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THE Quarterly

SPRING 2018

The End of Canadian Competitiveness?

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Housing affordability

Counterfeit drugs

FRASER INSTITUTE

MESSAGE FROM THE INSTITUTE'S PRESIDENT

Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

Have we seen the end of Canadian competitiveness? Personally, I would answer a resounding "yes."

In this issue of *The Quarterly*, we highlight important research and outreach my colleagues have done over the past few months to educate Canadians about how our governments have decreased Canadian competitiveness and made Canada less attractive for investment. This issue should greatly concern all Canadians since business investment is critical for job creation, increased productivity, higher wages, access to new technologies, and ultimately, improved living standards.

A recent Fraser Institute commentary published in *Maclean's* (page 24) reviews Canada's dismal record in attracting investment. It notes: "anti-business policies… are having real tangible effects on the Canadian economy as evidenced by declining investment, entrepreneurship, and lower rates of economic growth."

Actions by our federal and provincial governments to increase business and personal taxes, implement carbon taxes, run budget deficits (and increase debt levels), and add significantly to the regulatory burden (i.e., red tape) have contributed greatly to this dismal record. On page 14, Jason Clemens and I review some of these policy changes and note that at the same time, the United States has made itself significantly more attractive to investment, entrepreneurs, and professionals, which lays bare the policy missteps in Canada.

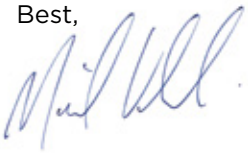
On page 20, Kenneth Green and Ross McKitrick assess the impact of the federal government's changes to the approval process for major energy projects. As they note: "the new system will be even harder and costlier to navigate than before." As a result, major energy companies are already publicly stating that they will not move forward with new major projects in Canada.

In addition to domestic policy missteps, the NAFTA renegotiations have created tremendous uncertainty for those looking to invest in Canada. As Danny LeRoy appropriately asks on page 16, why is NAFTA, which benefits almost all Canadians and is critical to an attractive investment climate, being jeopardized by our government's continued protection of a small subset of farmers in Canada (specifically, dairy, poultry, and egg producers)?

I don't have the room here to highlight all of the important work contained in this issue, but I do encourage you to read it all. After you are finished doing so, please pass this issue on to your friends, family, or colleagues.

As always, thank you for your ongoing support.

Best,



Niels

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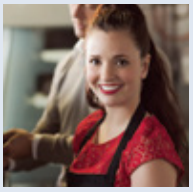
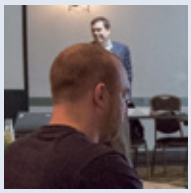


Education Programs



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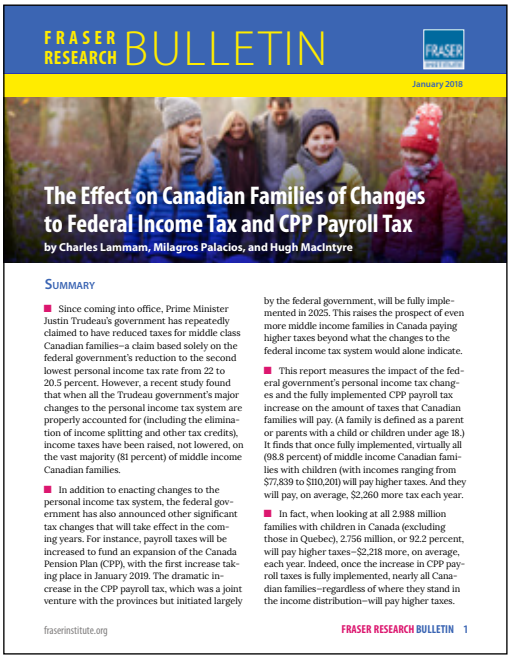
Federal Tax Changes, Looming CPP Tax Hike Mean **Higher Taxes for Virtually All Canadian Families**

Charles Lammam and Hugh MacIntyre


FRASER RESEARCH BULLETIN

January 2018

The Effect on Canadian Families of Changes to Federal Income Tax and CPP Payroll Tax

by Charles Lammam, Milagros Palacios, and Hugh MacIntyre

SUMMARY

■ Since coming into office, Prime Minister Justin Trudeau's government has repeatedly claimed to have reduced taxes for middle class Canadian families–a claim based solely on the federal government's reduction to the second lowest personal income tax rate from 22 to 20.5 percent. However, a recent study found that when all the Trudeau government's major changes to the personal income tax system are properly accounted for (including the elimination of income splitting and other tax credits), income taxes have been raised, not lowered, on the vast majority (81 percent) of middle income Canadian families.

■ In addition to enacting changes to the personal income tax system, the federal government has also announced other significant tax changes that will take effect in the coming years. For instance, payroll taxes will be increased to fund an expansion of the Canada Pension Plan (CPP), with the first increase taking place in January 2019. The dramatic increase in the CPP payroll tax, which was a joint venture with the provinces but initiated largely by the federal government, will be fully implemented in 2025. This raises the prospect of even more middle income families in Canada paying higher taxes beyond what the changes to the federal income tax system would alone indicate.

■ This report measures the impact of the federal government's personal income tax changes and the fully implemented CPP payroll tax increase on the amount of taxes that Canadian families will pay. (A family is defined as a parent or parents with a child or children under age 18.) It finds that once fully implemented, virtually all (98.8 percent) of middle income Canadian families with children (with incomes ranging from $77,839 to $110,201) will pay higher taxes. And they will pay, on average, $2,260 more tax each year.

■ In fact, when looking at all 2.988 million families with children in Canada (excluding those in Quebec), 2.756 million, or 92.2 percent, will pay higher taxes–$2,218 more, on average, each year. Indeed, once the increase in CPP payroll taxes is fully implemented, nearly all Canadian families–regardless of where they stand in the income distribution–will pay higher taxes.

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FRASER RESEARCH BULLETIN 1

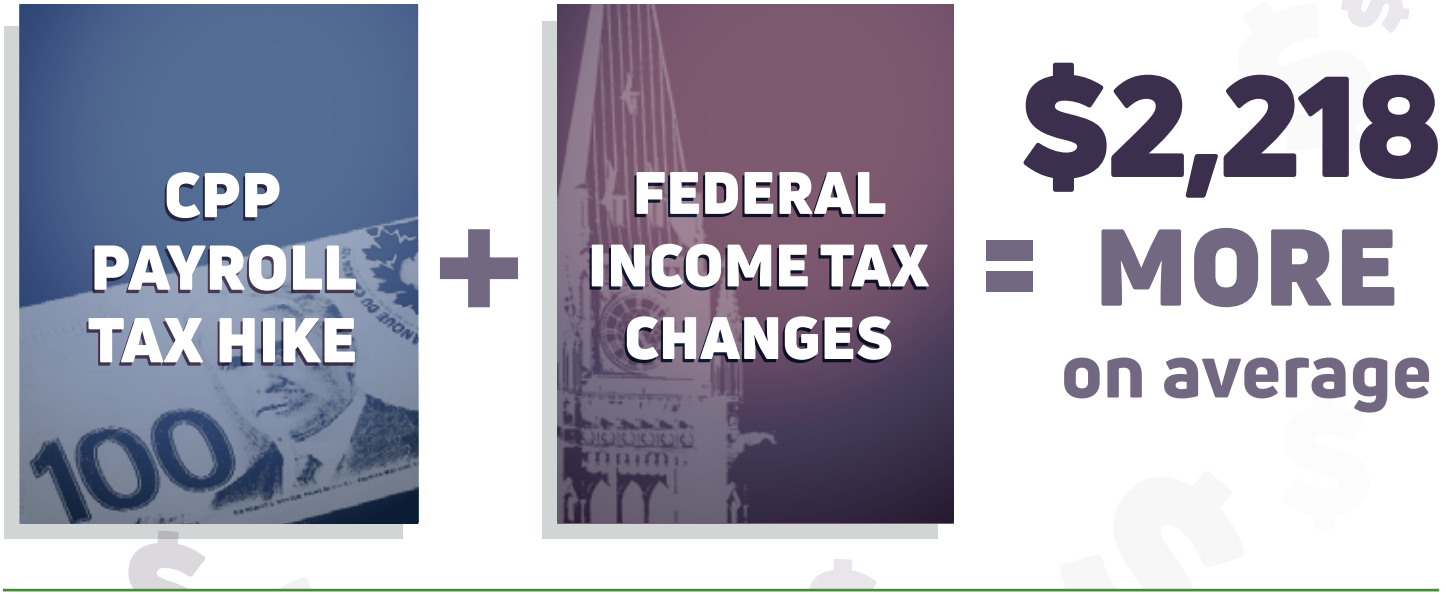
The Trudeau government likes to talk a lot about families. Indeed, the words "family" and "families" appeared nearly 250 times in last year's budget, and we can expect similar enthusiasm for families in the upcoming budget. One way Ottawa aims to support its pro-family rhetoric is by claiming to cut taxes for middle-class Canadian families "everywhere."

But this claim is based on just one particular federal tax change—the reduction in the second lowest personal income tax rate (from 22 to 20.5 percent). Since coming to power in 2015, the Trudeau government has enacted or spearheaded a host of other tax changes that increase the tax burden on families. In fact, virtually all Canadian families with children will soon pay higher taxes because of tax changes the federal government has introduced or initiated with the provinces.

For starters, the Trudeau government has made several major changes to the personal income tax system beyond the rate cut noted above. For instance, it eliminated various tax credits, including income-splitting for families with children, the children's fitness tax credit, the public transit tax credit, the education tax credit and the textbook tax credit.

The elimination of these tax credits means the vast majority of families with children will pay higher personal income taxes—despite the cut to the second lowest personal income tax rate. In other words, the increase

92% OF ALL CANADIAN FAMILIES WITH CHILDREN WILL PAY HIGHER TAXES



in taxes from eliminating tax credits was greater than the decrease in taxes from the rate cut.

