

News and information for supporters and friends of the Fraser Institute

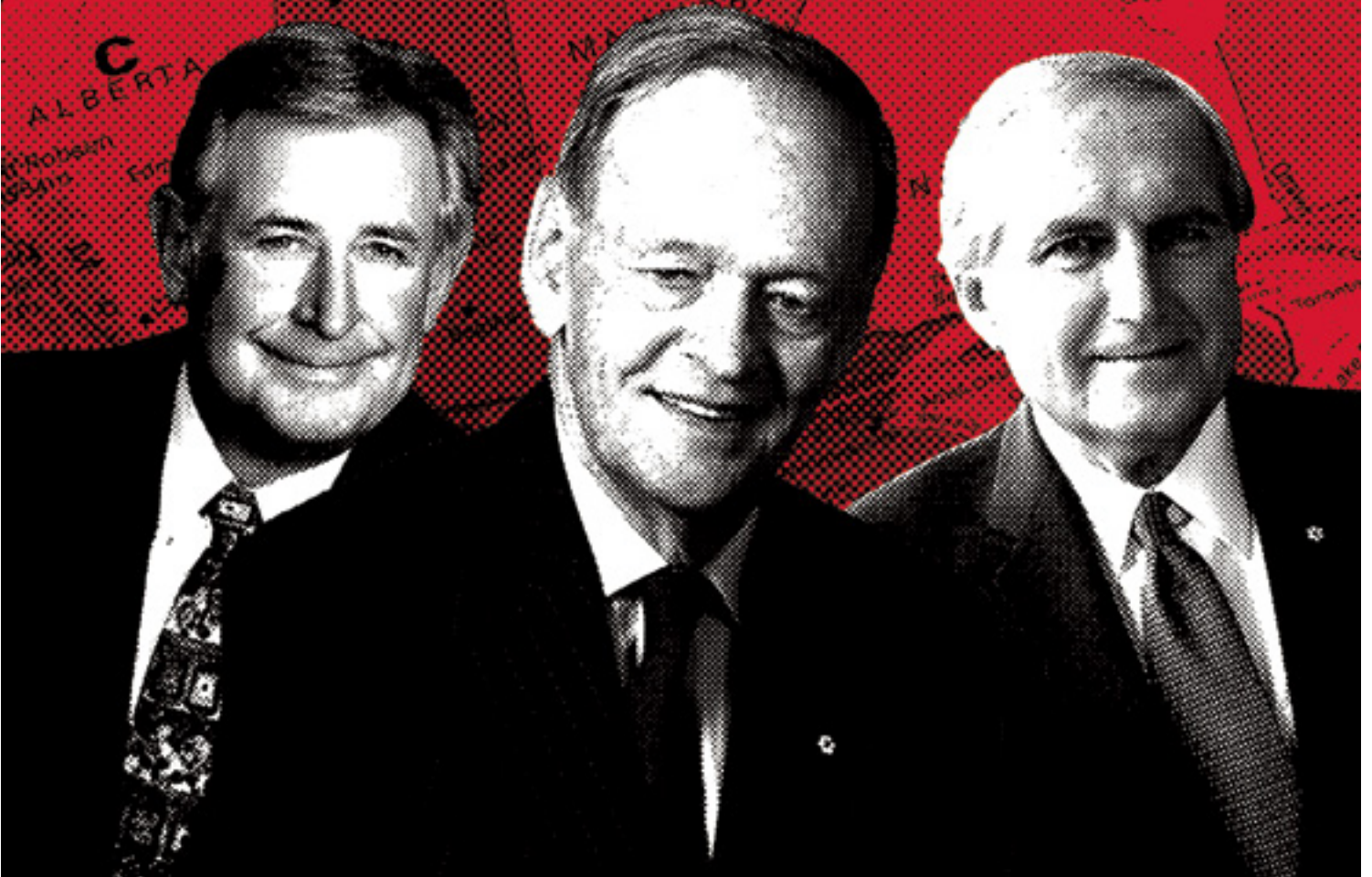
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THE Quarterly

SPRING 2017

THE CHRÉTIEN CONSENSUS

Pro-growth policies
of the 1990s that worked



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ALSO INSIDE

BC's Carbon Tax Not
Revenue Neutral

School Choice in
Sweden and Australia

High Cost of Ontario's
Coal Phase Out



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

I am delighted to share with you a major new book published by the Fraser Institute and depicted on the cover of this issue of *The Quarterly: End of the Chrétien Consensus?*

The book examines the pro-growth policies of Prime Minister Jean Chrétien's federal Liberal government, Premier Roy Romanow's NDP government in Saskatchewan, and Premier Ralph Klein's Progressive Conservative government in Alberta. These policies include balancing budgets, paying down debt, lowering taxes, and moving towards smaller, smarter government. The policies, which this book calls "the Chrétien Consensus," created a foundation for economic prosperity that lasted for more than a decade. Unfortunately, many current governments in Canada have rejected that consensus.

You can read a quick summary of our book on page 2. Complete PDF copies of it are available on our website www.fraserinstitute.org and if you would like a hard copy, we would be happy to send you one.

Several articles in this issue of *The Quarterly* highlight how the federal government and many provinces, most notably Ontario and Alberta, have markedly rejected the policies of the Chrétien Consensus and are now struggling with uncompetitive taxes, deteriorating finances, and slow-growing economies.

For example, on page 4, my colleagues Ben Eisen, Steve Lafleur, and Milagros Palacios explain that through substantial tax increases and a massive new carbon tax, Alberta's tax advantage has been completely eroded over the past two years.

If you think that's bad, consider Ontario where the government actually stated: "Our plan is working." On page 24, we look into this claim and show just how shockingly out of touch that statement is.

Finally, I encourage you to read "Another Broken Promise: Tax Cuts for the Middle Class" on page 28. Institute analysts Charles Lammam and Hugh Macintyre find that while the federal government promised to cut taxes for Canada's middle class, they've actually increased taxes.

I don't have the room here to mention all the great articles and studies highlighted in this issue of *The Quarterly*, but I urge you to read them all and then pass the issue on to your friends, family, or colleagues.

As always, thank you for your ongoing support.

Best,

A handwritten signature in blue ink, which appears to read "Niels Veldhuis". The signature is fluid and cursive.

Niels

New Research



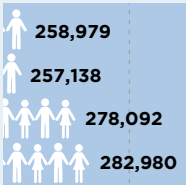
- Have We Reached the End of the Chrétien Consensus? **2**
- Yes, Alberta's Tax Advantage is Gone **4**
- It's Official—Ontario's Coal Phase-out Was All for Nothing **6**
- Government Workers in Canada Continue to Receive Premium Compensation **8**
- School Choice Lessons from Sweden and Australia **10**
- BC's Carbon Tax Not the "Gold Standard" It's Made Out to Be **12**
- Wait Times Longest Yet for Health Care in Canada **14**

Education Programs



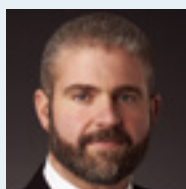
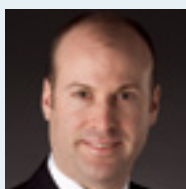
- A Review of Education Programs Across the Country **16**

Recent Columns



- Canada's Rising Federal Employment—Making Sense of the Numbers **18**
- Why First Nations Succeed in Canada **20**
- Response to Electoral Reform Announcement Bordering on Revisionist History **22**
- Ontario's Fall Statement—If This Plan Is "Working," What Does Failure Look Like? **24**
- Vancouver's Tax on Vacant Homes Misses the Point—We Need to Build More Homes **26**
- Another Broken Promise: Tax Cuts for the Middle Class **28**
- Ontario's Economic Pain is Spread Unevenly Around the Province **30**

Staff Profile



- Mark Hasiuk and Bryn Weese **32**

Have We Reached the End of the Chrétien Consensus?

Jason Clemens, Matthew Lau, Milagros Palacios, and Niels Veldhuis

The Chrétien Consensus was an implicit agreement that emerged in the early 1990s and lasted through to roughly the mid-2000s. It transcended political party and geography regarding the soundness of balanced budgets, declining government debt, smaller and smarter government spending, and competitive taxes.

The reforms began in 1992 in Saskatchewan under the NDP led by Premier Roy Romanow. The quick success of the Romanow reforms set the stage for even more aggressive reforms in neighbouring Alberta one year later by Premier Ralph Klein. The combination of the successful reforms in both provinces were a catalyst for the federal government to enact similar reforms, what we have coined “the Chrétien Consensus,” under the leadership of Liberal Prime Minister Jean Chrétien in 1995. These reforms spread across the entire country and were implemented in every province to varying degrees and at different times during the decade.



Balanced budgets created a stable business and investment environment by eliminating the threat and uncertainty of future tax increases that are inherent to deficits. Declining government debt meant that there was more domestic capital available for private investment. Smaller and smarter government spending meant both that governments were playing a smaller role in the

economy—relying more on individuals, families, and businesses to make economic decisions—and that governments were delivering greater value for money in the remaining programs. Finally, competitive taxes ensured that the incentives for work effort, investment, and entrepreneurship were improving and that Canada was strengthening its relative attractiveness for businesses and entrepreneurs globally.

These policies created an environment conducive to and supportive of entrepreneurship and investment, which

formed the basis for a robust, prosperous economy that lasted well over a decade after the reforms were implemented. Specifically, Canadians enjoyed rising incomes, incredibly strong job growth and the opportunities such growth provides, and a prolonged period of business investment, which ultimately forms the foundation for long-term prosperity.

Canada is now struggling economically since the policy foundation for our success in the 1990s and 2000s has been rejected.

This success was no doubt aided in part by other factors such as the commodity price boom and the success of the US economy during this period. However, the basis for that success was the policies imbedded in the Chrétien Consensus. In other words, Canada capitalized on these opportunities because it had established a foundation for success and an environment supportive of economic growth.

