer prize-winning journalist, Mei Fong, answers a student's question regarding her presentation on the unintended consequences of China's radical one child policy.

a more basic level suitable for younger students. From a fishing game demonstrating incentives to group karaoke showing supply and demand, students participate in a fun-filled day that shows how economic thinking can be applied to their everyday lives.

Why Do People Behave the Way They Do? An Introduction to Economic Reasoning is offered to students in grades 10 to 12. Students are encouraged to apply economic thinking to everyday scenarios. From pop culture phenomena to hitting the “snooze” button on an alarm



In a simulation led by Kathy Ratté in Burnaby teachers learn that when individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.

clock, from balancing a budget to saving for college, students learn how every decision they make is an economic choice.

TEACHER WORKSHOPS

Three teacher workshops were held in the last quarter at which more than 80 teachers worked with university economics professors to learn economic principles and concepts through the use of lesson plans, games, activities, lectures and videos. Toronto hosted *The Economic Way of Thinking* workshop where teachers examined how economics can be applied to everyday life and discussed topics such as incentives, marginal analysis, recessions, and currency. Calgary hosted *The Economic Demise of the Soviet Union* where teachers explored how the ever-mounting pressures of economic failure toppled the Communist system. The last program of 2015 was the *Issues of International Trade* workshop in Vancouver that gave teachers topical information on trade deficits, free trade zones, sanctions, and tariffs.

Each of the participating teachers left our workshops with a binder of lesson plans and activities, a new-found or greater knowledge of the economic concepts covered, as well as an expanded network of colleagues. More importantly, the information they received will influence 7,200 students over the next year.

We wish to acknowledge the London Drugs Foundation for its support for the Calgary workshop, and the Barbara Mitchell Centre for Improvement in Education and the Lotte and John Hecht Memorial Foundation for their joint support of the Toronto workshop.

JOURNALISM

This year we are excited to be expanding the 2016 *Economics for Journalists* program to three programs in order to meet the growing demand. These sessions will be held in May: two of them in Toronto and one in Vancouver. The deadline for application was the end of January, and we are pleased to report that we had our highest number of applicants ever, with 133 journalists vying for the 75 placements. Look for an update in a future issue of the Quarterly. **FI**

Federal Transfers to the Provinces at an All-time High

Ben Eisen and Charles Lammam

Federal transfers to
ONTARIO
have increased
88%
over the past decade



12.0% of all Ontario
revenue



16.4% of all Ontario
revenue

In recent years, several provincial governments have complained about the amount of money they receive from Ottawa. Senior officials in the Ontario government, for instance, have accused the federal government of “turning its back” on Ontario, and failing to be a constructive “partner.” Following the 2014 budget, Ontario’s finance minister went so far as to claim that the federal government had delivered a “kick in the teeth” by making “massive cuts” to the province.

A look at the numbers, however, reveals that the narrative about Ottawa shortchanging the provinces is false. In reality, federal transfers to the provinces have been increasing strongly and steadily over the past decade. In fact, after accounting for inflation and population changes, transfers are higher now than at any point in Canadian history.

Let’s pause to define “federal transfers.” All provinces receive payments, based on their population, to help fund health and social services. In addition, some prov-

inces receive equalization payments if they are deemed unable to raise enough revenue to finance adequate public services.

Federal transfers to Ontario have increased at a much faster rate than transfers to almost all other provinces.

Federal transfers are frequently a point of contention between the provinces and Ottawa, with provincial governments often claiming they don't get enough money (without defining what "enough" is) and that Ottawa is therefore to blame for their fiscal problems.

Consider developments over the past decade. Federal transfers to the provinces (and territories) have increased by 62.3 percent since 2005/06, climbing above \$68 billion in 2015/16. This rate of increase greatly outpaced inflation and population growth, which together grew by 31.6 percent. Consequently, federal transfers to the provinces are higher today than ever before, on an inflation-adjusted, per person basis, with a projected cost of \$1,897 per Canadian this fiscal year—far more than was the case a decade ago (\$1,535).

Other metrics similarly show that federal transfers are on the rise. For example, in 2005/06, major transfers represented 14.8 percent of all provincial revenue. Since then, that share has climbed and will reach 17.3 percent this year, the highest level in recent history.