But it doesn't end there. One year from now, working Canadian families will experience the first of seven annual increases to the Canada Pension Plan (CPP) tax. By 2023, the combined employer and employee tax rate will increase from 9.9 percent to 11.9 percent on eligible earnings (up to $55,900 in 2018). An additional tax of 8 percent will come into effect in 2025 and apply to earnings up to 14 percent above the traditional threshold—which would be $63,726 if implemented in 2018.

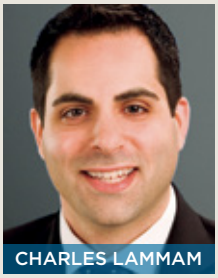
This CPP tax hike was partly spearheaded by the Trudeau government, although it required approval from the provinces.

And what's the result? Higher taxes for virtually all Canadian families.

Indeed, a fully implemented CPP, on top of personal income tax changes, means 92.2 percent of Canadian families with children would pay higher taxes. And those 9-in-10 families will pay, on average, $2,218 more per year. The increased CPP tax alone translates into $1,624 more in taxes.

Of course, the middle class is often the focus when the Trudeau government talks about cutting taxes for families. Yet middle-income families (those with family incomes between $77,839 and $110,201) are particularly hard hit by the CPP tax hike and federal income tax changes. Almost every middle-income family (98.8 percent) will pay higher taxes once the fully implemented tax hike is in place.

While the Trudeau government likes to talk about cutting taxes for families, in reality it has led the charge in raising taxes for almost every Canadian family. FI


CHARLES LAMMAM


HUGH MacINTYRE

Charles Lammam is director of fiscal studies and Hugh MacIntyre is senior policy analyst at the Fraser Institute. They are co-authors of the study *The Effect on Canadian Families of Changes to Federal Income Tax and CPP Payroll Tax.*

Government's Free-Spending Approach Puts Ontario's Finances at Risk

Ben Eisen and Milagros Palacios

In early February, stock markets around the world took a beating. It remains to be seen whether these losses are just a bump in the road or the start of a bear market.

Regardless, the dramatic market downturn should serve as a reminder to governments that bad and unexpected things do happen. Any government that sets its budgets during periods of growth as though the good times will roll forever is setting itself up for a rude awakening when bad stuff eventually happens.

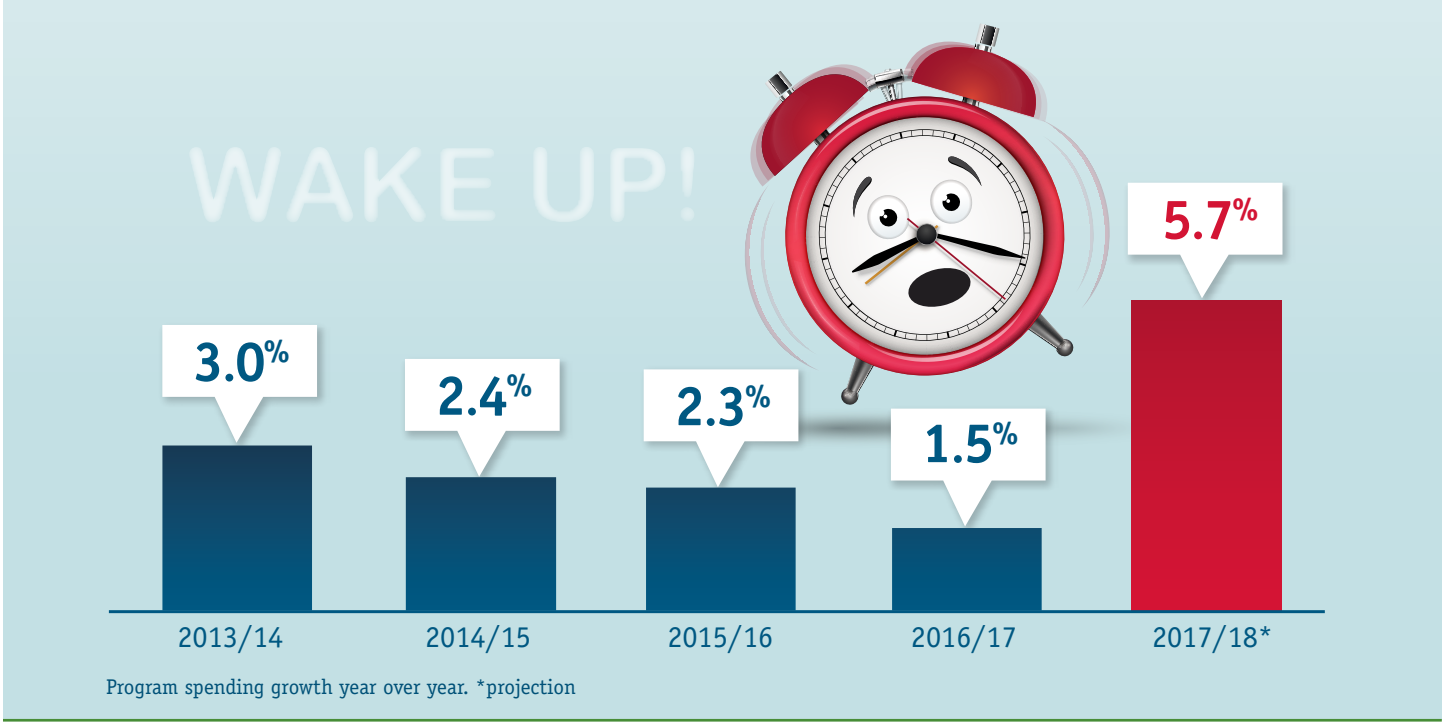
Ontario's recent fiscal history provides a perfect example of how an over-optimistic and spendthrift approach to public finances can cause lasting damage. With a net debt burden that now exceeds $20,000 per person, Ontario's books are a mess. The causes of its fiscal problems, however, are often misunderstood. The government frequently blames forces outside of its control, such as the 2008/09 recession. But this is, at best, an oversimplification.

The reality is that tax hikes and a lot of help from Ottawa have ensured that provincial revenue growth over the past decade and a half has been reasonably strong. From fiscal year 2003 to 2015, provincial government revenue increased at an average annual rate of 4.6 percent annually. So the notion that the big run-up in debt over this time is the result of weak revenue growth simply doesn't withstand scrutiny.

In reality, plenty of money was coming in the door. The problems are because of developments on the other side of the ledger. Throughout the years leading up to the 2008/09 recession, Ontario's provincial government routinely increased spending at an unsustainable clip. From 2004 to 2007, for example, program spending in Ontario increased at an average annual rate of 7.7 percent.

In 2008 when the recession hit and revenue fell, Ontario's spending habit caught up with it in a big way—the province faced an enormous deficit and the massive run-up in debt began. The province's books still haven't recovered from this fiscal shock and Ontario taxpayers will pay the price for these mistakes for generations to come.

A RISE IN ONTARIO PROGRAM SPENDING LEAVES GOVERNMENT FINANCES VULNERABLE



Program spending growth year over year. *projection

In the years following the recession, there was a glimmer of hope that the provincial government had learned its lesson, as spending growth finally slowed down. More could have been done to reform and reduce spending to shrink the deficit faster, but at least large annual spending increases seemed to be a thing of the past. From 2011 to 2016, spending growth was much more moderate.

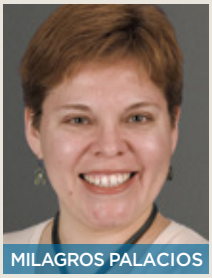
With a net debt burden that now exceeds $20,000 per person, Ontario's books are a mess.

As a result of this moderation in spending, more help from Ottawa, and strong revenue growth, the deficit shrunk. But now, as shown in the new Fraser Institute study *Repeating Past Mistakes? Spending Restraint Critical for Ontario's Fiscal Health*, Ontario has already apparently forgotten the lessons of recent history and has gone back to the free-spending ways that caused so much trouble in the first place.

This year, the Wynne government is increasing spending by approximately $7 billion—that's a 5.7 percent increase. If this is the start of a trend and the government has decided that its era of moderate restraint is over, the province will be at risk of another huge run-up in debt whenever the next recession or downturn occurs.

The upcoming 2018 budget is therefore potentially a pivotal year for Ontario's finances. If the government continues down the road of rapid spending growth, future generations of Ontarians will be put at risk of serious fiscal pain. FI


BEN EISEN


MILAGROS PALACIOS

Ben Eisen is director of the Fraser Institute's Ontario Prosperity Initiative and Milagros Palacios is associate director of the Addington Centre for Measurement. They are co-authors of *Repeating Past Mistakes? Spending Restraint Critical for Ontario's Fiscal Health.*

Federal Finances Vulnerable to Economic Slowdown Due to Deficits

Jason Clemens, Milagros Palacios, and Niels Veldhuis

An end-of-year poll by the Angus Reid Institute showed a pronounced increase in concern among Canadians about government spending and deficits, which is now (along with the economy) the number one issue of concern. And for good reason—federal finances remain in the red despite a growing economy.

A key risk of running deficits during times of economic growth is that the budget cannot be balanced regardless of economic conditions because a permanent imbalance develops between how much the government spends and the amount it raises from taxes. This is exactly the situation Canada experienced throughout the 1970s, '80s and early '90s. It didn't matter if the economy was growing, slowing, or in recession. The federal government could not balance its budget.

Prior to the Trudeau Liberals taking office in late 2015, the previous government's budget plan called for a small surplus in 2018-19 of $2.6 billion. Upon assuming power, the new Trudeau government immediately increased budgeted federal program spending by $8.1 billion over 2015-16 to 2019-20.

Less than six months later, in its first full budget (2016), the federal government increased budgeted program spending by an additional $65.9 billion over the same five-year period (2015-16 to 2019-20). The most recent update indicates a deficit of $15.7 billion for 2018-19.