The better part of the last decade ending in 2016 has seen most Canadian governments moving away from the Chrétien Consensus. Governments across the country, particularly those in Alberta, Ontario, and now federally, have decisively and purposefully moved away from the policies of the Chrétien Consensus by increasing government spending through both borrowing (deficits) and increased taxes. The spending increases have often been haphazard and without much attention paid to prioritization or importance. Governments have taken on a larger and much more active role in the economy of the nation and most provinces. And finally, many governments have also increased taxes without regard for how such increases affect incentives or competitiveness. In short, the country has rejected the Chrétien Consensus. This is nowhere more evident than in Ottawa today, where the Trudeau Liberals ran on—and

are now governing—based on a set of economic principles that are the antithesis of the Chrétien Consensus.

It is not surprising to those involved in this project that Canada is now struggling economically since the policy foundation for our success in the 1990s and 2000s has been rejected. Returning to the principles of the Chrétien Consensus will require first and foremost that citizens demand such policies. Only then will governments start to make the difficult decisions needed to rein in government spending, achieve balanced budgets, begin reducing debt, and start to refocus on tax competitiveness. Such policies delivered strong economic prosperity in the 1990s and 2000s, and given the opportunity will do so again. **FI**



JASON CLEMENS



MATTHEW LAU



MILAGROS PALACIOS



NIELS VELDHUIS

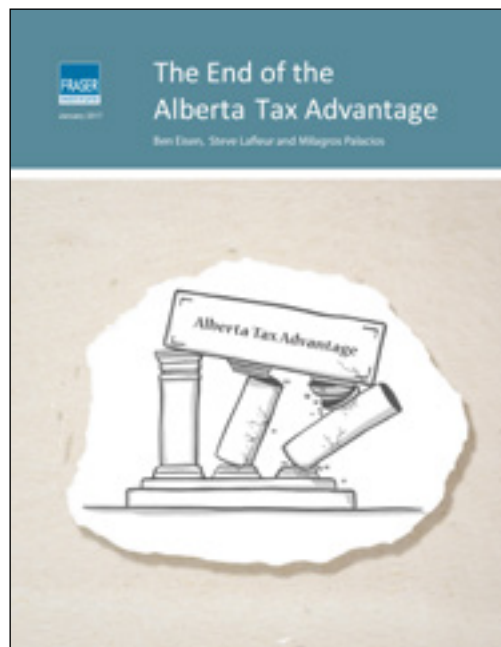
Jason Clemens is the executive vice-president of the Fraser Institute. Matthew Lau is a Toronto-based freelance writer and was a research intern with the Institute in 2016. Milagros Palacios is a senior economist and Niels Veldhuis is the president of the Fraser Institute. They are co-authors of the recently released book, *End of the Chrétien Consensus?*

Yes, Alberta's Tax Advantage Is Gone

Ben Eisen, Steve Lafleur, and Milagros Palacios

The Fraser Institute recently released a study, *The End of the Alberta Tax Advantage*, documenting the erosion of Alberta's once substantial tax advantage. Specifically, it showed that, until recently, Alberta benefitted from uniquely competitive and pro-growth personal and corporate income tax systems, but these key advantages have been wiped away by recent tax hikes.

In response, Alberta Finance Minister Joe Ceci said the study was “cherry-picking” certain taxes to discuss. This response is puzzling. The corporate and personal income taxes are the two largest sources of provincial taxes, cumulatively representing 43 percent of all own-source revenue in 2016/17. Further, they have been identified by economists as among the most economically damaging types of tax. To suggest it's a mistake to



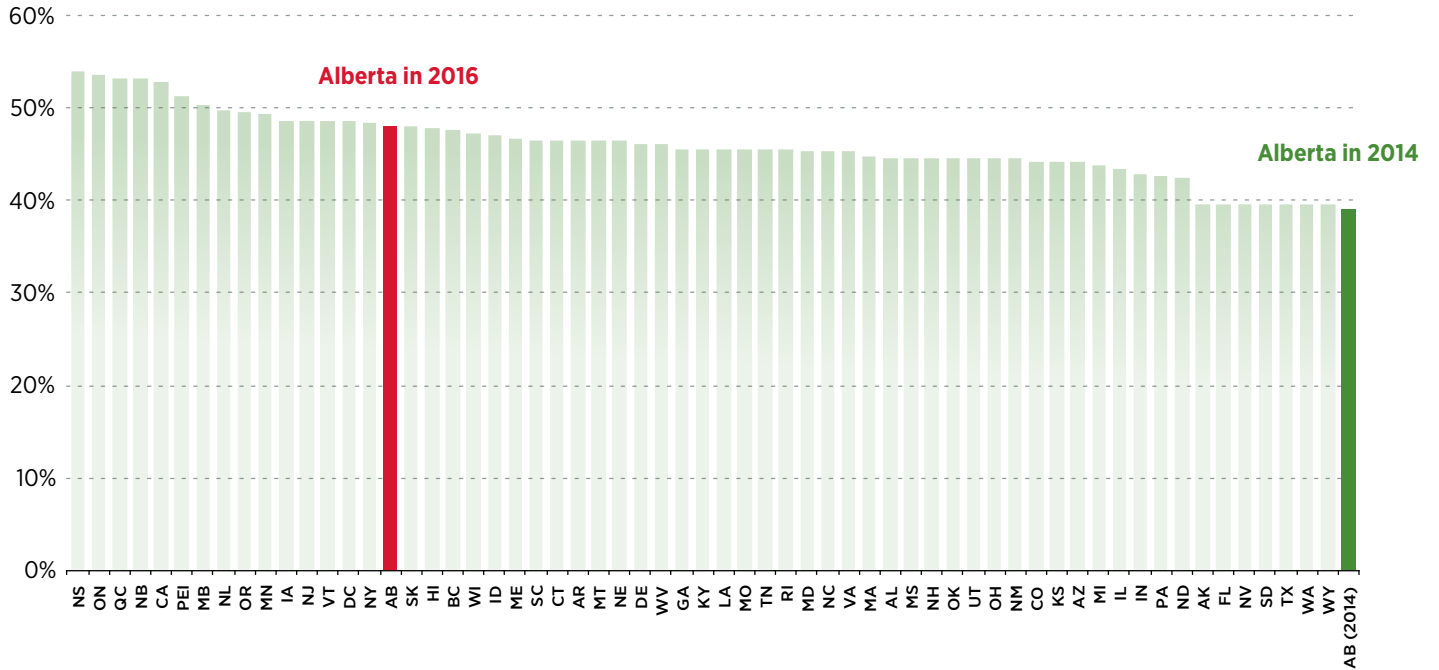
focus on the increases to these two taxes when evaluating Alberta's tax competitiveness is a bit like asking “aside from that, Mrs. Lincoln, how was the play?”

Again, there's overwhelming evidence that high personal income taxes discourage work, entrepreneurship and investment. Corporate income taxes are even more destructive. In

an aptly named study, *The Costliest Tax of All*, economists Ergete Ferede and Bev Dahlby found that for Alberta specifically, a corporate tax increase would be three times more damaging than raising an equivalent amount of new revenue through a sales tax.

So to be clear, documenting changes in these crucial tax rates isn't cherry-picking. Rather, it's measuring how important changes in government policy will affect the economy and the lives of Albertans. And the results of these measurements aren't pretty. Two years ago, Alberta enjoyed the lowest corporate income tax

TOP MARGINAL PERSONAL INCOME TAX RATE, COMBINED STATE/PROVINCE AND FEDERAL, 2016

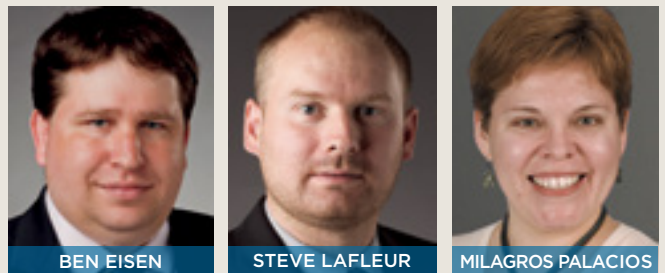


rate and lowest top income tax rate (combined federal/provincial/state) in Canada or the United States. This competitive edge was at the heart of the “Alberta Tax Advantage,” which for years helped to attract investment and people to the province. Now, Alberta has the 16th highest top personal income tax rate in North America, and is near the middle of the pack in Canada on corporate taxes.

Given these changes, it’s not surprising that Premier Rachel Notley’s government would rather we not focus on these taxes. But the reality is that while the corporate and personal income tax hikes are perhaps the most economically destructive tax increases implemented to date, they are not the only ones. Earlier this year, a substantial new carbon tax came into effect. Contrary to the advice of most economists, the tax was not made revenue-neutral by cutting other taxes commensurately—which means that the net result is even more money flowing out of Albertans’ pockets.

The reality is that two years ago, Alberta enjoyed a clear tax advantage within North America with respect to

both personal and corporate income taxes. This advantage helped attract people and investment to the province. The decision to undermine Alberta’s tax advantage by increasing these tax rates have harmed the province’s growth prospects and will diminish economic opportunity and prosperity for Albertans and their families. [FI](#)



Ben Eisen is director of provincial prosperity studies, Steve Lafleur is a senior policy analyst, and Milagros Palacios is a senior economist with the Fraser Institute. They are co-authors of *The End of the Alberta Tax Advantage*.

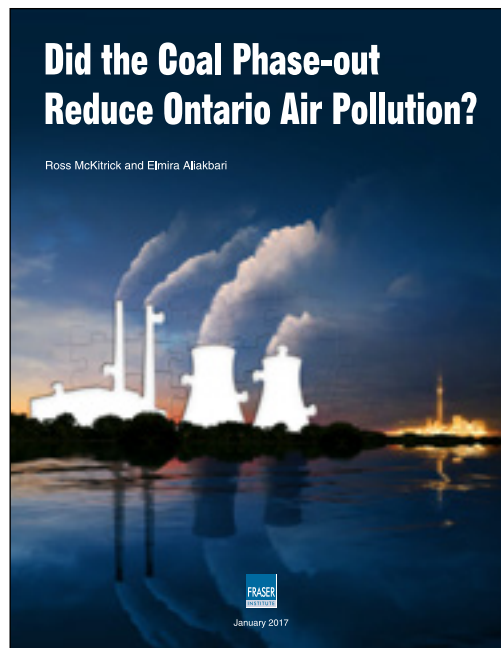
It's Official—Ontario's Coal Phase-out Was All for Nothing

Ross McKittrick and Elmira Aliakbari

The federal Liberal government plans to impose a national coal phase-out, based on the same faulty arguments used in Ontario, namely, that such a move will yield significant environmental benefits and reduce health care costs. There is one problem with the plan: those arguments never made sense, and now with the Ontario phase-out complete, we can verify not only that they were invalid, but that the Ontario government knew it.