In the specific case of Ontario, which has been particularly vocal in recent years about being "shortchanged" by Ottawa, the narrative is particularly weak. It turns out federal transfers to Ontario have increased at a much *faster* rate than transfers to almost all other provinces. Between 2005/06 and 2015/16, federal transfers to Ontario increased by a whopping 87.8 percent, thanks largely to the injection of more than \$14 billion in cu-

mulative equalization dollars to the provincial treasury since Ontario became a "have-not" province in 2009/10.

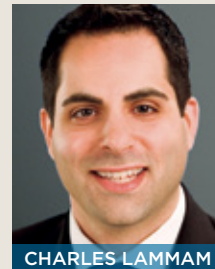
In 2005/06, Ontario received 26.0 percent of all major federal transfers. By 2015/16, that share will be 30.1 percent. In other words, even as the total federal transfer "pie" has grown, Ontario's share of the pie has increased.

There will always be a temptation for provincial governments to cry poor to Ottawa, and claim they should get more money. After all, complaining about federal transfers is easier than restraining spending or implementing unpopular and economically harmful tax increases to generate own-source revenue.

At present, however, these claims have little merit. Provincial governments, including Ontario, should look inward at their own policy choices rather than blame inadequate transfers from Ottawa for the fiscal challenges they face. **FI**



BEN EISEN

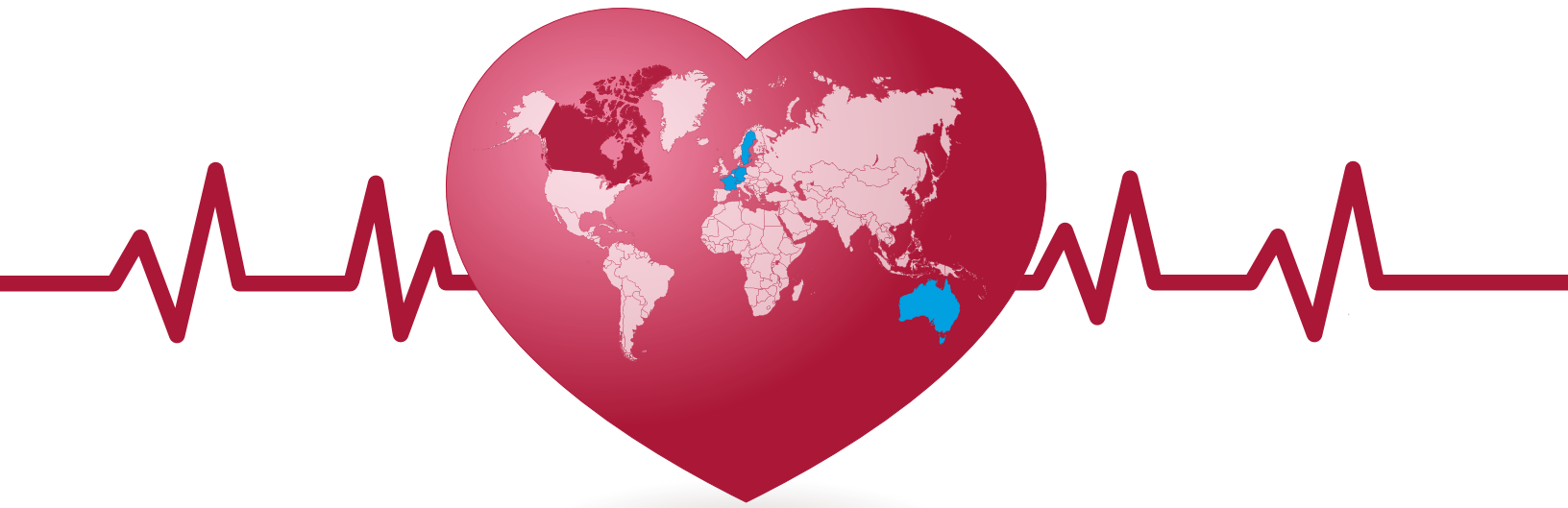


CHARLES LAMMAM

Ben Eisen is associate director of provincial prosperity studies and Charles Lammam is director of fiscal studies at the Fraser Institute. They are the authors of the study, *Are the Provinces Really Shortchanged by Federal Transfers?*

Private Sector Plays Important Role in Other Universal Health Care Countries

Nadeem Esmail and Bacchus Barua



For years, the Canadian public has been presented with two distinct health policy options by pundits, politicians, and other defenders of the status quo. On the one hand, we are told we can have a universal health care system dominated by government. The alternative, we're told, is a system where private for-profit insurers and hospitals are present, but universality is unattainable.