An important question is what would happen to the federal deficit if a recession or economic slowdown were to occur. In our recent history, a recession, or at a minimum an economic slowdown, has occurred roughly every eight years. Given that the last recession was 2008-09, Canada is due for a slowdown in 2018, or perhaps 2019, if this historical pattern persists.

Understanding the implications of an economic slowdown or recession on federal finances better illustrates why it's bad policy to purposefully operate in deficits during times of positive economic growth.

IF THE ECONOMY SLOWS, THE 2019/20 FEDERAL DEFICIT COULD BECOME MUCH LARGER THAN PROJECTED

Slowdowns or recessions automatically increase the government's deficit without any action on the part of government. The explanation lies in programs that are referred to as "automatic stabilizers." These programs automatically take in less revenue and spend more money without any change in policy when the economy slows (and vice versa when it's growing). For example, in the most recent 2008-09 recession, spending on employment insurance rose from $14.1 billion in 2006-07 to $21.6 billion in 2009-10, an increase of 53.3 percent.

Often governments will also enact discretionary measures that further reduce revenues and/or increase program spending in response to recessions. The Harper government, for instance, introduced large stimulus spending in the 2009 budget in response to the 2008-09 recession. The result of both the automatic revenue declines and spending increases, coupled with potential discretionary policy changes, is larger deficits.

To further illustrate the point, let's assume that the conditions of the economic slowdown of 2000-01 were repeated in 2019-20. In other words, let's assume the economy repeats what happened in 2000-01 and the government responds exactly the same way. Revenues would decline by $14.3 billion while spending would increase by $14.0 billion, resulting in a deficit of $42.7 billion rather than the currently planned $14.4 billion. And the federal government would accumulate $75.7 billion in extra debt compared to its current plan over the 2019-20 to 2022-23 period.

Given the current level of deficits, the risks to federal finances from even a mild recession—let alone a more severe recession—are substantial and should be addressed."

The numbers are significantly worse if a more serious recession like the one in 2008-09 were to happen again.

Clearly, running deficits in times of economic growth, even periods of slow economic growth, risks much larger deficits when the inevitable recession occurs. Given the current level of deficits, the risks to federal finances from even a mild recession—let alone a more severe recession—are substantial and should be addressed as the Trudeau government needs to move more purposefully towards a balanced budget within its mandate. FI


JASON CLEMENS

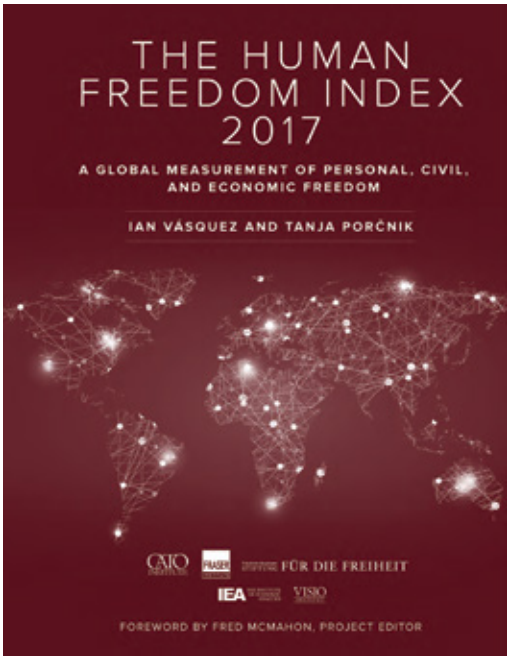

MILAGROS PALACIOS


NIELS VELDHUIS

Jason Clemens is executive vice-president, Milagros Palacios is associate director of the Addington Centre for Measurement, and Niels Veldhuis is the president of the Fraser Institute. They are co-authors of the recently released study on federal deficits, *Federal Deficits and Recession: What Could Happen.*

Where the Rule of Law Weakens, **Freedom Wanes**

Fred McMahon



For the first time in decades, basic human freedom is under attack globally. Journalists and opposition leaders are killed in Russia. China's Communist Party stifles dissent on the mainland while threatening the rule of law in Hong Kong. Tens of thousands are arrested in Turkey on dubious grounds after a failed coup. Venezuela descends into desperation and suppression. Crucially, these governments and others are also tightening their clamps on the economy, weakening economic freedom.

That's why studies such as the annual *Human Freedom Index* (HFI), just released by the Fraser Institute, the Cato Institute in the United States, and Germany's Friedrich Naumann Foundation for Freedom, are so important. The HFI allows us to track the evolution of freedom globally to see if our intuitions match reality.

The index is the first to develop a broad measure of human freedom, employing 79 variables to capture the different dimensions of freedom, including economic freedom. Previous "freedom" indexes ignored economic freedom—the ability of individuals and families to make their own economic decisions. Given that we spend much of our time in economic activities (working, buying, selling), this was a huge oversight. And economic freedom indexes didn't measure civil freedoms such as speech, assembly, and religion.

The HFI also looks at the necessary conditions for freedom: the rule of law, to protect the freedom of all equally, and personal security. If it's not safe to walk down the street, to express yourself, to attend a meeting and so on, freedom is diminished.

The HFI covers the period from 2008, when sufficient cross-national data became available, to 2015, the most recent year of available data. Freedom's losses during that period are spread globally. So why everywhere at once? Ironically a key reason is the delayed reaction to the fall of unfreedom—the authoritarian Soviet sphere.

It then seemed that countries had just two options—some version of the failed Soviet system or democracy, freedom, and open markets. The first option disappeared for all but truly reprobate countries such as

North Korea and Cuba. The victory was so complete that Francis Fukuyama famously wrote of "The End of History," a more nuanced essay than the title suggests.

It seemed the battle was over. Freedom had won. All available measures from the time show a hardy uptick in freedom and democracy. A freedom stampede had begun, and not just for former Soviet states. Many of the West's less respectable allies moved in the same direction. With Soviet communism gone, Western countries had no need to turn a blind eye to repression and dictatorship and, with democracy and freedom the fad of the moment, internal pressure for a free future increased.

The Human Freedom Index is the first to develop a broad measure of human freedom, employing 79 variables to capture the different dimensions of freedom, including economic freedom.

But it wasn't that simple. Freedom and democracy are not standalone structures. For stability, they require institutional infrastructure, in particular, the rule of law and tolerance. The rule of law is necessary to protect everyone's rights and freedoms equally while tolerance is required to enable populations to reach the compromises necessary to maintain democracy.

But an effective and fair rule of law had been crushed by communism in many states, and in others it never evolved. Intolerance had simply been suppressed by communist and other dictators, not mitigated as in most truly free societies where people slowly began to learn to get along with each other.

In places lacking a strong rule of law and tolerance, shaky edifices of freedom and democracy emerged—and so did an old monster from the past: populist nationalism as a third alternative to discredit communism on the one hand, and democracy and freedom on the other.

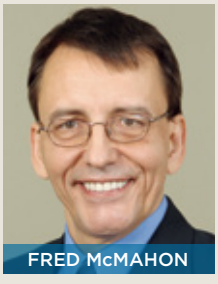
The rule of law in these nascent democracies was too weak to protect democratic freedoms and underlying tensions between differing groups exploded into us-versus-them populism in former Soviet states such as Poland, Hungary, and of course, Russia. And as communism faded in China, a racially-tinged nationalism emerged.

In a separate development, economic change—as it always has—drove populism in many western countries, though for now its growth seems checked.

The famous political philosopher Samuel Huntington developed the idea of the three waves of democracy. In the first wave, by Huntington's count, 29 democracies emerged between the early 1800s and the early 1900s. The wave collapsed with the rise of fascism and communism. The second wave followed the end of the Second World War and crested in the early 1960s with 36 democratic countries. The third wave rolled in during the early 1970s and accelerated with the fall of communism to more than 100 free democracies. Now that wave is receding by all available measures.

This, perhaps oddly, is the hope for the future of freedom and democracy. Each peak is higher than the previous and, while the waters have receded, the number of free democracies today is much higher than the previous peak of the second wave.

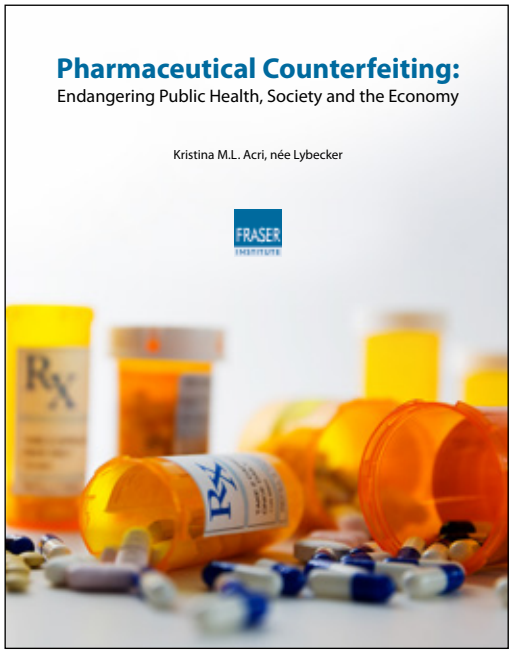
All the evidence in the world shows that free countries produce better outcomes for their people. As un-free countries stall in growth and outcomes worsen, hopefully the fourth wave will wash ashore. FI


FRED McMAHON

Fred McMahon is the Michael A. Walker Chair of Economic Freedom Research and project editor of the Fraser Institute/Cato/FNF Human Freedom Project.

Counterfeit Drug Trade Poses Increasing Danger to Canadian Patients

Kristina M.L. Acri née Lybecker



The threat of counterfeit pharmaceutical drugs is on the rise in Canada. From April 2016 to March 2017, Health Canada seized close to 5,500 packages of counterfeit drugs, mainly sexual enhancement drugs such as Viagra, on their way to patient hands.