We have just published a study on the coal phase-out in Ontario and its effects on air pollution from 2002 to 2014. Our expectation was that we would find very little evidence for pollution reductions associated with eliminating coal. This expectation arose from two considerations.

First, ample data at the time showed that coal use had little effect on Ontario air quality. Environment Canada's emissions inventories showed that the Ontario power generation sector was responsible for only a



tiny fraction (about one percent) of provincial particulate emissions, a common measure of air pollution.

Further, a study by the province in 2005 showed that most local particulates originated from US sources. Another study done for the province predicted that eliminating coal would have extremely small effects on urban particulate levels. Taken together, these reports provided a credible basis

for predicting that a coal phase-out would have only a small effect on our air quality. They also showed, based on the results of retrofits then underway at the power plants, that the same air quality improvements could be obtained at a fraction of the cost by installing scrubbers on the smokestacks, rather than shutting the coal-fired plants down.

Second, the government's claims about the health effects of phasing out coal were highly implausible. It stated (and continues to assert) that coal plant emissions cost the province more than \$3 billion annually in health care costs. But this was at a time when the total provincial health care budget was only about \$35 bil-

lion annually. In other words, they claimed that nearly one-tenth of all health care spending was due to illnesses and mortality arising from power plants that, again, were responsible for only about one percent of annual particulate emissions. That would imply that all emissions sources together caused an annual health care burden many times larger than the entire health care budget. It should have been obvious at the time that this was not remotely true.

The results of retrofits then underway at the power plants showed that the same air quality improvements could be obtained at a fraction of the cost by installing scrubbers on the smokestacks, rather than shutting the coal-fired plants down.

We analyzed data for the cities of Hamilton, Toronto, and Ottawa from 2002 to 2014. Our statistical model allowed us to isolate the effects of declining Ontario coal use compared to changing emissions from other Canadian and US sources and effects due to weather. In line with our expectations and the prior evidence, we found that phasing out coal was responsible for only very small changes in Ontario air pollution levels.

In fact, the reduction in fine particulates associated with declining coal use was likely a bit larger than the 2005 studies had forecast, but were still very small and, in Hamilton and Toronto, statistically insignificant. The coal phase-out had no apparent effect on nitrogen oxide (NOx) levels, which instead were significantly improved by declining NOx emissions in the United States. We found that the elimination of coal was associated with a significant reduction on Ontario ozone levels. However, this was offset by increased emissions from natural gas power plants, such that per-terawatt (a unit of energy), trading gas for coal yields slightly higher net ozone levels.

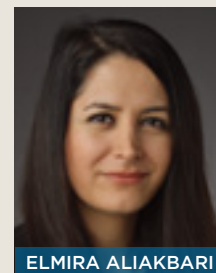
We did not look at greenhouse gases because they are not local air pollutants, only matter on a global level, and emissions could be offset by purchasing credits anywhere in the world. The climate issue was, and remains, a red herring in the discussion about the costs and benefits of eliminating coal.

Ontario is suffering a crisis of high and rising electricity costs that is causing real, long-lasting damage to households and businesses. The province insists the pain is worth it because of the environmental improvements. The numbers show otherwise.

Ontario is suffering a crisis of high and rising electricity costs that is causing real, long-lasting damage to households and businesses. The province insists the pain is worth it because of the environmental improvements. The numbers show otherwise. Phasing out coal had almost no effect on Ontario's air pollution levels—and the government at Queen's Park knew this was likely to be the case. It has all been for nothing. [FI](#)



ROSS MCKITTRICK



ELMIRA ALIAKBARI

Ross McKittrick is a professor of economics at the University of Guelph and senior fellow at the Fraser Institute. Elmira Aliakbari is a senior economist at the Fraser Institute. They are co-authors of the study *Did the Coal Phase-Out Reduce Ontario Air Pollution?*

Government Workers in Canada Continue to Receive Premium Compensation

Charles Lammam, Milagros Palacios, and Feixue Ren

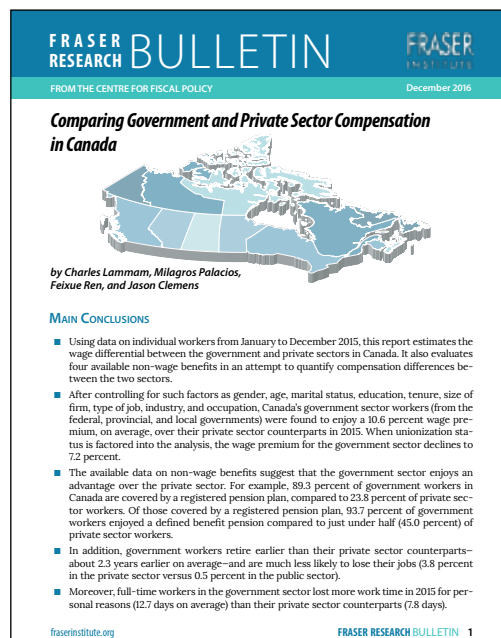
Seven years after the 2008-09 recession, the federal and many provincial governments continue to struggle with deficits, spending more than the revenues they collect and digging deeper into debt. All told, governments in Canada are projecting that they will rack up \$43.8 billion in deficits this year alone.

With the pay and benefits for government employees consuming a significant share of government spending—often about half of a provincial budget—controlling these costs is key to any government’s effort to repair public finances. And there’s ample reason to better control compensation costs. While governments must provide competitive compensation to attract qualified employees, decades of research has shown that the wages and benefits of government employees tend to eclipse those for comparable private-sector positions. This is not just about economics. It’s unfair to have government workers receive a premium that is paid for by private-sector workers who receive less for similar positions.

in the private sector. (This wage premium accounts for differences between individual workers in the two sectors such as age, gender, education, tenure, experience, and type of work.)

But wages are just one component of total compensation, which includes pensions, early retirement, and job security. As any business owner or manager will tell you, it’s the total cost of compensation that matters rather than the individual components. Yet even on various non-wage benefits, the available Statistics Canada data suggests government employees in Canada come out ahead.

First, consider pensions, one of the costliest benefits provided to workers in both sectors. In 2015, 89.3 per-



A recent Fraser Institute study, *Comparing Government and Private Sector Compensation in Canada*, spotlights the wage premium enjoyed by government employees in Canada at all levels (federal, provincial, and local). Using Statistics Canada data from 2015, the study finds that government employees receive, on average, 10.6 percent higher wages than comparable workers

The Great Pay Divide

Government vs. Private Sector Workers in Canada



Gets paid
10.6%
more for similar
work*

GOVERNMENT



PRIVATE



Retires 2.3 years earlier →
8 times more likely to have →
a pension that guarantees
income in retirement

← Misses work for personal
reasons 5 more days per year
← Experiences 7 times
less job loss

* This is the average wage premium and accounts for differences between workers in the two sectors such as their age, gender, education, tenure, and type of work.

cent of government sector workers were covered by a registered pension compared to just 23.8 percent of private sector workers. Tellingly, virtually all government pensions (eight of 10) are defined benefit pensions, guaranteeing a certain income level in retirement, rather than being dependent on how investments perform.

Government sector workers in Canada also retire 2.3 years earlier, on average, than private sector workers and are away from their jobs for personal reasons (12.7 days) more often than private sector workers (7.8 days).

When it comes to job security, another non-wage benefit, government workers have a distinct advantage. In 2015, 3.8 percent of private sector employment in Canada experienced job loss—approximately seven times higher than the 0.5 percent of government sector employment.

So what drives this disparity in wages and benefits? The reason is twofold. In the government sector, political factors largely determine the wage setting process, while the private sector is largely guided by market forces and profit constraints. These differences are amplified by the monopoly environment in which the government sector operates versus the competitive environment of the private sector.

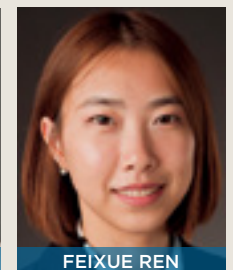
The first step to solving the government compensation premium is better data collected on a more regular basis. Better information, available more regularly, will hold governments to account for managing compensation costs. The longer-term solution, however, is to enact measures that link the wages and benefits of government employees to similar positions in the private sector. Doing so would allow governments to better control spending, rein in debt, and maintain fairness for taxpayers who ultimately foot the bill. [FI](#)



CHARLES LAMMAM



MILAGROS PALACIOS



FEIXUE REN

Charles Lammam is director of fiscal studies, Milagros Palacios is a senior economist, and Feixue Ren is an economist with the Fraser Institute. They are co-authors of the Fraser Institute study *Comparing Government and Private Sector Compensation in Canada*.

School Choice Lessons from Sweden and Australia

Deani Van Pelt and Jason Clemens



Barbara Mitchell Centre
FOR IMPROVEMENT IN EDUCATION

As part of the ongoing efforts by the Barbara Mitchell Centre for Improvement in Education to educate Canadians about the benefits of school choice, profiles of Sweden and Australia's approaches to funding and regulating their independent school sector were completed in late 2016. The key insights for Canadians are summarized below.

Gabriel Heller Sahlgren, research director for the Centre for the Study of Market Reform of Education, profiled Sweden in his paper, *Regulation and Funding of Independent Schools: Lessons from Sweden*. The paper offers a number of insights, but the most applicable to Canada and school choice is Sweden's parity of funding and ownership neutrality.

Five Canadian provinces (Quebec and the four western provinces) provide public funding to eligible independent schools. Funding in these provinces ranges from 35 to 70 percent of comparable per-student public school funding in the district. Sweden, on the other hand, funds independent schools at 100 percent of



the allocation for per-student operating costs in comparable local public schools. (Like the Canadian provinces, Sweden does not provide capital funding.) This means that there's no disparity in the level of public funding received (indirectly) by parents choosing independent schools rather than public schools in Sweden. The equity in funding has clearly influenced enrolment—the latest data (2014) indicate that 14.1 percent of primary and lower-secondary

students and 25.1 percent of upper secondary students attend independent schools.