This simply isn't true and ignores the reality of multiple universal health care countries.

The noble goal of universal-access health care is not unique to Canada. Rather, it's a goal we share with nearly every other developed country, all of which pursue it through a combination of government, private non-profit, and for-profit institutions. Consider the examples of Australia, France, Germany, the Netherlands, Sweden,

and Switzerland, each of which delivers higher quality universal health care for similar or lower costs than Canada. Unlike Canada, these countries do not appear to be frozen by a fear of profit making, but rather, seem to have embraced it as part of their higher performing approach to universality.

The noble goal of universal-access health care is not unique to Canada. Rather, it's a goal we share with nearly every other developed country, all of which pursue it through a combination of government, private non-profit, and for-profit institutions.

In all of these countries, private for-profit insurers compete in the voluntary insurance sector, variously offering services such as expanded choice of physician and hospital, private rooms, coverage for vision and dental, and expedited access for elective treatment and day surgeries. What may come as a surprise to some readers is that for-profit companies also compete to offer primary universal health care insurance in the Netherlands, and compete to offer a substitute for public health insurance in Germany. In these countries, co-operation between private and public systems is aided by the ability of doctors to practice in both the public and private systems, and accept payments from either insurer.

The presence of for-profit hospitals is even more commonplace. In 2012, some 42 percent of hospitals in Germany were for-profit institutions, as were more than half of hospitals in Switzerland, and about 40 percent of hospitals in France. Nearly all of these for-profit hospitals provide care for the universal systems of each country. In Australia, 35 percent of hospitals are for-profit facilities with some contracted to provide universally accessible care. Even in Sweden, three of the country's 83 hospitals are for-profit, including a large acute care facility that delivers care to patients within the universal system.

This level of co-operation between public funders and for-profit institutions is ostensibly absent in Canada. Private for-profit parallel insurance is disallowed, dual-practice of physicians is prohibited in most provinces, and only a small number of for-profit clinics and hospitals can be found in a climate that does not encourage their formation.

Some pundits say such involvement of the private sector (for-profit institutions in particular) is antithetical to the goal of universal-access health care. Others in Canada argue more strongly that any involvement of the private sector, especially the for-profits, will sacrifice the universal nature of our health care system. None apparently have bothered to look at what other countries are doing, particularly those with high performing, universal-access health care systems.

While Canada struggles with long wait times, physician and medical technology shortages, and health care expenditures that are eating into provincial budgets, pundits and policymakers are taking valuable policy options off the table for philosophical reasons.

The experience of other countries demonstrates how the private sector can play an important role in helping deliver on the promise of universal-access health care. We owe it to patients to consider all options that have demonstrated an ability to deliver universal, high quality health care. [FI](#)



NADEEM ESMAIL



BACCHUS BARUA

Nadeem Esmail is a Fraser Institute senior fellow and Bacchus Barua is a senior economist in the Fraser Institute's Centre for Health Policy Studies. They are authors of the recent study, *For-Profit Hospitals and Insurers in Universal Health Care Countries*.

Five Reasons to Oppose CPP Expansion

Charles Lammam and Niels Veldhuis

1

A SOLUTION
LOOKING FOR A
PROBLEM

2

REDUCED
PRIVATE
SAVINGS

3

A BAD DEAL
FOR YOUNG
CANADIANS

4

TAX INCREASE
ON MIDDLE
INCOME
CANADIANS

5

NOT A
LOW-COST WAY
TO INVEST

News reports following the meeting of Canada's finance ministers in late December suggest that the brakes will be put on the federal government's plan to expand the Canada Pension Plan (CPP). As Saskatchewan Finance Minister Kevin Doherty recently noted, "the last thing we need to do right now is impose an additional payroll tax on our business community." This is only one small reason to oppose CPP expansion. Here are several others:

1) AN EXPANSION OF THE CPP IS A SOLUTION LOOKING FOR A PROBLEM.