Moreover, in a single week last year, officials from Health Canada seized $2.5 million worth of bogus pharmaceuticals at the border. And in December, companies controlled by the online pharmacy Canada Drugs pled guilty to selling counterfeit and misbranded pharmaceuticals in the United States and agreed to forfeit $29 million, equal to their sales of illegal drug proceeds from 2009 to 2012.

Clearly, counterfeit drugs, which may be name brand or generic, put patients at risk. They may contain no active ingredient, harmful ingredients, the wrong drug, the wrong concentration, the wrong dose, or drugs past their expiry dates, resulting in reduced treatment effectiveness, unexpected side-effects, and potentially death.

Moreover, counterfeit pharmaceuticals containing a greatly reduced dose of the active component contribute to global microbial resistance and more virulent forms of disease, undermining the fight against infectious diseases. Counterfeit medicines contribute to antibiotic-resistant forms of shigella, cholera, salmonella, and tuberculosis.

While reports of counterfeit drugs in Canada's licensed pharmaceutical supply chain are rare, there have been cases—albeit very infrequent—when brick-and-mortar pharmacies have dispensed counterfeit drugs by mistake.

But Canadians, including young Canadians, mainly obtain counterfeits through the illegal drug trade, which includes illegal Internet pharmacies. Prescription drugs are now the third most common substance misused by Canadian youth, following alcohol and cannabis. Tragi-

cally, in spring 2017, several middle-schoolers in British Columbia and Ontario died from fentanyl poisoning after taking counterfeit pills.

Counterfeit drugs—name brand or generic—put patients at risk. They may contain no active ingredient, harmful ingredients, the wrong drug, the wrong concentration, the wrong dose, or drugs past their expiry dates, resulting in reduced treatment effectiveness, unexpected side-effects, and potentially death.

While the human toll is obviously most important, there is also a cost to legitimate drug manufacturers and distributors, including the neighbourhood pharmacy. While precise calculations of lost sales and revenues are difficult to obtain, the World Health Organization estimates counterfeiting costs the global pharma industry $75 billion a year. And the Criminal Intelligence Service Canada says that "[m]ost estimates range in the billions annually for global losses."

In addition to lost revenue, counterfeiting imposes other costs on legitimate players including increased costs to secure the supply chain, investments in anti-counterfeiting technologies, and potential reputational damage and risk of liability. And crucially, with fewer resources, there's less money for research and development of potentially life-improving or life-saving drugs.

A new Fraser Institute study, *Pharmaceutical Counterfeiting: Endangering Public Health, Society and the Economy*, details the magnitude of the problem. According to a 2015 report, worldwide pharmaceutical sales reached US$1.1 trillion in 2015. The OECD estimates that counterfeit goods accounted for 2.5 percent (or approximately $200 billion) of the global pharmaceutical drug trade in 2013, which means that the counterfeit trade is worth only slightly less than the $246 billion illicit drug trade. And experts estimate that the sale of counterfeit drugs is growing at twice the rate of legitimate pharmaceuticals and is expected to grow by 20 percent annually in coming years. Remarkably, the counterfeit medicine market is more lucrative than the narcotics business because counterfeit drugs are worth more than illicit drugs.

Counterfeit medicines contribute to antibiotic-resistant forms of shigella, cholera, salmonella, and tuberculosis.

So what can be done to combat the counterfeit drug trade and protect patients, providers, and manufacturers?

According to the Fraser Institute study, possible actions include raising public awareness, improving regulatory oversight, regulating pharmaceutical transshipments, increasing criminal sanctions, implementing global harmonization of regulations, and pursuing an international treaty. Although history highlights the difficulties of defeating counterfeiters, policy makers must take the threat seriously and move to protect patients.

At the same time, it's important to continue examining the extent of the problem including counterfeit production and distribution, links to organized crime, and appropriate policy responses. As the trade in counterfeit drugs grows, so do the risks to Canadian patients and the costs to legitimate manufacturers. FI


KRISTINA M.L. ACRI NÉE LYBECKER

Kristina M.L. Acri née Lybecker is an associate professor of economics at Colorado College and senior fellow at the Fraser Institute. She is the author of *Pharmaceutical Counterfeiting: Endangering Public Health, Society and the Economy.*

Business Response Shows Fatal Flaw in Sharp Minimum Wage Hike—Harm to Many Low-Skilled Workers

Charles Lammam and Hugh MacIntyre

When a doctor taps the front of your knee, your leg kicks out in a reflexive reaction. By applying pressure in a certain way, the doctor has elicited a predictable response. Similarly, recent increases in the minimum wage in Ontario and elsewhere have put pressure on businesses that, in turn, have responded in predictable ways.

For example, in the wake of Ontario's recent 21 percent increase in the minimum wage (a rise from $11.60 to $14.00), news headlines report that businesses have responded in numerous ways that are easily predicted by economic theory and evidence. Unfortunately, these responses hurt many low-wage workers—the very people the minimum wage is meant to help.

For instance, businesses have responded to the increased wage rate by reducing the amount of labour they employ by cutting staff or decreasing staff hours. But no one should be surprised. When the cost for low-skilled labour artificially increases (in this case, by government mandate) without a commensurate increase in worker productivity, businesses will inevitably respond by finding ways to reduce labour costs or pass the costs on to customers. In other words, when the price of something rises with no quality improvement, people tend to buy less of it. This is true for business owners and their expenses, just like consumers of goods and services.

Unfortunately, job losses will not be limited to a few isolated cases but, as the Bank of Canada predicted recently, will be more widespread. Indeed, it is not hard to predict job losses given that multiple Canadian research studies into previous minimum wage increases consistently show that businesses respond to those increases by reducing their demand for labour.

The problem is that low-skilled workers bear the brunt of the negative consequences. With a higher minimum wage, businesses are more likely to prefer more experienced workers with proven track records and they are less likely to give opportunities to lower skilled, less experienced workers. Consequently, more vulnerable workers, particularly young workers, are most likely to lose their job or have difficulty finding a job.

One way that businesses reduce staff is by increasing automation—self-serve checkouts are one example. Increased automation will disproportionally harm low-skilled workers. Jobs that generally involve routine or repetitive tasks are particularly vulnerable to automation. As a recent study by leading minimum wage expert David Neumark found, in the United States low-skilled workers (defined as having a high school diploma or less) who have readily automatable jobs are more likely to become unemployed after a minimum wage increase.

There are other ways that businesses respond to a minimum wage hike that can adversely affect those low-wage workers who do keep their jobs. For instance, some businesses reduce employee benefits and cut the number of hours available for work.

In some cases, the increase in the minimum hourly wage may not be enough to offset the reduction in the number of hours worked. According to a study by researchers from Washington state, this is precisely what happened in response to a recent minimum wage increase in Seattle. The study found that the overall earnings (number of hours multiplied by the wage rate) for low-wage workers in the city declined. So a government policy intended to help low-wage workers actually made many of those workers worse off.

As an alternative to reducing labour costs, some businesses have responded to minimum wage increases by passing costs on to consumers through higher prices. But even this response adversely affects low-skilled workers. After all, workers who earn a low wage are also least able to afford the higher prices that these business are now charging.

And finally, some businesses are unable to bear the increased labour costs brought about by the wage increases and respond by closing. When businesses close, it leads to fewer opportunities for low-skilled workers.

When you knock the front of a knee, the leg jerks. And when government mandates higher labour costs, businesses respond, often in ways that make many low-skilled workers worse off. Policymakers in Ontario and across Canada should understand these realities before raising the minimum wage. FI

CHARLES LAMMAM

HUGH MacINTYRE

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Trump Reforms Lay Bare Canadian Policy Missteps

Jason Clemens and Niels Veldhuis

Ignoring Donald Trump's unorthodox approach to his presidency, particularly his use of Twitter, the Trump administration has a number of noteworthy accomplishments. The sweeping tax reforms that Congress approved in December coupled with ongoing regulatory reforms have established a firm foundation for economic growth in the United States. At the same time, the Trump policy reforms lay bare the policy missteps of other countries, including Canada.

Both President Trump, and to a lesser degree Prime Minister Justin Trudeau, were elected based on promises to improve their respective economies. The two leaders, however, have taken very different approaches to achieving stronger economic growth.

The *Tax Cuts and Jobs Act* in the United States reduced the statutory federal tax rate for businesses from 35 to 21 percent, allowed the immediate expensing of investments in machinery and equipment, and adopted a host of international tax rules that will bring the US more in line with international competitors. The tax reforms will lower the average combined federal-state corporate income tax rate from 39.1 to 26.0 percent. More importantly, they will lower the effective tax rates on new investments from 34.6 percent to 18.8 percent. Together, these tax reforms have made the US significantly more attractive to investment, entrepreneurs, and professionals.

Canada's comparable effective tax rate on new investments is 21.2 percent—and has nudged up recently. Prime Minister Trudeau has stated unequivocally that he won't reduce Canadian taxes to remain competitive.

More importantly for Canada, though, the federal and many provincial governments have increased personal income tax rates to the point where the top rate now

exceeds 50 percent in seven provinces; the top rate in remaining three is within a hair of 50 percent. And the federal government has left the door open for additional tax increases, particularly with respect to capital gains, stock options, and personal income.

The US and Canada have also diverged on regulation. President Trump installed a number of reform-minded leaders to positions in the administration with the express intent of reducing the regulatory burden, which is significant. A 2013 academic study, for instance, estimated that between 1949 and 2005, regulations slowed the US economy, on average, by 2 percentage points. Presidential Order 13771 will halt, if not decrease, the regulatory burden in the US since it requires two outdated, ineffective, or excessively costly regulations to be eliminated for any new regulation introduced.