In addition, unlike any other jurisdiction we're aware of, Sweden funds for-profit schools. In Canada, while for-profit schools are permitted, none of the five provinces that provide public funding allow support for for-profit schools. In fact, eligibility for public funding in these provinces is conditioned on non-profit status. The ability of for-profit schools to fully compete with both non-profit independent schools and public schools has affected school attendance in Sweden. In 2014, 64 percent of elementary and lower-secondary independent

school students, and 85 percent of upper-secondary independent school students, attended for-profit independent schools.

Finally, Sahlgren's paper echoes concerns voiced in Canada about prescriptive and inflexible regulations for independent schools, particularly in provinces that provide public funding. Sahlgren expresses his apprehensions about the heavy-handed regulation of curriculum, pedagogy, and teacher certification in Sweden.

Australia varies the value of public funding for parents sending their children to independent schools; it adjusts the value of the payment made to independent schools to reflect the socio-economic status of students based on the neighbourhood in which they reside.

The Barbara Mitchell Centre for Improvement in Education followed Sahlgren's analysis of Sweden with a study on the funding and regulation of independent schools in Australia by Kevin Donnelly, a senior research fellow at the Australian Catholic University. Donnelly's paper, *Regulation and Funding of Independent Schools: Lessons from Australia*, provides a number of interesting and worthwhile insights into Australia's approach to funding and regulating its fairly large independent school sector. In 2014, the share of students enrolled in independent schools in Australia was more than five times that of Canada—34.9 percent compared to 6.8 percent.



The most interesting and potentially influential policy insight of Donnelly's paper is that Australia varies the value of public funding for parents sending their children to independent schools. Specifically, Australia adjusts the value of the payment made to independent schools to reflect the socio-economic status of students based on the neighbourhood in which they reside. Government limits funding for students from the highest socioeconomic status (SES) areas to 20 percent, while grants for students from the lowest SES areas can reach 90 percent. Parents, or fundraising efforts by the school,

must cover the remaining portion of tuition costs.

Both Sweden and Australia offer real-world examples of innovations in funding for independent schools and some lessons on what to avoid when regulating independent schools. For more information, please see each of these studies (*Regulation and Funding of Independent Schools: Lessons from Sweden*, and *Regulation and Funding of Independent Schools: Lessons from Australia*) on the Fraser Institute website. [FI](#)



DEANI VAN PELT



JASON CLEMENS

Deani Van Pelt is director of the Barbara Mitchell Centre for Improvement in Education and Jason Clemens is the executive vice-president of the Fraser Institute.

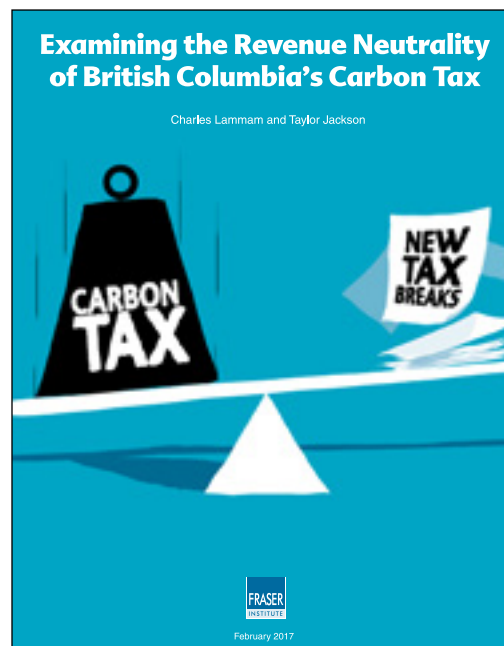
BC's Carbon Tax Not the "Gold Standard" It's Made Out to Be

Charles Lammam and Taylor Jackson

In a major announcement last year, the Trudeau government imposed a policy that will require all provinces to put a price on carbon emissions by 2018. As governments in Canada and elsewhere pursue carbon pricing, British Columbia's carbon tax has received global praise as the gold standard.

Both the United Nations and the World Bank have declared that BC's "revenue neutral" carbon tax is the model to follow. The OECD called it a "textbook" example of how to implement carbon pricing. Commentators in Canada and the US have similarly hyped BC's carbon tax, arguing it's proof that governments can get carbon policy right.

One of the underlying reasons for all this praise is the alleged revenue neutrality of BC's carbon tax. Revenue neutrality simply means that any new revenue from the carbon tax is offset with new tax cuts to ensure there's no net tax increase from the policy. But there's a fundamental problem with the BC model and proponents would do well to temper their enthusiasm. Despite what the government claims, BC's carbon tax is not actually revenue neutral, as a recent study of ours, *Examining the Revenue Neutrality of British Columbia's Carbon Tax*, demonstrates.



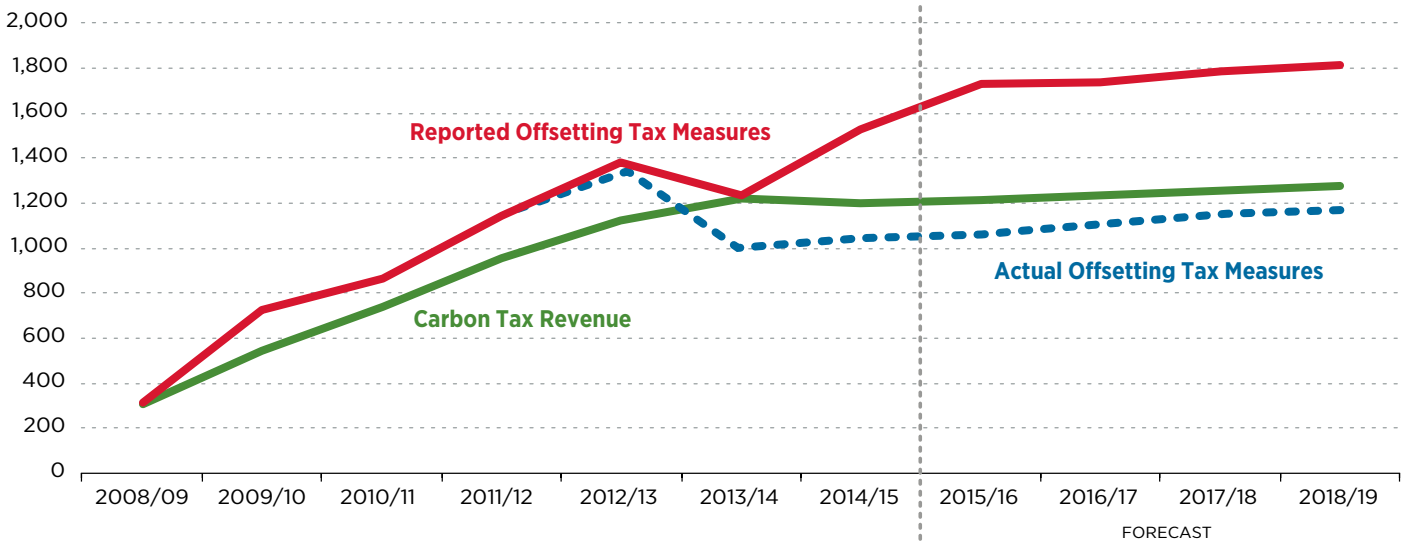
Back in 2008/09, when the province first introduced the carbon tax, the British Columbia government promised revenue neutrality. And, initially, it was. To offset the new revenue, the government introduced new cuts to personal and business tax rates and a new tax credit for low-income earners. The value of these new tax reductions was enough to offset all the new revenue generated from the carbon tax.

However, just five years later, as the carbon tax revenue increased, the government no longer provided new tax cuts that sufficiently offset the carbon tax's revenue. In other words, BC's carbon tax ceased being revenue neutral in 2013/14.

This is certainly contrary to what the BC government reports in its official documents, which claim that the total value of tax cuts more than offsets carbon tax revenue (see figure). The problem is that by 2013/14, the government was no longer relying solely on new tax reductions to offset carbon tax revenue; instead, it began using pre-existing tax credits to give the appearance of revenue neutrality.

In fact, a number of the tax credits the government now counts as offsets were first introduced in the 1990s—well before their inclusion in the government's revenue

BC'S CARBON TAX REVENUE: ACTUAL OFFSETTING TAX MEASURES AND REPORTED OFFSETTING TAX MEASURES (\$ MILLIONS)



neutral calculation. Once the pre-existing tax reductions are properly removed from the government’s revenue neutral calculation, taxpayers in British Columbia endured a net tax increase of \$226 million in 2013/14 and \$151 million in 2014/15. Those numbers are based on historical data.

According to data from the government’s own projections, the carbon tax will result in a cumulative \$865 million tax increase on British Columbians between 2013/14 and 2018/19. So much for revenue neutrality.

But the problems don’t end there. Like all taxes, a carbon tax imposes economic costs beyond the amount of money the tax raises, as people change their behaviour in ways that reduce economic output. Part of the rationale for a revenue neutral carbon tax is to mitigate this effect by concurrently cutting other taxes that also distort economic activity, such as personal and corporate tax rates.

In recent years, however, a much smaller share of BC’s carbon tax is being offset by cuts to broad-based tax rates that actually improve incentives and foster economic activity. Specifically, before 2013/14, cuts to BC’s general corporate income tax rate and two lowest personal income tax rates totalled, on average, more than 60 percent of the revenue generated by the carbon tax. From 2013/14 onwards, these tax cuts account for

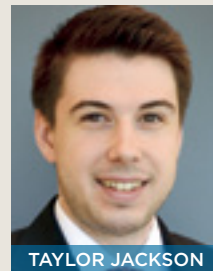
less than 45 percent of the revenue generated by the carbon tax.

While an increasing share of carbon tax revenue is being offset with targeted tax credits for specific individuals and businesses, these types of tax measures do virtually nothing to mitigate the economic costs of the carbon tax.