In 2009, the federal and provincial/territorial finance ministers created a research working group to explore whether Canadians were adequately prepared for retirement. The group's summary report found that, "Overall, the Canadian retirement income system is performing well, providing Canadians with an adequate standard of living upon retirement."

Similarly, in his Fraser Institute publication *The Reality of Retirement Income in Canada*, Philip Cross, former

chief economic analyst for Statistics Canada, concluded that proponents of an expanded Canada Pension Plan “stoke fears of a looming crisis by claiming that Canadians aren’t saving enough for retirement. These claims blatantly ignore the ample resources available to Canadians when they retire.”

2) EXPANDING THE CPP WILL LEAD TO REDUCED PRIVATE SAVINGS IN RRSPS, TFSAS, ETC.

Another Fraser Institute study, *Compulsory Government Pensions vs. Private Savings: The Effect of Previous Expansion to the Canada Pension Plan*, led by University of Montreal economics professor François Vaillancourt, shows that past expansion of the CPP has resulted in reduced private savings by Canadian households. Indeed, when governments increase mandatory savings (through CPP contributions), Canadian households reduce other forms of voluntary savings such as RRSPs and TFSAs. The end result is not a boost in savings but rather a reallocation from flexible, privately held savings to mandatory government savings.

3) CPP EXPANSION IS A BAD DEAL FOR YOUNG CANADIANS.

The narrative that CPP provides strong returns for all Canadians is false. Unlike a private pension or RRSP account, the returns to the Canada Pension Plan Investment Board (CPPIB) which manages the CPP’s investments, are not directly shared with beneficiaries in the form of higher benefits or with contributors through lower contribution rates. Young Canadians receive particularly modest returns. According to the Office of the Chief Actuary, someone born in 1980 could expect a 2.3 percent annual real rate of return on their CPP contributions. For someone born in 1950, the rate of return is much higher at 4.2 percent.

According to an academic study published in *Canadian Public Policy* magazine, a key reason the rate of return is so much lower for younger generations is that contribution rates have increased without an equivalent increase in benefits. In 1986, the total contribution rate was 3.6 percent, growing steadily to the current rate of 9.9 percent in 2003. A report from an interprovincial committee of government ministers noted that the current contribution rate would only need to be 6 percent if

a higher rate was not required to correct the underfunding left by the low rates of older cohorts.

4) EXPANDING THE CPP WILL LEAD TO A MAJOR TAX INCREASE ON MIDDLE-INCOME CANADIANS.

While no specific proposal is currently being publicly debated, expanding the CPP will necessitate higher payroll taxes today to fund increased payouts in the future. The existing rules for CPP contributions already require \$4,960 annually in employer and employee contributions for a single working Canadian making \$53,600. An expanded CPP could produce a marked increase in the average Canadian family’s total tax bill, which already accounts for 42.1 percent of income, leaving less money available for families to allocate as they wish.

5) THE CPP IS NOT AN ESPECIALLY LOW-COST WAY TO INVEST.

Advocates of CPP expansion tout its supposed low costs. But a recent Institute study, *Accounting for the True Cost of the Canada Pension Plan*, found that the operating expenses cited by the CPPIB cover only a select subset of the total costs involved in running the CPP. A fuller accounting of all the costs, including external management fees and the transaction costs of executing its investment strategy, paints a different picture. The total costs are approximately four times higher than the narrowly defined operating expenses ratio touted by the CPPIB. In fact, the total costs of the CPP now exceed many low-cost mutual funds and ETFs offered in the financial markets for RRSPs and TFSAs. [FI](#)



CHARLES LAMMAM



NIELS VELDHUIS

Charles Lammam is director of fiscal studies and Niels Veldhuis is president at the Fraser Institute.