In Canada, on the other hand, the federal and several provincial governments have added new, more complex and burdensome regulations over the past few years. Nowhere is the difference starker than in the federal government's push for national carbon pricing. Despite the fact that the US and other competitors, such as Australia, are moving in the opposite direction, Canada continues to charge forward in mandating carbon pricing. Even those sympathetic to carbon pricing have criticized Canada for its overly complex approach. And advocates for carbon pricing in Canada continue to ignore the serious flaws in their implementation and design.

It is also worth recognizing how the rhetoric regarding investment and businesses has diverged. While President Trump has consistently lauded the improving business climate and his commitment to even further gains, the rhetoric of the Canadian federal government and several provincial governments has been decidedly anti-business. Canada's Finance Minister Bill Morneau, for instance, has used extraordinarily confrontational language to describe the government's intent to "go after" certain "professionals and wealthy people."

Two different approaches to the same stated goal of improving economic growth.

The preliminary economic results and leading forecasts from the IMF and Conference Board indicate that the US is now benefitting from the tax and regulatory reforms. The growing consensus is that economic growth in the US in the near term will exceed 3.0 percent. Unemployment is extremely low and employment gains have been strong.

In contrast, the consensus in Canada, despite strengthening commodity prices, is that the economy is slowing. Indeed, the federal government quietly released its long-term forecast just before the holidays, which indicated long-term growth would average just 1.8 percent for the foreseeable future.

And critically, Canada continues to struggle to attract private-sector investment. Since peaking in the fourth quarter of 2014, every category of business investment has declined except for residential housing. Total business investment excluding residential structures (adjusted for inflation) is down almost 20 percent, and investment in machinery and equipment has declined in six of the 12 quarters. A recent analysis by the former chief analyst at Statistics Canada determined that Canada ranked second-last amongst 17 industrialized countries—including the US—for business investment.

Just as competition forces firms to pursue efficiency, pay attention to customers, and innovate, it also imposes discipline on governments. As the US has restored competitiveness and improved the environment for entrepreneurs, businesses, and investors, its competitors will have to respond or risk losing out on investment, business development, and entrepreneurship. Canada, despite reassurances from the prime minister, is not insulated from this discipline. FI


JASON CLEMENS


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Are We Really Jeopardizing NAFTA to Protect 13,500 Farmers?

Danny LeRoy and Jason Clemens

The United States has repeatedly indicated that a key tension in NAFTA renegotiations is Canada's continued protection of dairy, poultry, and egg producers. These protectionist policies, known as supply management, were also an irritant in the Trans-Pacific free trade negotiations. The question for Canadians is why broad trade agreements, which benefit almost all Canadians, are being jeopardized to continue to protect a small subset of farmers in Canada—estimated at 13,500 nationwide.

Supply management is a set of government-imposed production quotas and structured prices that limit domestic supply while impeding consumer access to foreign imports through high tariffs. The outcome is reduced choice and higher prices for consumers, and higher revenues for producers.

An often overlooked aspect of this protectionism is that it disproportionately affects the poor. A 2012 analysis by economists Christopher Sarlo and Larry Martin concluded that poorer families spend almost 25 percent of their income on food while high-income families spend less than 6 percent. Policies that raise the prices of milk,

butter, cheese, eggs, and chicken affect lower-income families, and those with children, to a greater degree than other families.

Why are broad trade agreements, which benefit almost all Canadians, being jeopardized to continue to protect a small subset of farmers in Canada—estimated at 13,500 nationwide?

A more recent analysis calculated that supply management imposed a $339 higher cost on lower-income families for their annual grocery bill than would have been the case without it. Both studies, and others, have characterized supply management as highly regressive—meaning that it falls most heavily on lower-income families.

A common defense is that supply and border controls ensure an appropriate availability of high quality, domestically produced goods. However, this response ignores the reality in other jurisdictions where both consumers *and producers* enjoy the benefits of a more open, free-flowing exchange.

In Australia and New Zealand, for example, the systems of agricultural protectionism were dismantled and residents enjoyed the resulting benefits of lower costs and improved choices. These experiences provide insight on the best and most efficient course of action to eliminate supply management in Canada.

The federal government should deregulate the production and marketing of supply-managed commodities, and tariffs should be abolished on imports of dairy and poultry products. Combined, these two measures would offer all consumers and all producers in Canada a wider, more competitive market in which to buy and sell.

During the transition, a temporary tax—in the strictest sense—could be introduced so prices for supply-managed consumer goods would not change for a short and specific time, perhaps three or four years. The collected proceeds could be used to compensate producers for the loss of quotas. The amounts provided should reflect the length of time each producer benefited from the quotas; the longer a producer enjoyed that benefit, the smaller the payout.

Policies that raise the prices of milk, butter, cheese, eggs, and chicken affect lower-income families, and those with children, to a greater degree than other families.

Dismantling supply management would provide tremendous opportunities for Canadians. While all consumers would gain, lower-income households and those with children would benefit most. It would remove a major trade irritant at a critical time for trade negotiations. And dismantling supply management would also expand existing agri-food markets and open new markets for Canadian producers. FI

DANNY LeROY

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Investor Confidence Plummets for British Columbia's Energy Sector

Kenneth P. Green and Ashley Stedman

Investor confidence in British Columbia's energy sector is crucial as the province is rich with vast natural gas resources. But according to this year's Fraser Institute *Global Petroleum Survey*, BC ranks dead last among Canadian provinces in investment attractiveness in the oil and gas sector.

With tanker moratoriums, LNG plant cancellations, calls for a fracking review, and a government dedicated to pipeline obstructionism, it's not surprising that investors are deeply wary of putting more assets into the province's energy sector. Indeed, this concern was reflected in this year's survey, which tracks the perceptions of investors eyeing jurisdictions worldwide. The survey spotlights policies (royalties and taxes, duplicative regulations, etc.) that govern the oil and gas industry and make a jurisdiction attractive or unattractive to investment.

This year BC saw its global ranking deteriorate dramatically. The province dropped out of the top 50 percent of jurisdictions to the bottom 25 percent, and now ranks 76th of 97 jurisdictions. This year survey respondents cited political instability, fiscal terms, and the high cost of regulatory compliance as significant deterrents to investment.

The percentage of negative responses due to BC's protected areas and disputed land claims also remains high. In fact, most survey respondents—nearly 80 percent for disputed land claims and 65 percent for protected areas—said these factors deter investment.

BC's significant decline in this year's survey can be blamed on a wide array of policy changes. In particular, the new NDP government (supported by the Green Party) has promised to raise the carbon tax by 66 percent and opposes the Kinder Morgan Trans Mountain pipeline expansion.

BC's significant decline in this year's survey can be blamed on a wide array of policy changes. In particular, the new NDP government (supported by the Green Party) has promised to raise the carbon tax by 66 percent and opposes the Kinder Morgan Trans Mountain pipeline expansion. The Green Party also opposes LNG production and export.

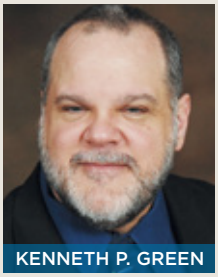
While BC becomes less attractive to investment, other Canadian provinces continue to fare better. This year, Newfoundland & Labrador (4th) and Saskatchewan (7th) ranked in the global top 10. Neighbouring Alberta (33rd) saw its score increase slightly this year (although the province remains the second least attractive jurisdiction in which to invest in Canada).

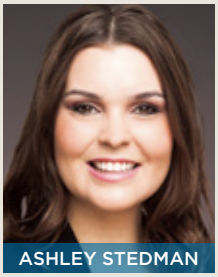
Meanwhile, across the border, LNG terminals are opening and President Donald Trump is implementing sweeping energy sector reforms that cut taxes and regulations. The Trump administration is opening additional lands, suspending onerous regulations, dropping international greenhouse gas obligations, allowing oil exports, and promising to cut taxes on business. Ultimately, President Trump's policy decisions pose competitiveness challenges north of the border.

As a result, BC's policies raise concerns about whether the province's energy sector is open for business. Why would investors put their money into BC, as opposed to other provinces or US states, if the government insists on increasing taxes and regulatory uncertainty?

BC's drop in the eyes of investors should concern policymakers in Victoria as this province has already seen Petronas pull the plug on a multi-billion dollar LNG project. With low commodity prices and variable market conditions, policy decisions matter. Adding costs and uncertainty is a step in the wrong direction and will only push future investment—and the potential prosperity that comes with it—away from British Columbia.

To improve BC's image in the eyes of investors, the Horgan government should pursue competitive and stable policies, for the benefit of British Columbians and their families. FI


KENNETH P. GREEN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New Plan to "Approve" Pipelines Designed to Intensify Pipeline Wars

Kenneth Green and Ross McKitrick

The Trudeau government has announced its plan to "improve" the National Energy Board. The language of the announcement is all "sunny ways," promising to be all things to all stakeholders. The new approval process for major energy projects will be rigorous and science-based, but at the same time based on Indigenous traditional knowledge. It will be faster and easier for developers, even as it vastly widens the scope of reviews, including new requirements to include "gender-based analysis." It will cut red tape for resource development, even as it asks the public to suggest ways to expand the list of projects requiring review.

In short, the announcement promises two incompatible things: a leaner, more efficient approvals process, and a denser more complex review system. It's a safe prediction that only one of these promises will be fulfilled.

Our informal motto at the Fraser Institute is: "If it matters, measure it." We're all for the empirical, measurable, and meaningful analysis of proposed activities. To the extent the government is serious about transparent, science-based decisions, it is all to the good.

However, the federal government's announcement injects a large number of subjective criteria into project analysis including such intangibles as the "social" impact of a proposed investment, its gender implications, and climate impacts. The announcement repeatedly invokes "science," as in science-based decision making, but undermines that intention by calling for evaluation of unmeasurable things. The category of "effects on Indigenous people," for example, is so ill-defined as to be meaningless in a scientific context, as are gender-based impacts of proposed activities.