BC’s carbon tax is evidence that once political realities set in, the textbook theory of a revenue neutral carbon tax unravels. BC’s carbon tax is not the “gold standard” it’s often made out to be. [FI](#)



CHARLES LAMMAM



TAYLOR JACKSON

Charles Lammam is director of fiscal studies and Taylor Jackson is a senior policy analyst with the centre for natural resources at the Fraser Institute. They are co-authors of the study *Examining the Revenue Neutrality of British Columbia’s Carbon Tax*.

Wait Times Longest Yet for Health Care in Canada

Bacchus Barua and Feixue Ren

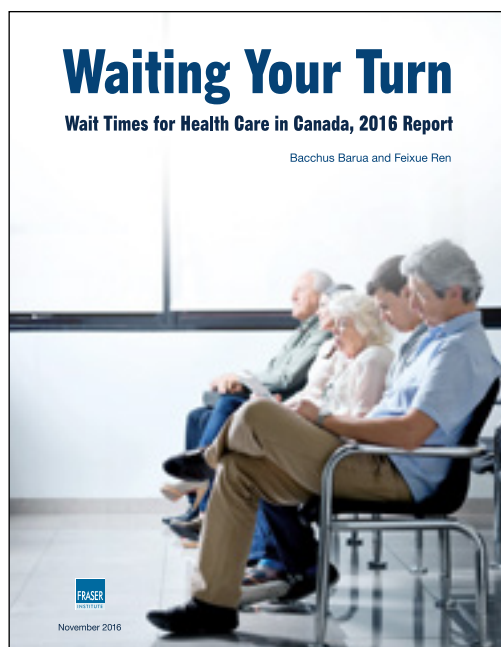
For too long, we have failed to address the fundamental causes of wait times for medical treatment in Canada, and they are now our health care system's defining characteristic.

In order to document the lengthy queues for visits to specialists and for diagnostic and surgical procedures in the country, the Fraser Institute has—for over two decades—surveyed specialist physicians across 12 specialties and 10 provinces.

In 1993, when governments and policymakers were still questioning whether wait times existed in Canada, the Fraser Institute published the results of the first national estimate of wait times—9.3 weeks between referral from a GP to receipt of medically necessary treatment. In 2016, the estimated wait was 20 weeks—the longest ever in the history of the survey.

The total wait time that patients face can be examined in two consecutive segments:

1) From referral by a general practitioner to consultation with a specialist. The waiting time in this segment increased from 8.5 weeks in 2015 to 9.4 weeks this year.



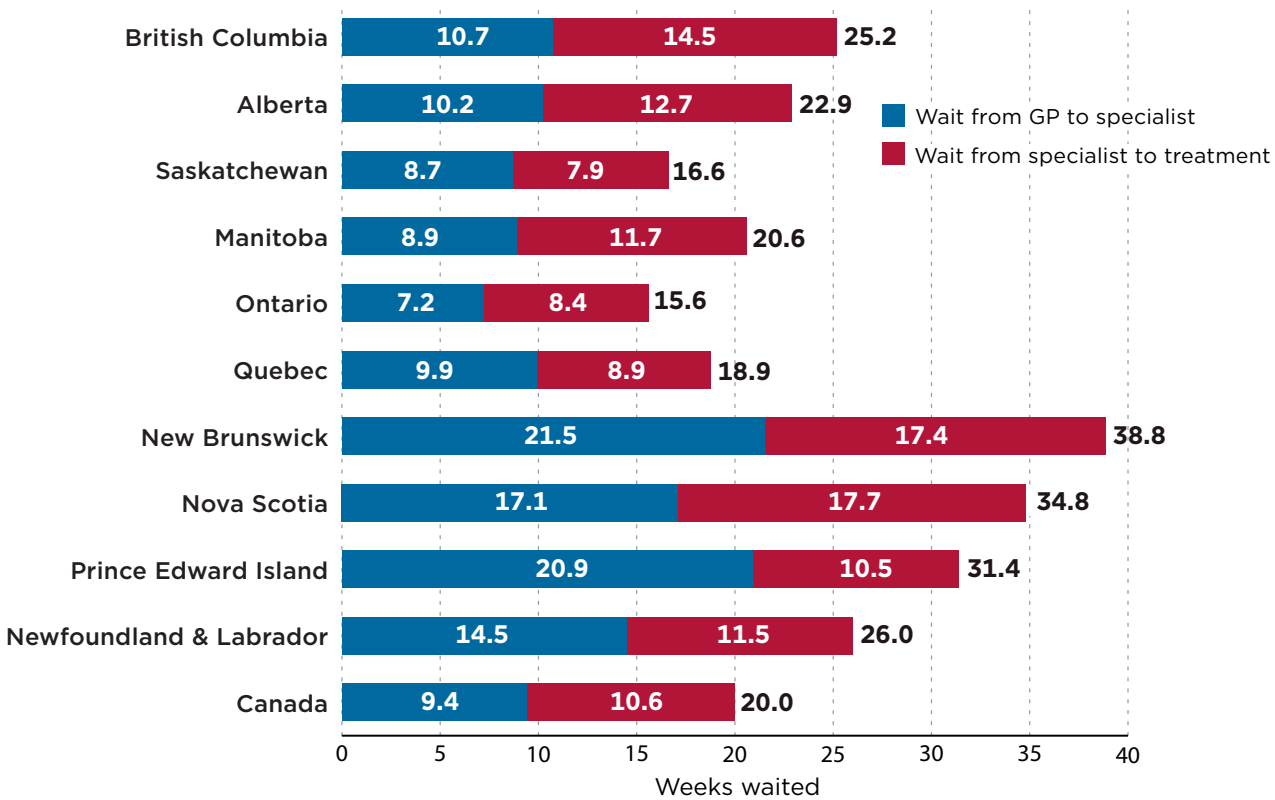
This wait time is 155 percent longer than in 1993, when it was 3.7 weeks.

2) From the consultation with a specialist to the point at which the patient receives treatment. The waiting time in this segment increased from 9.8 weeks in 2015 to 10.6 weeks this year. This wait time is 88 percent longer than in 1993 when it was 5.6 weeks, and more than three weeks longer than what physicians consider to be clinically “reasonable.”

When examining the total wait between getting a referral from a general practitioner to receiving treatment, Ontarians faced the shortest wait (15.6 weeks), while patients in New Brunswick faced the longest (38.8 weeks). Of course, there is a great deal of variation among specialties. Averaged across all provinces, patients waited longest between a GP referral and neurosurgery (46.9 weeks), while those waiting for medical oncology began treatment in 3.7 weeks.

Overall, it's estimated that patients were waiting for 973,505 medically necessary procedures and treatments last year. Assuming that each person waits for only one procedure, 2.7 percent of Canadians were waiting for treatment in 2016, ranging from a low of 1.6 percent in Quebec to a high of 5.8 percent in Nova

MEDIAN WAIT BY PROVINCE IN 2016—WEEKS WAITED FROM REFERRAL BY GP TO TREATMENT



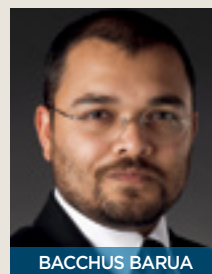
Scotia. At the same time, physicians reported that only about 10.8 percent of their patients are on a waiting list because they requested a delay or postponement.

While some degree of triage is expected in any medical system, Canadians, unfortunately, also face significant waits for diagnostic imaging technologies—3.7 weeks for a computed tomography (CT) scan, 11.1 weeks for a magnetic resonance imaging (MRI) scan, and 4.0 weeks for an ultrasound. That patients have to face such inordinately long times in order to simply discover the severity of their medical condition is remarkable.

Research has repeatedly indicated that wait times for medically necessary treatment are not benign inconveniences. Wait times can, and do, have serious consequences such as increased pain, suffering, and mental anguish. In certain instances, they can also result in poorer medical outcomes—transforming potentially reversible illnesses or injuries into chronic, irreversible conditions, or even permanent disabilities. In many instances, patients may also have to forgo their wages while they wait for

treatment, resulting in an economic cost to the individuals themselves and the economy in general.

It's time for concerted action on this crucial issue that affects the lives of patients. The data is clear: despite provincial strategies to reduce wait times and high levels of health expenditure, patients in Canada are waiting longer than ever. [FI](#)



BACCHUS BARUA



FEIXUE REN

Bacchus Barua is a senior economist in health policy studies and Feixue Ren is an economist with the Fraser Institute. They are the authors of *Waiting Your Turn: Wait Times for Health Care in Canada, 2016 Report*.

In 2016, the Fraser Institute hosted 28 programs from which more than 40,800 high school and university students benefitted. The exciting launch of the Peter Munk Centre for Free Enterprise Education in the fall enabled us to expand in Ontario and to further increase our outreach.

POST-SECONDARY STUDENT SEMINARS

We wrapped up 2016 with seminars targeted at university and college students in two new cities: Ottawa and Waterloo, and kicked off 2017 with seminars in Vancouver and Toronto. Over 450 students spent their Saturdays learning about current public policy issues, asking questions of experts, and exchanging ideas. Among those in attendance in Vancouver were 62 students who participated in our travel bursary pro-



2017 Vancouver Seminar Travel Bursary Program participants.

gram, which provides travel and accommodation costs to those from outlying regions.

The topics at our Waterloo seminar included emerging technologies and “permissionless innovation,” electoral reform, and the sharing economy. In Vancouver, students explored the economics of minimum wage hikes and economic freedom. The seminar in Toronto was highlighted by *Wall Street Journal* columnist Greg Ip, who asked students to reconsider our notions of safety in an increasingly interconnected world.

HIGH SCHOOL STUDENT SEMINARS

Over 500 students in grades seven to twelve attended three high school seminars in November. Due to the success and popularity of these programs in BC and thanks to Peter Munk’s generous donation, we



Christopher Koopman surveys the audience on their use of the sharing economy.



Fred McMahon answers a student question on the effects of economic freedom.



Dr. Ninos Malek selects volunteers for an activity that illustrates the law of diminishing marginal returns.

took these programs to Ontario for the first time in the fall, and are thrilled to be going back in 2017.

Economics is Everywhere! Applying Basics Concepts to Everyday Life is offered to students in grades 7-9. This exciting program introduces basic economic concepts. 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 10-12. From pop culture phenomena to hitting the “snooze” button on an alarm clock, from balancing a budget to saving for college, students learn how every decision they make is an economic choice.