Oil Prices Aren't to Blame; Alberta's Budget Misdiagnoses the Problem

Charles Lammam and Steve Lafleur

Premier of Alberta Budget 2015 Flickr photo

If the first step towards remedying a problem is admitting that you have one, Alberta is a long way away from fixing its budget woes. Indeed, the province's Finance Minister, Joe Ceci, took every opportunity in his recent budget speech to blame the recent decline in oil prices for the province's fiscal challenges, saying, for instance, that "Albertans know that lower oil prices mean deficits." That is a serious misdiagnosis of the problem.

The real culprit for the deficit is a rapid increase in government spending over the past decade. Successive governments have been unable to control spending when times were good and therefore have been ill prepared for the bad times.

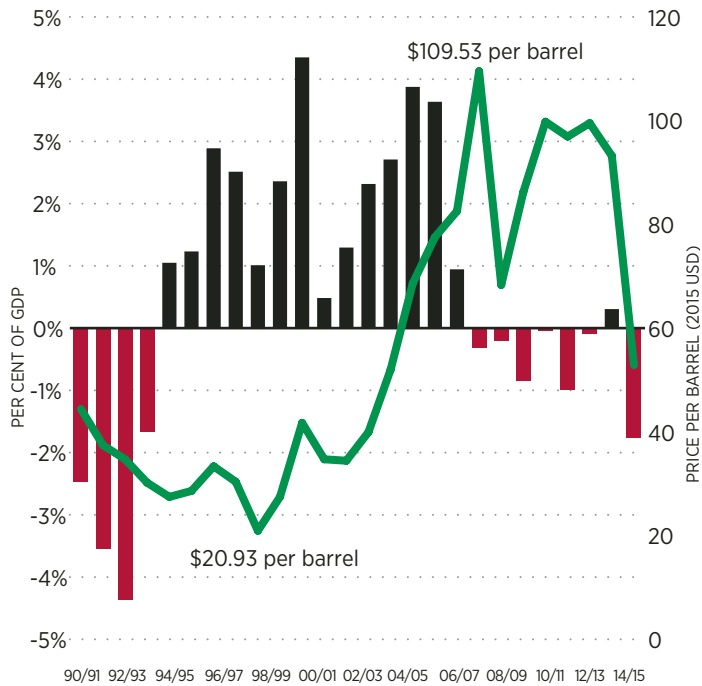
And now, the budget forecasts a \$6.1 billion deficit for this fiscal year and deficits for the next three years, totalling \$11.9 billion. The province is now on track to run

10 deficits in 11 years. Starting next year, Alberta will fall into a net debt position, where the total value of government debt exceeds financial assets, for the first time in more than 15 years.

Blaming oil prices is a convenient but false narrative. In the past, Alberta has both found ways to run surpluses when oil prices were much lower than today (after adjusting for inflation) and also failed to balance the budget in years when oil prices were much higher.

Consider that from 1994/95 to 2007/08, Alberta recorded 14 consecutive surpluses with the price of West Texas Intermediate (WTI) oil at an average of roughly \$43 per barrel (in 2015 US dollars). Yet over the past eight years, the province has run deficits in all but one year, despite oil prices averaging \$88 per barrel (in 2015 US dollars). The record simply does not support the notion that low oil prices inevitably lead to deficits.

ALBERTA'S DEFICIT OR SURPLUS VS. REAL WTI OIL PRICE, 1990/91 TO 2015/16



Spending is the real culprit for the deficit. Between 2004/05 and 2014/15, the provincial government increased program spending by nearly 100 percent—almost double the combined rate of inflation and population growth (52 percent) and faster than the growth of the overall economy (89 percent).

A recent Fraser Institute study, *Alberta's Budget Deficit: Why Spending Is to Blame*, found that had the provincial government limited spending increases since 2004/05 to keep pace with inflation and population growth, the province would enjoy an estimated surplus of \$4.4 billion this year instead of a deficit. Even limiting spending increases more modestly, to the growth rate of the provincial economy, would have allowed Alberta to enjoy a \$1.9 billion surplus.

Rather than strike at the root of the problem, Alberta's recent budget proposes to dig an even deeper hole with further spending increases. Program spending is projected to increase this year and each successive year up to 2017/18, which is the latest year delineated

in the budget plan. Specifically, program spending will increase 3.1 percent this year, 2.2 percent in 2016/17, and 1.6 percent in 2017/18.