The category of "effects on Indigenous people," for example, is so ill-defined as to be meaningless in a scientific context, as are gender-based impacts of proposed activities.

A related problem is the implied invitation for busybodies to flood the system with new demands and obstructionist tactics. While we are not fans of having small numbers of remote bureaucrats making arbitrary decisions, neither is it wise to open the evaluative process to anyone and everyone who wants to participate, regardless of their actual stake in the project.

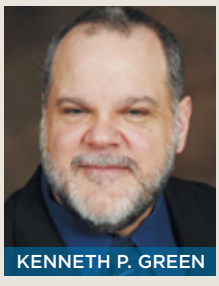
Does a person living 1,000 miles away from a stretch of pipeline really deserve an equal voice in deliberations to those who will be locally affected by the decision?

Should distant provinces (that may be seeking competitive advantage over others) really have comparable input to a decision making process as a province that will be directly affected by the outcome?

Giving distant (and self-interested) interest groups and provincial governments a greater voice before a national energy regulator (in Ottawa) can only lead to more delays, and more of the kind of blatant provincial rent-seeking and virtue-signalling we are seeing in the great Alberta/BC pipeline war.

The announcement reflects admirable intentions to provide a one-stop approach for reviews. While we like the idea of defined-timeline, single-process regulation, those organizational characteristics are only beneficial if one presumes the regulator's intention is to seek out tangible economic and other benefits for the people being regulated. Implementing a one-stop, centralized regulator with a fixed timeline has little to do with whether or not that regulator is likely to approve projects or use federal authority to see them to completion. To the extent that the announced reforms actually reduce local decision making, increase the subjectivity of evaluation criteria, dilute the voice of the most directly affected, and increase the number of hoops an investor needs to jump through, concentrating control in fewer hands may actually make the system less responsive and beneficial.

Ultimately it's hard to tell if the government really wants new resource investment. The announcement refers to $500 billion in proposed projects over the next decade almost like a threat needing to be headed off with "better" rules and more formidable standards. The announcement sounds a few encouraging notes about improving the efficiency of the approvals process, but those hopes are more than drowned out by signals that the new system will be even harder and costlier to navigate than before. No one doubts the government's commitment to setting high social and environmental standards. What is doubtful is their commitment to ensuring that resource development actually occurs. FI



KENNETH P. GREEN

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To Re-establish Alberta's Tax Competitiveness, Notley Government Should Reverse Tax Hikes

Steve Lafleur

Until recently, Alberta was known for having the lowest personal and corporate income tax rates in Canada. In fact, as of 2014 Alberta had the lowest combined federal/provincial top personal and corporate income taxes of any jurisdiction in Canada or the United States. This competitive edge was an important part of Alberta's tax advantage.

Times, however, have changed. The combination of provincial and federal tax increases, and the significant recent reduction in US federal corporate and personal tax rates have shoved Alberta into the middle of the pack on these two important indicators of tax competitiveness. It's time for the province to work towards regaining its former tax advantage.

For Albertans, the province's old single 10 percent personal income tax rate meant that high-skilled workers in Alberta faced lower marginal rates than workers in competitor states such as Texas, which has no state-level personal income tax (due to a lower federal rate in Canada). The move towards a five-bracket tax system with a top rate of 15 percent, combined with a four percentage-point increase to the top federal rate, vaulted Alberta from the lowest top combined federal/

provincial income tax rate in North America to 46th place as of 2016.

A similar though less dramatic shift occurred when the provincial government increased Alberta's corporate income tax rate from 10 to 12 percent. In 2014, Alberta had the lowest combined general corporate income tax rate of the 60 provinces and states. After the two percentage-point increase, the province maintained its edge over US states due to a lower federal rate, but fell to the middle of the pack among provinces. Crucially, it leapfrogged over both Saskatchewan and British Columbia, which now have lower corporate tax rates.

Meanwhile, as Alberta increased tax rates in these key areas, tax rates in American jurisdictions, which compete with Alberta for investment, have gone down. Specifically, due to a two percentage-point reduction in the top US federal rate, Alberta's top personal income tax rate is now higher than that of nearly every US state.

The move towards a five-bracket tax system with a top rate of 15 percent, combined with a four percentage-point increase to the top federal rate, vaulted Alberta from the lowest top combined federal/provincial income tax rate in North America to 46th place as of 2016.

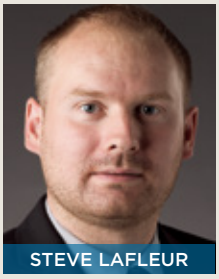
And because the new US federal corporate income tax rate is now 21 percent—down from 35 percent—statutory corporate tax rates in several key competitor states such as Texas and Wyoming are now lower than in Alberta, rather than significantly higher as they were in 2014.

Of course, it's true that many US corporations historically paid less than the 35 percent rate due to complexities in the US corporate tax system. But looking at the marginal effective tax rate (METR) on new capital investments gives us an apples-to-apples comparison. Philip Bazil and Jack Mintz at the University of Calgary estimate that the average METR for US corporations has dropped from 34.6 percent to 18.8 percent, below their 19.3 percent estimate for Alberta in 2016 (formerly 17 percent in 2014). In other words, the large tax advantage on new investment that Alberta used to enjoy over the average American investment is gone.

Unfortunately, the Notley government is loath to part with the new revenue generated by its personal and corporate tax increases. Alberta Finance Minister Joe Ceci has warned that returning to a single-rate personal income tax system would reduce provincial revenue by $851 million. While that's a meaningful amount, it pales in comparison to the multi-billion dollar deficits that have become routine in the province. It's also far less than the projected $1.5 billion increase to operating expenses projected for 2017/18.

In fact, according to Minister Ceci's numbers, had the province simply frozen operating expenses at 2016/17 levels, it could have returned to a single 10 percent income tax rate, reversed his government's corporate tax increase, and eliminated small business taxes entirely with virtually no impact on the deficit. It's not that the province can't afford its previous tax rate advantage—the government simply chose to increase spending instead.

Unfortunately, bolstering Alberta's tax competitiveness will be challenging without meaningful action to repair the province's once sterling finances. It is to be hoped that as the province emerges from a painful recession, the Notley government recognizes the urgency of tax competitiveness for Albertans and their families. FI


STEVE LAFLEUR

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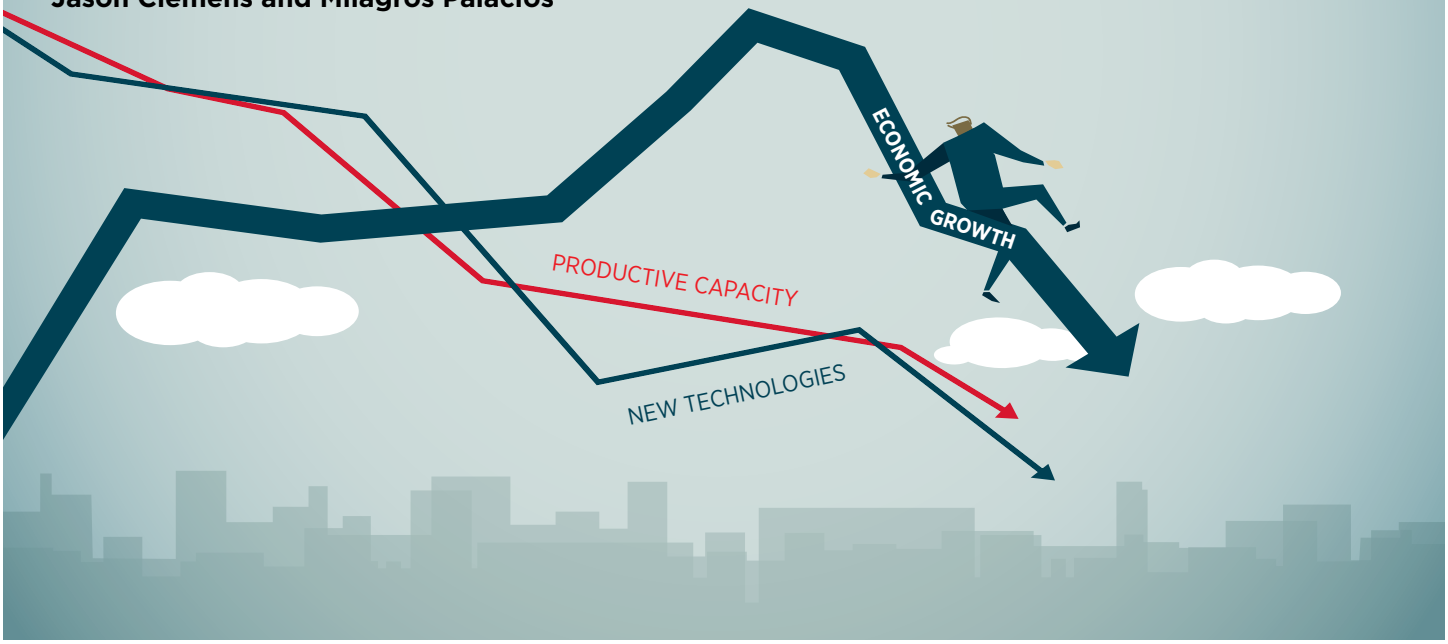
Canada's Private Sector is in Retreat, and Ottawa Doesn't Seem to Care

Jason Clemens and Milagros Palacios



Evidence continues to mount that confidence in Canada as a destination for business investment and entrepreneurship is in steep decline. Given the importance of business investment and entrepreneurship to economic growth and prosperity, one would assume the federal government, and in particular the minister of finance, would be concerned. And yet, by all accounts, including the contents of the recent federal budget, the government is disinterested.