TEACHER WORKSHOPS

Five teacher workshops were held over the last quarter of 2016 in which 125 teachers worked with university economics professors to learn economic principles and concepts through the use of lesson plans, games, activities, lectures, and videos. We offered the *Economics of Disasters* workshop in Burnaby, where teachers learned about the effects of disasters on a country’s economy and its citizens. Our *Economic Principles* workshop in Vancouver gave teachers a



Teachers learn how to make the concept of division of labour fun for students through lessons and activities that promote experiential learning.

“I loved this workshop. I feel like I can add more value and real life examples to my students”

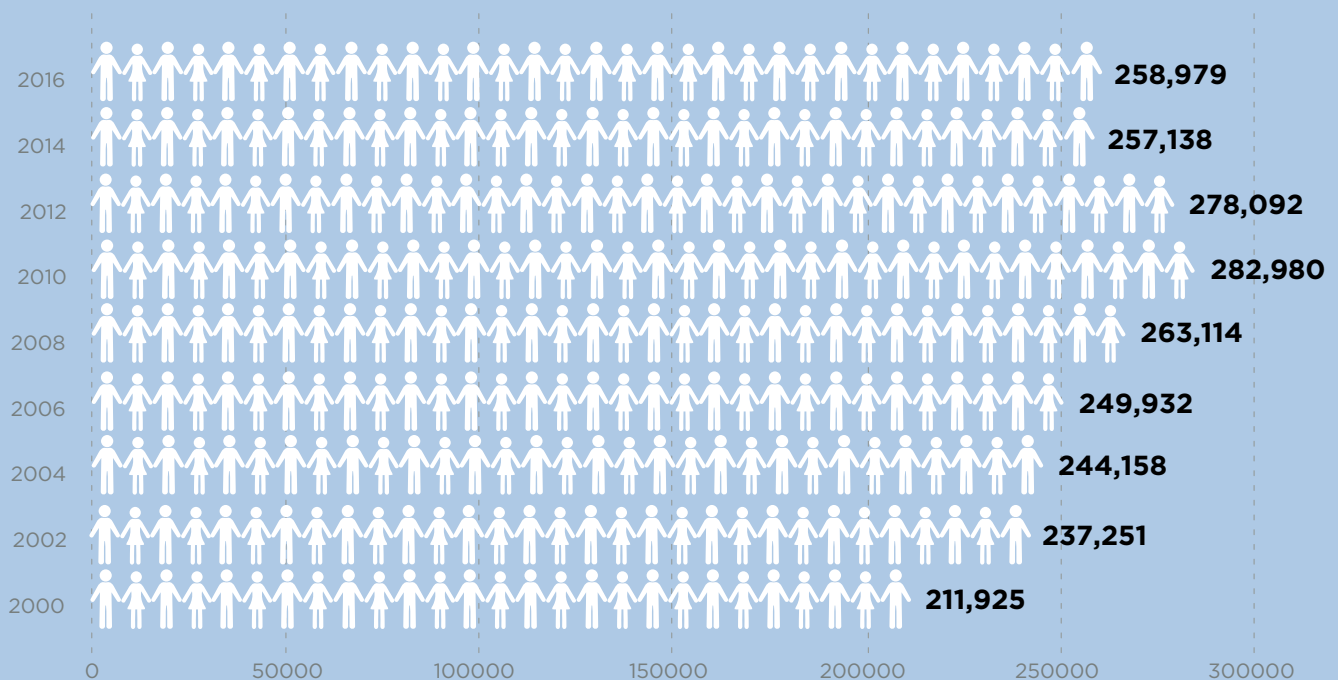
*ECONOMICS OF DISASTER
TEACHER WORKSHOP ATTENDEE*

chance to learn fun ways to introduce economics to their classroom. Both of these programs were offered in Mississauga for the first time. **FI**

Canada's Rising Federal Employment—Making Sense of the Numbers

Livio Di Matteo

TOTAL FEDERAL GOVERNMENT EMPLOYMENT, 2000 TO 2016



The public sector and the functioning of government bureaucracies, especially when it comes to employment, should be of great interest to taxpayers at all levels of our federation. In Canada's federal government, core departments and separate agencies have seen employment grow from 211,925 jobs in 2000 to 258,979 in 2016, an increase of 47,054 jobs, or 22.2 percent.

This total includes active employees of all employment tenures (indeterminate, term, casual, and student), governor-in-council appointees, deputy

ministers, and federal judges. However, it excludes inactive employees (e.g., employees on leave without pay), ministers' exempt staff, employees locally engaged outside of Canada, RCMP regular force members, RCMP temporary civilian force members, and Canadian Forces members. It also excludes the Canadian Security Intelligence Service, the National Capital Commission, Canada Investment and Savings, Canadian Forces Non-Public Funds, and the Security Intelligence Review Committee (before 2010).

The numbers for this analysis come from the government of Canada website as of March 31 of each year,

which lists a total of 128 core departments and separate agencies. Total employment growth went from 211,925 jobs in 2000 to a peak of 282,980 in 2011, for an increase of nearly 34 percent. However, a steady decline set in after 2011 bringing employment down to 257,034 by 2015, which then increased in 2016 to 258,979. Between 2011 and 2016, the employment decline is just over 8 percent. However, it is interesting to see where the increases and declines have occurred.

There has been little evidence as to whether these changes have been driven by any analysis of what the optimal staffing of federal departments should be.”

In absolute numbers across government departments and separate agencies since 2000, the biggest increases have been in the Canada Border Services Agency (14,171), the Public Services and Procurement Department (5,848), National Defence (5,538) and Shared Services Canada (5,157). The biggest decreases have been in the Canada Revenue Agency (-5,599), Public Works Canada (-5,265), the International Development Agency (-1,337) and Statistics Canada (-1,326).

Of course, while some of these changes reflect changing national priorities and successful advocacy by bureaucrats, some also reflect shifting and reallocation of functions across departments.

For example, there was no Canada Border Services Agency in 2000, though there were still border services, so the better comparison might be between 2005 (when the agency first appears) and 2016, making for an increase from 9,510 to 14,171—a less dramatic but still substantial increase.

Passport Canada is a similar situation; it came into existence in 2003 with 1,345 employees who obviously were issuing passports before this date.

Then there are some agencies that come into existence and disappear during this period, such as the Canada Firearms Centre, which appears in 2005 with 310 employees and then disappears in 2008 with employment of zero. Even Passport Canada hits 2,696 employees in 2013 and then goes to zero the year after.

For an economist with an interest in public finance and fiscal numbers pertaining to government revenue and spending, the most interesting numbers are those for three items: Statistics Canada (-1,326), Department of Finance (-213) and the Canada Revenue Agency (-5,599). Since 2000, these federal bodies have seen their employment decline 19, 22, and 12 percent respectively, while total federal employment has grown 22 percent. There has been little evidence as to whether these changes have been driven by any analysis of what the optimal staffing of federal departments should be.

I suppose it is not that they do not like working with numbers in Ottawa. The employment decline of these quantitative oriented departments has been accompanied by the rise of intriguingly named quantitative entities, such as Statistical Survey Operations, which first appears in 2005 with 2,084 employees, peaks at 2,371 employees in 2012, and then declines to 1,701 employees by 2016. The Office of the Auditor General grows from 542 employees in 2000 to 588 employees in 2016, while the Office of the Superintendent of Financial Institutions goes from 364 to 667 employees.

All these ebbs and flows are quite fascinating. However, aside from what drives federal employment growth, a key policy question is what determines the allocations across functions and departments? [FI](#)



Livio Di Matteo is professor of economics, Lakehead University, and a Fraser Institute senior fellow.

Why First Nations Succeed in Canada

Tom Flanagan



Although the living standard of most First Nations still lags behind the Canadian average, many are finding ways to improve conditions for their members. We can measure communities' standard of living by using the Community Well-Being (CWB) Index, which combines data about incomes, employment, housing, and education. Standard statistical methods can identify factors associated with higher CWB scores.

In other words, we now have objective evidence about what works and what doesn't work to improve First Nations living standards.

Successful First Nations run a tight governmental ship. They balance their budgets and stay out of remedial third-party management. They pay their elected councillors less than average for First Nations, thus dampening political factionalism. And they reward visionary leadership with re-election and long terms in office.

Well-governed First Nations are more likely to assume more control of their own affairs, making use of "off ramps" that provide an escape from the strictures of the Indian Act. Negotiating a self-government agreement provides for overall self-determination within the Canadian Constitution. Entry into the First Nations

Land Management Agreement allows faster and more effective control of local lands, moving “at the speed of business” rather than “at the speed of government.” Setting up a system of property taxes on leaseholds generates much-needed own-source revenue. And Certificates of Possession (a form of landownership on reserve) create incentives for individuals to invest in higher quality housing.

Well-governed First Nations are more likely to assume more control of their own affairs, making use of “off ramps” that provide an escape from the strictures of the Indian Act.

Strikingly, successful First Nations have achieved impressive results on their own initiative, not from additional transfers of public revenue or through participation in government-managed programs. The essential role of the federal government has been to get out of the way, to legislate new opportunities for First Nations to deploy their own creativity. Abolition or wholesale amendment of the Indian Act may not be politically possible, but building such off ramps has proven feasible in the past and can continue in the future.

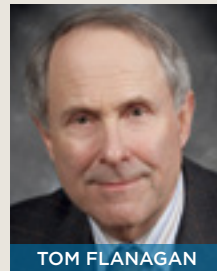
First Nations that make use of these opportunities are more likely to achieve business success. Some are doing well in the hospitality and entertainment industries, hosting casinos, hotels, and restaurants. Some are succeeding in developing residential, commercial, and industrial real estate. Others are participating in natural resource plays in oil and gas, forestry, and hard-rock mining. And some are succeeding in multiple areas, even using their own-source revenues to establish or buy companies elsewhere in the economy, such as trust companies and airlines.

Successful First Nations are opportunistic in the good sense of the term, using whatever advantages are of-

fered by their location. The benefit equation is straightforward and highly visible in the statistical analysis: local control encourages location-appropriate business ventures that generate own-source revenues and a higher standard of living.