And what's worse, the budget proposes the wrong solution. In an attempt to close the deficit, the government is proposing new tax increases (on fuel, tobacco, alcohol, and insurance premiums) on top of the personal and corporate income tax hikes that came into effect earlier this year.

Those tax hikes will impose a harsh blow to Alberta's competitiveness, particularly on an already struggling economy. And they are not guaranteed to generate the expected amount of new revenue. That's because individuals, particularly upper income earners, will change their behaviour and find legal ways to reduce the amount of additional tax they pay. This could mean larger deficits and more debt than already planned.

While Alberta's budget didn't contain any major surprises, it failed to identify the source of the fiscal problems plaguing the province. Further, the policy solutions it proposes are ill-advised and will make matters worse. Alberta's current fiscal predicament stems from successive governments being unable to control spending. Blaming external forces distracts from the choices that have led multiple provincial governments down the path of persistent deficits. [FI](#)



CHARLES LAMMAM

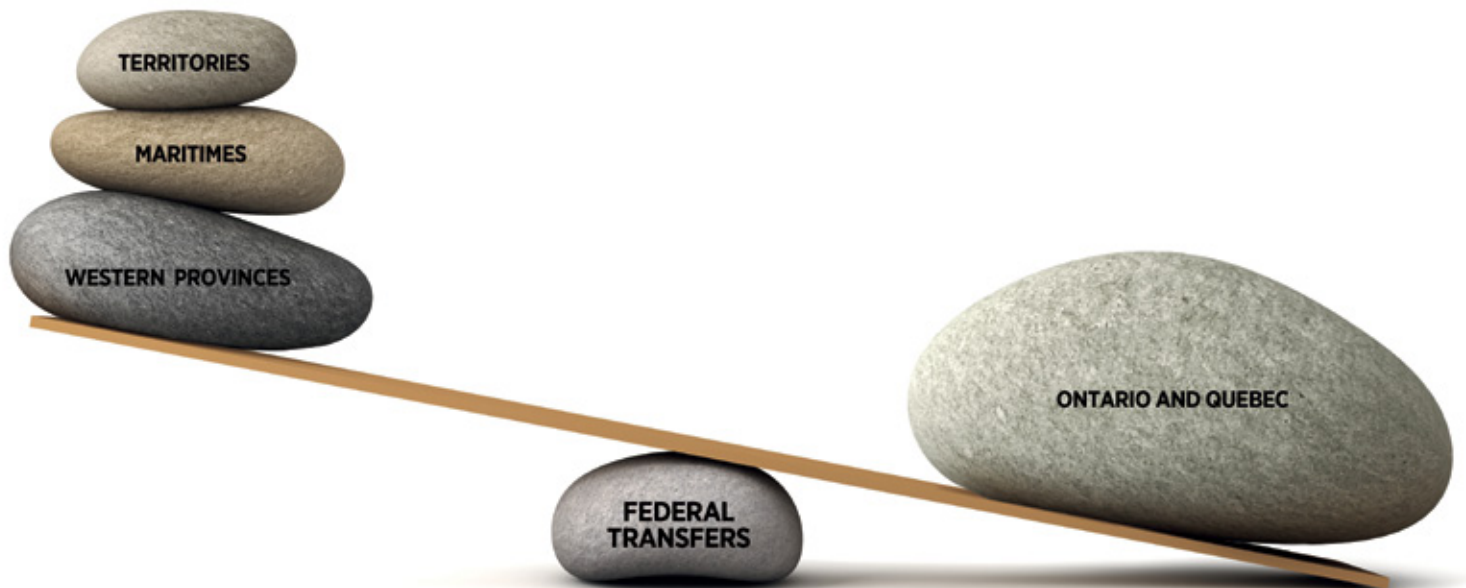


STEVE LAFLEUR

Charles Lammam is director of fiscal studies and Steve Lafleur is a senior policy analyst at the Fraser Institute. They are co-authors of *Alberta's Budget Deficit: Why Spending is to Blame*.