According to Statistics Canada, every category of business investment has declined (except residential housing) since peaking in the final quarter of 2014. Total business investment, excluding residential structures (adjusted for inflation), is down 16.8 percent, which includes declines in non-residential structures (-23.3 percent), machinery and equipment (-6.6 percent), and intellectual property (-13.8 percent). And StatCan's survey of the investment intentions of private businesses shows further declines in 2018 are expected—the fourth straight year of decline.

Private-sector investment by foreigners has also collapsed. Foreign direct investment (FDI) in Canada has dropped 56.0 percent since 2013—$31.5 billion compared to $71.5 billion. And for the first time since data has been collected, foreigners sold more Canadians assets than they bought in 2017.

Canada's results are not typical among industrialized countries. A 2017 analysis by StatCan's former chief analyst for the Fraser Institute found that Canada ranked second last among 17 industrialized countries—including the United States—for business investment over the

2015 to 2017 period. This is a substantial decline from the 2009 to 2014 period, when Canada ranked eighth amongst the same 17 countries.

Moreover, data for business start-ups, a key measure of entrepreneurship, shows similar worrying declines. The rate of small business start-ups (businesses with fewer than 20 employees) declined 16.2 percent from 2006 to 2015, the latest year of available data. Start-ups of medium and large firms nearly collapsed, falling 51.5 percent since 2006.

A 2017 analysis ... found that Canada ranked second last among 17 industrialized countries—including the United States—for business investment over the 2015 to 2017 period.

Again, given the importance of business investment and entrepreneurship to the economy, it's more than a little worrying that the federal government seems detached and disinterested. The recent federal budget, for instance, didn't even acknowledge business investment until page 288.

Perhaps most puzzling is why federal Finance Minister Bill Morneau, a former Bay Street titan, could be so oblivious to the near-crisis in business investment and entrepreneurship. One potential answer, as evidenced by his comments after last year's budget, is that the minister and the government are simply not interested in private-sector investment. During an interview, Minister Morneau talked about the government's approach to long-term, sustainable economic growth. Notably, he rarely mentioned the private sector.

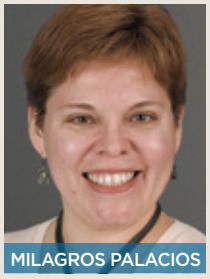
Instead, he focused on the government's ability to direct investment, revealing the government's confidence in being able to actively and prescriptively direct and manage investment: "we're investing in sectors where we know we can beat the world," he said, adding that "we're definitely choosing places where we can win globally" and "we're making investments to grow our economy."

Perhaps even more worrying is that the finance minister and the government continue to tell Canadians that the plan is working, despite dismal private-sector investment and entrepreneurship data. A key goal of this government is to improve rates of economic growth. However, its own budget, as well as Bank of Canada and Department of Finance forecasts, all indicate that growth is expected to slow markedly in the future.

The disinterest in private-sector investment and entrepreneurship, the all-too-often hostile rhetoric of the government towards business, and anti-business policies including higher taxes, deficits, and counterproductive regulations, are having real, tangible effects on the Canadian economy as evidenced by declining investment, entrepreneurship, and lower rates of economic growth.

Creating the right environment for businesses, investors, workers, and entrepreneurs to flourish, rather than trying to actively direct investment, remains the proven approach to a better and more prosperous economy. That means reversing many of the economic policies introduced thus far by this federal government and many of its provincial counterparts. It's time Canada dusted-off its "Open for Business" sign. FI

JASON CLEMENS



MILAGROS PALACIOS

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Filtering—How Markets, Not National Strategies, **Make Housing Affordable**

Josef Filipowicz and Steve Lafleur

The Trudeau government recently unveiled its new National Housing Strategy, which includes a portable "housing benefit" of $2,500 per year, on average, to low-income households and the construction or renovation of hundreds of thousands of social housing units. But while these policies will benefit specific groups of people, they do not target broader affordability issues in Canada's most expensive housing markets.

Demand for housing in cities such as Toronto and Vancouver is strong. That demand has translated into mounting pressure to build new, often high-end condos, townhomes, or other housing units. Importantly, when people move into more expensive housing, they free up their former homes for families with more modest incomes, who in turn leave their homes for others.

This process is known as "filtering," because as homes age, they filter through various socio-economic strata until they are eventually renovated or replaced with new structures. For example, a recent exposé on the lifespan of several apartment buildings in Portland, Oregon, reveals how they were initially marketed as luxury units, but filtered down over the decades. In short, today's luxury units are tomorrow's affordable housing.

However, this natural process can be held up. In markets with particularly strong demand, such as Vancouver, a

slow response on the supply side means that people looking to climb the property ladder can't, with predictable consequences for everyone else on that ladder.

So what's holding up the housing supply in Canada's most in-demand markets?

One major driver of a lagging supply is government red tape. Homebuilders aiming to bring new units onto the market must first obtain permits from city hall—a process that isn't always straightforward. For instance, it takes an average of almost 18 months to obtain permits in Toronto, and almost two years in Vancouver.

Toronto would have added more than 7,000 new units between 2006 and 2011 had its regulatory burden been more in line with the GTA average. In Vancouver, about 6,000 additional units would have been added over the same period.

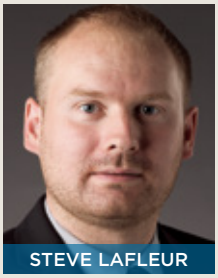
It also costs tens of thousands of dollars, per unit, to comply with local regulations. In Toronto, the approvals process costs nearly $47,000 per housing unit (on average), compared to $21,000 in Hamilton. In Vancouver, these costs and fees amount to almost $80,000 per unit, adding a significant burden to homebuilders—and ultimately homebuyers—who pay higher prices, in part, due to these costs.

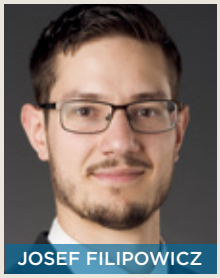
When stacked up, regulatory hurdles can significantly slow the housing supply. Indeed, a study published last year by the Fraser Institute, *The Impact of Land-Use Regulation on Housing Supply in Canada*, measured the impact of these hurdles across major Canadian metropolitan areas and found that Toronto would have added more than 7,000 new units between 2006 and 2011 had its regulatory burden been more in line with the GTA average. In Vancouver, about 6,000 additional units would have been added over the same period. In both cases, an entire new neighbourhood's worth of housing was caught up in red tape.

So when the Trudeau government announces it will fund the construction of 100,000 subsidized housing units nationwide over a decade, it's important to view this in context.

For example, a recent report commissioned by the BC government confirmed that more than 115,000 new housing units were awaiting approval in six Metro Vancouver municipalities during the month of February. These units could help relieve the pressure in BC's red-hot housing markets by allowing the filtering process to take its course. Clearly, because they have the ability to allow more homes to be built, municipalities have far greater influence on housing supply than the federal or provincial governments.

As more concrete details about the National Housing Strategy trickle out, it's important for Canadians to think about how these measures will affect the broader housing market. Without understanding the mechanism that increases affordability for the vast majority of Canadians—not just the most vulnerable—we won't get to the root of the affordability issue in Canada's most expensive cities. FI


STEVE LAFLEUR


JOSEF FILIPOWICZ

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

The Dangers of Nudging—Using State Coercion to Change Behaviour

Aeon J. Skoble

Richard Thaler was awarded the 2017 Nobel Memorial Prize in Economic Sciences for his contributions to the field of behavioural economics. He's most famous outside the academy for his collaborations with Cass Sunstein on what they call "libertarian paternalism"—the so-called "nudge" approach, which has been discussed in popular magazines and textbooks in political philosophy. Let's have a look at how this works.

The title of their 2003 *Law Review* article, "Libertarian Paternalism Is Not an Oxymoron," states both their thesis and acknowledges what might be controversial about it. In general, libertarianism and paternalism are opposing concepts. Proponents of the former typically argue that, at least as a general rule, each (adult) individual is the best judge of his or her own best interests. For example, this is the move John Stuart Mill makes in his *On Liberty*:

> [T]he sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number, is self-protection... the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant. He cannot rightfully be compelled to do or forbear because it will be better for him to do so, because it will make him happier, because, in the opinions of others, to do so would be wise, or even right. These are good reasons for remonstrating with him, or reasoning with him, or persuading him, or entreating him, but not for compelling him, or visiting him with any evil in case he do otherwise. To justify that, the conduct from which it is desired to deter him, must be calculated to produce evil to someone else. The only part of the conduct of any one, for which he is amenable to society, is that which concerns others. In the part which merely concerns himself, his independence is, of right, absolute. Over himself, over his own body and mind, the individual is sovereign.

Mill understands that sometimes people are *mistaken* about their best interests; his point is that *in general* we can't assume that someone else is in a better position to know. His primary concern is with state action: the use of coercion to enforce behavioural standards with the justification "it's for your own good." This is the rationale for things such as prohibition of gambling, 64-ounce sodas, and, well, prohibition. If booze or butter or gambling or Coke (or coke) is bad for you, it will be forbidden.

But it goes beyond substances: how much should you exercise? With whom should you have intimate relations? What, if any, religion should you practice? What art works are edifying as opposed to corrupting? How much should you be saving for retirement? If allegedly wise and benevolent rulers made all these decisions for us, wouldn't we be better off?

There are at least two reasons to think not.

One is Mill's point (arguably also Aristotle's point) that such paternalism inhibits the person's self-development and thus is ultimately self-defeating. The other is that even though Jones is sometimes wrong about his own good, it's also possible for the rulers to be wrong about Jones' own good. Keeping these objections in mind, let's look at Thaler and Sunstein's position more closely.

Again, their very choice of title shows they are aware of the tension between paternalism and individual freedom. They want to show that there are ways the gov-

ernment can "nudge" people in a paternalistic fashion while preserving freedom of choice. Part of what makes this work is the (empirically demonstrable) idea that the framework for choice-making has an influence on the choice-making.