Of course, success comes more easily in some settings than in others. For various historical and cultural reasons, First Nations’ CWB tends to be higher in British Columbia, southern Ontario and Quebec, and Atlantic Canada, and lower in the three Prairie Provinces and the northern areas of other provinces. Being situated near a town or city also helps a great deal, as has been illustrated by the success of the Membertou First Nation in Sydney, Nova Scotia, which has diverse and extensive commercial interests in gaming and fishing and draws many of its customers and a considerable proportion of its workforce from the greater Sydney area.

Yet there are also outstanding success stories in the Prairie Provinces, such as the Whitecap Dakota First Nation in Saskatchewan and the Fort McKay First Nation in Alberta. And the Osoyoos Indian Band, which has become an economic powerhouse under the leadership of Chief Clarence Louie, is located in a very arid climate zone, even though it is in British Columbia. The upward path to an improved standard of living through self-determination and good governance can be found in many settings, even if some First Nations have the good fortune to start from a higher plateau. [FI](#)



TOM FLANAGAN

Tom Flanagan is a Fraser Institute senior fellow and professor emeritus of political science at the University of Calgary. He is the author of *Why First Nations Succeed*.



Response to Electoral Reform Announcement Bordering on Revisionist History

Lydia Miljan

The reaction to the government's announcement that it was going to break its election promise to replace Canada's current first-past-the-post electoral system reveals a lot about the priorities of the opposition parties.

Nathan Cullen, NDP MP, called Prime Minister Trudeau a “liar” and “the most cynical variety of politician.” NDP Leader Tom Mulcair supported his MP, calling the announcement a “betrayal.” Green Party Leader Elizabeth May said she felt “more deeply

shocked and betrayed by my government today than on any day in my adult life.”

These are indeed strong reactions to a campaign promise that was given very little attention during the election campaign.

The tenor of the opposition complaints, and even the media's description of the policy change, is bordering on revisionist history, or in today's parlance, “alternative facts.” For example, CTV's Lisa LaFlamme went so far to describe it as a “major campaign promise.” In truth, the

promise to replace the existing electoral system was one item buried in the middle of more than 200 campaign promises. More importantly, the promise never indicated what the system would be replaced with.

Despite the claims by the opposition parties that Canadians voted for the Liberals based on this promise, it's more likely that most Canadians were wholly unaware that the promise was even made. Of the three English-language debates, only the *Maclean's* debate made passing reference to the issue. The media didn't give it much weight either. During the campaign, "electoral reform" was mentioned 851 times in print and online media compared to "health care," which was mentioned 31,979 times.

Even after the election and during the all-party consultations, an Ipsos poll revealed that most Canadians were unaware that deliberations were even taking place. So much for this being a "major campaign promise."

But more importantly, where was the opposition outrage regarding the actual major Liberal promises that were broken, such as balancing the budget by 2019-20? Unlike the pledge to change the way we vote, promises on "modest" deficits and balancing the books were repeated in each of the debates, featured in election ads, and discussed throughout the 11-week campaign.

Yet searches of *Hansard* find no similar outrage, or indeed mention by the NDP or Greens on the revelation by Finance Canada that the country would not see the books balanced until 2050. This is likely because the opposition parties are more concerned about gaining political power than their responsibility to Canadian taxpayers to keep spending in line with revenue.

In fact, Elizabeth May, while noting that the Green Party platform states that balanced budgets are desired, personally had no qualms with budget deficits, saying, "it is not a bad idea to go into deficit to kick-start the economy. It is a good idea."

Unlike the Liberals, both the NDP and the Green Party had committed to proportional representation (PR) in their 2015 election platforms. What these parties, and other proponents of PR, don't tell you is that there's a cost to the system. First, there's an incentive for smaller parties to form, as they have a higher probability of

electoral success. If you think five political parties is a lot, there would be even more under a PR system.

Second, because the vote is dispersed among more parties, there's a higher likelihood of a coalition government. Smaller parties end up having disproportionately more power because they often hold the balance of power. The policy consequence of smaller parties holding more power is that the size of the central government in PR systems is almost 25 percent larger than in systems similar to Canada's current first-past-the-post. The smaller parties extract fiscal promises and extra spending for their projects in return for their support of the coalition. The higher levels of spending also lead to higher government deficits.

What proponents of PR don't tell you is that there's a cost to the system.

While the NDP and Green parties are outraged and feel betrayed, in this case, the broken promise to replace first-past-the-post is one Canadians should be relieved about. [FI](#)



LYDIA MILJAN

Lydia Miljan is an associate professor of political science at the University of Windsor and a Fraser Institute senior fellow.

Ontario's Fall Statement— If This Plan Is “Working,” What Does Failure Look Like?

Ben Eisen and Charles Lammam



In November, Ontario's Wynne government released its fall statement—essentially an update on the state of Ontario's economy and finances. After a brief preamble about the challenges imposed by the 2008/09 recession, the document's second paragraph consists of a stark, shockingly out-of-touch sentence. It reads: "Our plan is working."

It's difficult to know where to begin pointing out the problems with this claim, but looking at the broad macroeconomic numbers is as good a place as any.

The government's rosy rhetoric notes that the provincial economy is now growing and that relatively strong

growth is expected in the years to come. But it's important to recognize just how severe and prolonged Ontario's economic slump has been before popping the champagne to celebrate a brief uptick in growth.

Consider that from 2003 to 2015, per-person economic growth (adjusting for inflation) in Ontario increased at an average annual rate of 0.5 percent. That's anemic growth over a long period of time, and is approximately half the growth rate in the rest of Canada.

Weak economic growth is not just a matter of economic concern—it has hit regular Ontarians hard in their pocketbooks. Consider that in 2000, average disposable household income in Ontario was 10 percent higher

than in the rest of the country. Prolonged poor economic performance has meant that Ontario's average income (since 2012) is now below that for the rest of the country. That Ontarians have an income that is below the national average has never before happened in the province's history and is likely difficult for most Ontarians to accept. Put simply, the average Ontarian is now poorer than the average Canadian.

The Fiscal Accountability Office projects that the government's debt burden will increase by more than \$50 billion in the years ahead, reaching \$370 billion by 2020. The notion that a return to a balanced operating budget next year means the fiscal plan is working, or that Ontario's battered finances are on the road to recovery, is nothing more than spin.

A potent symbol of Ontario's economic slide came in 2009 when the province became eligible for equalization payments, becoming a "have-not" province for the first time in its history. It's a situation that would have been almost unimaginable a generation ago. Seven years later, however, the province receiving equalization payments has become simply business as usual in Ontario.

It will take more than a few quarters—or even a few years—of strong economic growth to undo all of this damage and restore Ontario to its position as an economic engine in Canada. If this is what economic success and a "working" plan looks like, it's hard to imagine what might constitute failure in the government's eyes.

That the government is willing to brag about its economic record is cringe-worthy; that it is also willing to

brag about the success of its management of provincial finances is almost surreal. The update says the province is on track to beat its deficit target this year and that it will return to a balanced budget in 2017-18. This is supposed to be evidence of the government's prudent fiscal management.

The numbers themselves, however, tell a very different story. In reality, the government is on track this year to run its ninth consecutive multi-billion dollar budget deficit. Since 2003, Ontario's debt (after adjusting for financial assets) has grown faster than that of any other province in Canada.

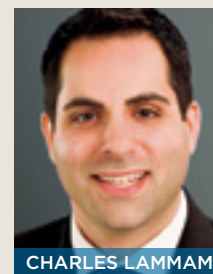
The government may well finally balance its operating budget next year, which includes its spending on day-to-day items, although its own fiscal accountability office (FAO) has cast some doubt that it will. Even so, the government will continue to rack up debt in the years ahead because it continues to spend money on capital projects including "post-secondary infrastructure," public transit and "affordable housing, tourism and cultural centres."

In fact, the FAO projects that the government's debt burden will increase by more than \$50 billion in the years ahead, reaching \$370 billion by 2020. The notion that a return to a balanced operating budget next year means the fiscal plan is working, or that Ontario's battered finances are on the road to recovery, is nothing more than spin.

The rosy fiscal and economic rhetoric surrounding this week's economic update is disconnected from the economic realities facing Ontarians and from the realities of the government's own finances. [FI](#)



BEN EISEN



CHARLES LAMMAM

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

Vancouver's Tax on Vacant Homes Misses the Point—We Need to Build More Homes

Steve Lafleur and Josef Filipowicz



Last fall, Vancouver city council approved an annual one percent tax on the value of vacant homes, ostensibly to encourage their owners to rent them out and, in theory, boost the city's rental housing supply and rental vacancy rate, which is consistently below one percent.

Beyond potential issues of enforceability, it's unclear how much the tax will increase the supply of rental units in Vancouver, especially in the longer

run. Consider this: according to city hall, the estimated percentage of housing units that are unoccupied year-round sits at just under five percent. While that number might seem large to some, there are plenty of legitimate reasons why a unit might not be occupied at any given time. This is why exemptions will be granted for situations that range from “snowbirds” claiming homes as their principal residence even when they don't spend all year in them, to condos where strata rules restrict rentals. But even if a reasonable number of the unoccupied

units find their way onto the rental market, it would only be a one-time boost rather than a lasting solution.

Highly desirable cities such as Vancouver will always attract newcomers, from vacationers to job-seekers to investors. This is not likely to change, spurring growing demand for housing. Rather than trying to dissuade this demand, the city would benefit from ensuring an adequate supply of new housing units. It's a simple equation. When the number of new homes does not keep up with demand, more potential buyers or renters will bid for a dwindling pool of listings, eventually pushing prices up, and pushing some people out.

Even if a reasonable number of the unoccupied units find their way onto the rental market, it would only be a one-time boost rather than a lasting solution.

Growing the housing supply in a geographically constrained city such as Vancouver will ultimately require city hall to allow more density. This means reducing red tape, specifically, the regulatory barriers and costs associated with building more apartments, laneway units, townhomes, and other alternatives to single-dwelling houses.