Central Canada is the New Centre of Gravity for Equalization

Ben Eisen and Charles Lammam



Historically, the purpose of Canada's equalization program was to largely provide financial assistance to the country's poorer provinces where incomes lagged behind the national average. In the recent past, Quebec, with its underperforming economy, was the only large province to receive substantial equalization payments, where they have helped fund the province's uniquely expansive social welfare programs.

Starting in 2009/10, however, the nature of Canada's equalization program fundamentally changed from the prevailing arrangements of recent years with Ontario's descent into "have-not" status—a development that made Canada's largest province eligible for equalization

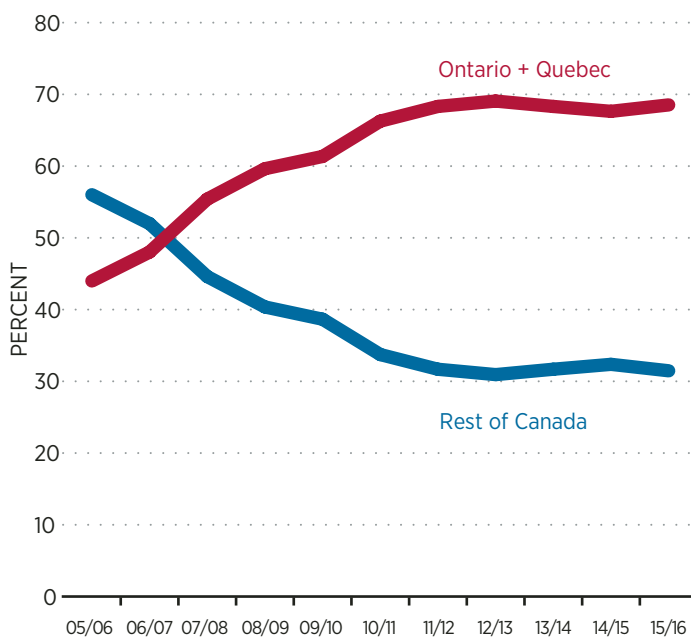
payments. Ontario's shift to have-not status meant that six out of 10 provinces representing more than 70 percent of the Canadian population was entitled to equalization payments.

Over the past decade, the emergence of Ontario as a have-not province, along with continued economic weakness in Quebec, has led to a larger share of all equalization dollars going to governments of large provinces in Central Canada instead of the smaller jurisdictions of Manitoba and the Maritimes.

In 2005/06, Ontario and Quebec together received a minority of all equalization payments. Approximately 44 percent of equalization payments flowed to Quebec

(Ontario was not yet a have-not) with 56 percent flowing to the rest of Canada. By 2015/16, things changed dramatically. Ontario and Quebec now receive approximately 70 percent of all equalization payments, with the smaller have-not provinces taking in approximately 30 percent.

SHARE OF EQUALIZATION PAYMENTS TO ONTARIO AND QUEBEC VS. REST OF CANADA, 2005/06 TO 2015/16



These developments raise a number of important questions about the future of the equalization program. Just a few of these are:

- Is the current design of equalization fair? Specifically, is it fair that Ontario receives billions of dollars in equalization payments each year while British Columbia, a province with a similar (but slightly lower) median income does not receive equalization?
- Are there implications for national unity resulting from the rise of Central Canada as centre of gravity for Canada’s equalization program? Will competition between jurisdictions for scarce resources breed regional tensions and resentments as provinces that

have long relied on equalization see their share of the “pie” diminished as more money flows to the somewhat wealthier provinces of Ontario and Quebec?

- Is the equalization program sustainable if 70 percent of the population lives in “have-not” equalization receiving provinces? If equalization is flowing to nearly everybody, instead of just jurisdictions facing specific, deep and unusual hardship, has the program lost its fundamental purpose and should it therefore be overhauled?
- Is Ontario becoming too dependent on equalization payments? Largely due to equalization payments, Ontario now depends on transfers from the federal government for 16.4 percent of its revenue compared to just 12.0 percent in 2005/06. A recent news report suggested economic weakness in Alberta could have the effect of altering the equalization formula, and wiping out Ontario’s payments even if economic growth in Ontario remains anemic. Could Ontario’s plan to balance its budget during the final years of this decade survive this type of development, given the substantial risks to its fiscal plan that already exist?