The framing of the issue can take into account common cognitive failures such as innumeracy as well as simple laziness. For example, if the less healthy products are harder to access, I'm less likely to select them, even though I am still free to do so. One of their examples: if patients contemplating a certain surgical procedure are told that 90 percent of people who have it are still alive after five years, as opposed to being told that 10 percent are dead after five years, they'll be more likely to agree to the procedure, despite those being mathematically equivalent claims.

So they suggest that governments can be paternalistic without sacrificing freedom of choice by adopting "nudging" tactics that design the choice architecture in such a way as to favour the better choice, without actually removing the choice (as, for instance, bans would).

This is a vast improvement over the tyrannical impulses of prohibitionists, who see no value in individual freedom of choice. Sunstein and Thaler specifically note that they "do not aim to defend any approach that blocks individual choices." One wonders if they would consistently extend that freedom of choice to many of the activities currently banned, monopolized, or regulated, but it's at least a favourable step.

They claim that there's no danger of a slippery slope because their proposal is constrained by rights to opt out of whatever the choice architecture is nudging towards. If the opt-out condition is robust, that would be a safeguard.

Another concern, though, is whether we can know that the benevolent rulers doing the nudging are in fact nudging us to our best choices.

I accept the argument that choice architecture can influence decision making, and that it's therefore *possible* to create beneficial nudges—put the more nutritious food at the beginning of the school lunch line. But the reality is that legislators who create these nudges are not the perfectly wise and just rulers of idealized regimes. They are, first of all, just as susceptible to being mistaken about the nature of the good as anyone else, and second, more importantly, they may have countervailing incentives.

As theorists of the "public choice" approach have pointed out for decades, politicians are as self-interested as everyone else, which means they are susceptible to lobbying and the demands of the re-election process. One example: In the late 1970s and early 1980s, Americans were told they "ought to" eat 11 servings of bread per day. Current nutritional science doesn't support that at all, but that's no surprise, since the government agency that issues the recommendation was influenced not by scientists, but by lobbying from the grain industry.

In general, there's a legitimate concern that legislators will be incentivized to nudge us towards choices that may or may not be in our best interests, but will certainly be in theirs.

Vaping is a new way to ingest the addictive chemical nicotine. Most physicians think you're better off not being a nicotine addict. So, should the government nudge people away from vaping? It's not clear that this is the right answer—vaping is much *less* harmful than smoking, and is proven helpful in helping smokers quit. Would it be a surprise to discover that much anti-vaping lobbying is sponsored by tobacco companies?

"Libertarian paternalism" may not be a literal oxymoron, and it's reassuring to see Sunstein and Thaler insist on freedom-preserving opt-out conditions, but we should nevertheless remain skeptical about "nudge" legislation as long as politicians remain susceptible to lobbying and rent-seeking behaviour that are just as likely to nudge us in the wrong direction.

After all, the theorists who pioneered investigation into these phenomena also got Nobel Prizes. FI

AEON J. SKOBLE

Aeon J. Skoble is a Fraser Institute senior fellow and a professor of philosophy and chairman of the philosophy department at Bridgewater State University in Massachusetts.

EDUCATION PROGRAMS

In 2017 we ran 32 programs for high school and university students, teachers, and journalists.

POST-SECONDARY STUDENT SEMINARS

In the last quarter of 2017, we held seminars for university and college students in Vancouver, Toronto, and Montreal. Over 425 students spent a Saturday learning about public policy issues, asking questions of experts, and exchanging ideas with like-minded individuals interested in—or simply curious—about the benefits of markets and the intricacies of policy solutions.

Magatte Wade receives a standing ovation after her inspiring presentation that explained how entrepreneurship is hindered by the lack of economic freedom in less developed nations.

Among the students at the Vancouver seminar were 58 who participated in our travel bursary program, which covers the travel and accommodation expenses for students from outlying regions so they can attend the seminar at no cost.

"This seminar was interesting, eye-opening, and covered a broad range of perspectives and topics, all relevant to the current economy."

VANCOUVER SEMINAR ATTENDEE

At the Vancouver seminar, Laura Jones, Executive Vice-President and Chief Strategic Officer of the Canadian Federation of Independent Business outlined the hidden costs and consequences of red tape, and Trevor Tombe, Professor at the University of Calgary, detailed Canada's hidden internal trade costs. Founder and CEO of Skin Is Skin, Magatte Wade, enthralled the audience by discussing the positive impacts of entrepreneurship and free markets on national prosperity, particularly in Africa, using her Senegalese-based lip balm company as a specific example. Anne Hobson, Associate Fellow of Technology Policy at the R Street Institute addressed the challenges that come with cybersecurity regulation, and Charles Lammam, Director of Fiscal Studies at the

Our travel bursary program covered the costs for 58 students from across British Columbia to attend the Vancouver student seminar.

Fraser Institute, asked students to re-evaluate tax hikes on the top earners in Canada—the proposed solution for ending inequality.

The speaker line-ups were also impressive in Toronto and Montreal. Among them were the Fraser Institute's Fred McMahon, who showcased the positive impact of economic freedom around the globe; Ben Eisen, who asked students to consider the shortcomings of the minimum wage increase as an anti-poverty tool; and Josef Filipowicz, who explained why housing costs are rising rapidly in Canadian cities. Among others, students also heard from Livio Di Matteo, Professor of Economics at Lakehead University, who described the history of public finance in Canada's federal government over the last 150 years.

TEACHER WORKSHOPS

Since November 2017, the department has held four teacher workshops. A total of 125 teachers attending the workshops learned economic principles and concepts from university professors and through lesson plans, games, activities, lectures and videos.

The current academic year has seen the debut of our new *Sports Economics* curriculum, at which Scott Niederjohn has taught economic concepts in an innovative manner at our two biggest workshops to date in Toronto and Calgary. *Sports Economics* uses examples from the NHL, NFL, NBA, and other professional leagues. Teachers learn about price ceilings by understanding the economics of ticket scalping for sports events; they learn about labour supply and demand by exploring why Sydney Crosby makes $11 million per year; they are educated about public choice theory by looking at how governments decide to build and fund stadiums; they calculate Babe Ruth's salary in today's dollars to understand inflation; and they cover other topics, such as the tragedy of the commons and opportunity costs.

> *"Best conference I have been to in my 20 years of teaching."*
>
> *SPORTS ECONOMICS ATTENDEE IN TORONTO*

In addition to the Sports Economics workshop, Signè Thomas and Kim Holder presented our *Economic Principles* teacher workshop in Edmonton and Toronto respectively. These workshops all prove that economics can be taught in a way that is fun and relatable students.

Teachers needed no background knowledge of sports to take part in the new curriculum, and left both courses with a plethora of resources that can be incorporated to their existing lessons. Each participating teacher left the workshop with a binder of lesson plans and activities, a new-found or greater knowledge of the economic concepts covered, and an expanded network of colleagues. FI

In the Calgary workshop, teachers use the example of soccer player Christine Sinclair to explain the concepts of opportunity costs, and absolute and comparative advantage.

Cheryl Rutledge

What's your role at the Institute?

I am the manager of web projects, working on the Fraser Institute's various web sites, mobile app, and web initiatives.

How did you arrive at the Institute?

The Institute employed me over 16 years ago, initially to work in sales and publishing. Through the years I have worked my way up by educating myself on various content management systems, web publishing, and project management.

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

I'm excited to be helping redesign our *Compare School Rankings* website this year. This site is an independent source for information about the educational performance of elementary and secondary schools in British Columbia, Alberta, Ontario and Quebec (secondary schools only). This site had 13.4 million page views last year and we want to continue engaging our viewers and making it easier for them to access this information on their mobile devices and share the information easily with their family, friends, and colleagues.

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

I am a bit of a sports fan and easily get excited by football (CFL or NFL), hockey, or curling. My colleagues call me the "Institute concierge" thanks to my knowledge of the Kitsilano and South Granville areas.

Benjamin Gaw

What is your role at the Institute?

I'm the web developer. I'm primarily responsible for publishing content on the main Institute website as well as sending out the weekly Fraser Update emails while seeking ways to improve and update user experience.

How did you arrive at the Institute?

I have always loved working in a learning environment and when I saw the job posting on LinkedIn, I knew instantly that it would be a good fit for me.

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

I'm in the process of rebuilding one of our microsites, *Essential Hayek*, with the idea of expanding it to include multiple authors and their publications. Eventually, the website will be renamed *Essential Scholars*.

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

I grew up playing video games and still manage to do so each night before going to bed.

The Fraser Institute Economic Freedom of the World website is the source for data on economic freedom.

Now Featuring North American Data

TO LEARN MORE VISIT: fraserinstitute.org/economic-freedom

CONGRATULATIONS

TO OUR TEAM

On behalf of the Board of Directors, I would like to congratulate the Fraser Institute team for another record-setting year in 2017.

- The Institute published **85 studies.**
- Our work garnered over **41,000 news stories** in the media, a 43% increase over 2016.
- We published nearly **1,400 opinion columns** in Canadian newspapers—an average of 4 per day.
- We produced 80 infographics which **reached over 5.4 million people** through social media.
- 4.3 million unique people visited our websites, an **11% increase** over 2016.
- Policymakers and politicians across the country federally, provincially, and municipally, regularly **made use of and responded to our work**.
- We ran a total of **33 education programs** (up from 29 in 2016), which reached over 35,000 students, 360 teachers, and 75 journalists in 2017.

These tremendous results are reflected in the University of Pennsylvania recently ranking the Fraser Institute as the **number one think tank** in Canada (out of 100 policy oriented organizations) and the 11th best independent think tank worldwide.

These achievements are the result of the dedicated efforts of a great team. I only hope everyone on the team knows how proud our board members are to be associated with their efforts.

To our loyal supporters, thank you for your contributions to making these amazing results possible.

—Peter M. Brown,
Chairman

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