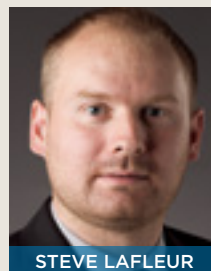
When compared to its neighbours, Vancouver creates an inordinate amount of red tape. According to Fraser Institute research, long and uncertain timelines for building permit approvals from city staff can significantly slow the pace at which new housing enters the market. In this regard, Vancouver ranks worse than almost any other city in the Lower Mainland; it takes an average of more than 15 months to get a permit to build a new housing unit.

To encourage the construction of new homes, Vancouver can look to its neighbours for best practices. Timelines for permit approval are five months shorter, on average, in Burnaby; there, the per-unit costs—another

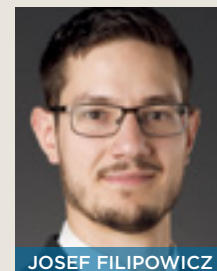
important factor—for complying with local regulations are half of what they are in Vancouver. Incidentally, uncertainty in building permit approval timelines is lowest in the nearby communities of Abbotsford, Port Moody, and Pitt Meadows.

Vacant homes, like foreign ownership, are a convenient scapegoat upon which to pin Vancouver's declining affordability. The focus on unoccupied homes distracts from the underlying problem of supply not keeping up with demand.

Vancouver is one of the world's most attractive cities, so strong demand for housing will likely persist into the foreseeable future. Vacant homes, like foreign ownership, are a convenient scapegoat upon which to pin Vancouver's declining affordability. But the focus on unoccupied homes distracts from the underlying problem of supply not keeping up with demand. As the province and city hall attempt to address the demand for housing in Vancouver, they should not lose sight of homegrown barriers to the construction of new housing. [FI](#)



STEVE LAFLEUR



JOSEF FILIPOWICZ

Steve Lafleur is a senior policy analyst and Josef Filipowicz is a policy analyst at the Fraser Institute. They are co-authors of the study, *The Impact of Land-Use Regulation on Housing Supply in Canada*.

Another Broken Promise: Tax Cuts for the Middle Class

Charles Lammam and Hugh MacIntyre



When a government breaks an election promise, it usually attracts a fair bit of controversy. Witness the hubbub in the aftermath of the Trudeau Liberals abandoning electoral reform. With the federal budget coming soon, it is also worth recalling that the Liberals promised to run deficits of no more than \$10 billion for a maximum of three years, but the government's latest projections peg its annual deficits at almost \$30 billion with no timeline for returning to a balanced budget.

While these broken promises have garnered some attention, yet another broken promise has managed to fly under the radar. The Liberals campaigned on the promise to cut taxes for Canada's middle class. Yet since forming government, they have announced several tax hikes—and more may be on the way.

The latest potential tax hike could be higher user fees for a range of federal services (including fishing licenses, campsites, and passports). That's according to a CBC report that suggests the federal government is

eyeing an increase to these fees. If implemented, this would be the latest in the government's onslaught of tax increases on Canadians.

Let's take stock of the tax increases announced to date.

First, there was the new top personal income tax rate on highly skilled and educated workers—now 33 percent, up from 29 percent. This tax hike will discourage economic activity and make it more difficult for Canada to attract and retain knowledge-based workers.

Of course, the government reduced the second-lowest personal income tax rate from 22 to 20.5 percent, but that reduction is being completely wiped out by the higher payroll taxes working Canadians will have to pay for expansion of the Canada Pension Plan—a combined 2 percent hike on eligible earnings up to the current limit, and an additional 8 percent above, up to a maximum amount.

Ottawa's plan to impose carbon pricing on all the provinces, with the rate for each tonne reaching \$50, will directly raise the cost of many consumer goods including gasoline and natural gas, and indirectly raise the costs of many other goods due to higher production and transportation costs.

Keep in mind that Canadians with incomes below \$45,000 will be particularly hard hit, as they will not receive any benefit from the income tax rate reduction but will have to pay higher payroll taxes.

And let's not forget about the widely used tax credits that the government is eliminating. This includes income splitting for couples with children, the Children's Fitness

Tax Credit, the Children's Arts Tax Credit, the Education Tax Credit, and the Textbook Tax Credit (other tax credits may be on the chopping block, too, as the government wraps up its review of the tax code). Tax credits create distortions with little economic gain and require that everyone face higher marginal rates so that when the credits are factored in, the government can still raise the same amount of revenue. That said, Canadians who use these credits will see their total tax bill rise from their elimination.

A more subtle tax hike came from the government scaling back the maximum amount Canadians can contribute each year to their Tax-Free Savings Accounts (now \$5,500, down from \$10,000). This reduction in contribution room is effectively a tax hike for those who are unable to shelter additional investments from taxation.

And then there's Ottawa's plan to impose carbon pricing on all the provinces, with the rate for each tonne reaching \$50. This tax will directly raise the cost of many consumer goods including gasoline and natural gas, and indirectly raise the costs of many other goods due to higher production and transportation costs.

All of this doesn't even begin to account for the potentially higher taxes that will be needed to service and repay the substantial run-up in federal debt that has taken place so far, and that is planned for the future.

Taken together, it's clear that the Trudeau government is breaking yet another campaign promise. So much for cutting taxes on middle-class Canadians. [FI](#)



CHARLES LAMMAM



HUGH MACINTYRE

Charles Lammam is director of fiscal studies and Hugh MacIntyre is a policy analyst at the Fraser Institute.

Ontario's Economic Pain is Spread Unevenly Around the Province

Ben Eisen
and Joel Emes



Windsor, Ontario, 2015, Ken Lund Flickr photo

It's no secret that Ontario has experienced economic pain in recent years. This pain, however, has not been spread evenly. While the province's overall economic performance has been nothing to write home about, some regions have been hit harder than others.

Recently, Ontario's provincial government released its fall economic statement, which pointed to Ontario's uptick in economic growth over the past year as evidence that the Wynne government's economic "plan is working."

The government's rosy rhetoric felt out of touch with the experience of many Ontarians who are struggling to cope with high electricity prices and the ongoing consequences of more than a decade of anemic economic growth. This is especially true in certain regions of the province.

While the Greater Golden Horseshoe and Ottawa have done comparatively well since the recession, the rest of Ontario has experienced barely any economic recovery at all. Unfortunately, few at Queen's Park seem to notice.

Let's start with southwestern Ontario. Once Canada's industrial heartland, this region is widely known to have been hit hard by the 2008/09 recession. What is perhaps less understood is that the region's economic "recovery" since that recession has been tepid, to say the least. In fact, between 2010 and 2015, total employment grew at an average annual rate of just 0.4 percent. That's about a third of the province-wide average, and is an extremely weak recovery considering the severity of the recession in the region.

The government's rosy rhetoric felt out of touch with the experience of many Ontarians who are struggling to cope with high electricity prices and the ongoing consequences of more than a decade of anemic economic growth. This is especially true in certain regions of the province.

As bad as that sounds, though, job numbers are even grimmer in both eastern and northern Ontario, where employment actually shrank from 2010 to 2015.

These data show that in much of Ontario, job-creation has been virtually non-existent since the recession. Outside the Greater Golden Horseshoe, average annual employment growth from 2010 to 2015 was just 0.2 percent. In other words, there has been almost no employment growth in Ontario outside the Golden Horseshoe during the province's "recovery."

As a result of this weak recovery, by 2015, six years after the end of the recession, in none of southwestern, northern, nor eastern Ontario had employment recovered to 2008 levels.

To be clear, even when you factor in the Golden Horseshoe, Ontario's overall economic performance in recent

years has been weak. But the full extent of the economic pain felt in large swaths of Ontario can be missed if you look only at provincial-level economic statistics, which are heavily influenced by the populous Golden Horseshoe, and specifically the metropolis of Toronto, where job-growth has been somewhat stronger.

In much of Ontario, job-creation has been virtually non-existent since the recession. Outside the Greater Golden Horseshoe, average annual employment growth from 2010 to 2015 was just 0.2 percent.

In reality, it will take more than a few fiscal quarters, or even a few years of strong economic growth, to repair the economic damage, particularly in the hardest hit regions of the province. The Wynne government should consider this fact before putting out any more tone-deaf press releases touting Ontario's economic performance and bragging about the success of its economic policies. [FI](#)



BEN EISEN



JOEL EMES

Ben Eisen is director, provincial prosperity studies, and Joel Emes is a senior fellow at the Fraser Institute.



Mark Hasiuk

What's your role at the Institute?

I'm the Senior Communications Specialist. Basically, I help communicate Fraser Institute

research to two primary audiences—the news media and the general public. These days, the means of communication are changing rapidly, so in addition to traditional forms of communication (news releases, op-eds) we increasingly rely on social media channels, including Facebook and Twitter, to educate Canadians about our work.

How did you arrive at the Institute?

Before joining the Fraser Institute, I worked as a journalist, mainly in Vancouver. I spent a lot of time reporting on government, particularly spending and regulation, so I jumped at the opportunity to join the Institute in 2013.

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

My duties at the institute include managing our Fraser Forum blog. As the media continues to contract, and online communication becomes even more central to our lives, venues such as the blog will enable the Institute to maintain a connection with Canadians and expand the number of people who follow our work.

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

I enjoy bird-watching—BC is a great place to see many interesting species. I've also recently picked up yoga, with an eye on improving my golf swing.



Bryn Weese

What's your role at the Institute?

I'm the Media Relations Specialist, and my job is to get our studies to journalists and newsrooms across the country and to pique their interest with compelling news releases and storylines about the

important research that the Institute does. Getting media coverage of our studies is a key part of our mission to educate Canadians about how government policy affects them, and I'm proud to be a part of a great communications and marketing team that plays such an important role.

How did you arrive at the Institute?

Working as a political journalist in Canada and the United States for more than a decade, I spent a lot of time reporting on government policy over the years. After leaving journalism and following a brief stint in political communications, I was excited to join the Institute this past summer.

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

Social media is the new frontier in communications, and our social

media strategy is constantly evolving. We're always looking for new ways to engage directly with Canadians about our research through Facebook, Twitter, and other platforms and it's exciting to watch a social media campaign take off.

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

I'm passionate about hunting and fishing. While at university, I spent my summers working as a fishing guide in Canada's Arctic and I'm happiest when my phone has no reception and I'm either wandering alone in the wilderness, or skipping jigs under docks for largemouth bass.

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