Answering these questions is, of course, beyond the scope of this article. However, the great shift in the balance of equalization payments away from the traditional smaller recipients and towards Central Canada is a noteworthy development, the complete ramifications of which are still not well understood. **FI**



BEN EISEN



CHARLES LAMMAM

Ben Eisen is associate director of provincial prosperity studies and Charles Lammam is director of fiscal studies at the Fraser Institute. They are co-authors of the study, *Are the Provinces Really Shortchanged by Federal Transfers?*



Ravina Bains

What's your role at the Institute?

Since 2013, I have been the Associate Director for the Centre for Aboriginal Policy Studies.

How did you arrive at the Institute?

From September 2009 to September 2010 I worked as a Development Intern at the Fraser Institute. I was responsible for calling donors and renewing their annual donations. It was a great way to interact with our supporters and highlight the Institute's important research.

Following this internship I moved to Ottawa to work as a policy advisor for the federal Minister of Indigenous and Northern Affairs Canada. I served as the Minister's Director of Policy until 2013, when I returned to the Institute to head up the Centre for Aboriginal Policy Studies.

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

I am extremely excited about our research agenda for 2016. Specifically, we will be analyzing government spending on aboriginal Canadians and providing a fact based analysis to the claim that public spending on Canada's aboriginal population is inadequate when compared to all other Canadians. Included in this year's analysis is a breakdown of natural resource revenue generated by First Nations communities in Canada and how that compares to other sources of revenue for First Nations communities.

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

I'm currently working towards a PhD in Public Policy so I don't have a lot of spare time, but when I do, I enjoy playing tennis and beating my brother at N64 video games.

IN MEMORIAM



T. PATRICK BOYLE

CO-FOUNDER AND LONG-TIME VICE-CHAIRMAN
OF THE FRASER INSTITUTE

1918 - 2015

Pat Boyle was a faithful son, husband, and father; a soldier applying science in the defense of Canada; a comptroller of impeccable integrity; a municipal counsellor; an author; a rancher; a designer of his own floating home; and of course, founder of the Fraser Institute. Pat was a life-changing experience.

George Bernard Shaw said that he “vastly preferred unreasonable people. Reasonable people,” he said, “conform to society. Unreasonable people insist that society should conform to them. Therefore all progress depends on unreasonable people.” In that sense Pat was unreasonable. He was not content to accept the world as he found it. And he took it as a personal challenge if somebody else was trying to change his world in a way that he did not approve. In the 1970s a shadow of menace was spreading over Pat’s world.

In 1974 in British Columbia, Premier David Barrett, signatory of the radical left’s Waffle Manifesto, had plans to remake Pat Boyle’s world into a Marxist theme park. To assist him, Barrett created the BC Policy Research institute funded to the tune of 5 million taxpayer dollars.

While Pat was angered by what the government was intending, he proceeded with deliberate care in formulating his response. He would create an Institute not to respond to the

government’s malignant political offering, but rather to respond to the underlying lack of understanding that permitted governments everywhere in the world to foist off on their citizenry such tawdry and harmful public policy. It would be an Institute of national and international reach that would rely in an exacting way on the best scholarly, peer-reviewed research and speak truth to power on every topic of public policy.

Not everyone thought this broad vision was correct. Some business leaders thought that the Institute should engage in active politics to rid the nation of the leftist scourge. Pat defended what was by then the Fraser Institute from being used for short-term political purposes by taking a position based on carefully considered principles and raw courage. Pat’s steadfast defense of the principle that the Institute was a non-political, non-partisan organization engaged in research and education set the tone for the future of the Institute.

For me personally, meeting Pat changed my life. It opened up an opportunity to have an impact on the world and to have a life of indescribable intensity and meaning. Pat Boyle is dead, but long live Pat Boyle through his family and through those to whom his Institute has given a life of meaning and engagement in the project to improve the human condition.

Michael A. Walker,
FOUNDING EXECUTIVE DIRECTOR OF
THE FRASER INSTITUTE



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