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THE Quarterly

Summer 2015

Tax code getting longer and more complex



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ALSO INSIDE

Entrepreneurship
and Demographics

The Path Forward
for Alberta's NDP

Pharmacare is the
Wrong Solution



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

It is always amazing to me how things can change in a relatively short amount of time and often in completely unpredictable ways. Last summer, oil was at roughly \$108 a barrel and the Progressive Conservatives were in office in Alberta. Today, oil is 45% lower at \$59 a barrel and Alberta now has an NDP government.

As you all know, the Fraser Institute is completely non-partisan. What we do is measure which government policies improve the lives of Canadians and educate Canadians about those policies. As Charles Lammam, director of fiscal studies at the Fraser Institute, and Jason Clemens, executive vice-president, note in their commentary on Page 30, there are NDP governments in Canada that have enacted positive policies and NDP governments that have enacted economically damaging policies. As they note, "Sound policies based on real-world experiences can result in good economics regardless of political branding."

Another thing that has changed dramatically is the complexity of our tax system. Here the change has been rather predictable with the proliferation of new tax credits and deductions over the past several years. As the cover of this issue of *The Quarterly* highlights, Canada's tax system continues to be made more complicated and complex by the year. Page 16 contains a summary of our new study, *Measuring Tax Complexity in Canada*, which found that over the past 15 years, the text area (the number of pages multiplied by the size of the pages) occupied by the federal Income Tax Act has increased by over 60%.

Sometimes people are convinced that changes of a certain kind are afoot when in fact it just ain't so. As Deani Van Pelt, director of the Institute's Barbara Mitchell Centre for Improvement in Education notes in her article on Page 22, teachers' unions repeatedly claim that education spending is being cut across the country. That simply isn't so. In fact, education spending has increased substantially in every province while student enrollments have decreased in every province (save for Alberta). On a per student basis, spending on public schools across the country increased by 63 percent in the past ten years for which we have data.

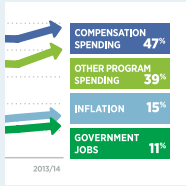
This issue of *The Quarterly* deals with these and a whole host of other important matters, from budgetary issues in Quebec and Ontario to oil train derailments in Canada. When you're done reading this issue of *The Quarterly*, I hope you'll consider sharing your copy with friends or family.

Thank you for your ongoing support.

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

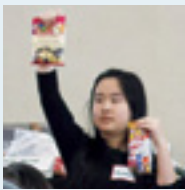
Niels Veldhuis

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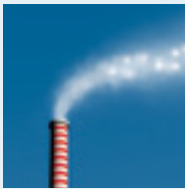
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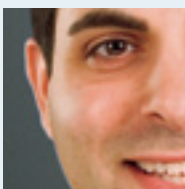
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Compensation Spending Consumes Provincial Government Resources in Ontario

Charles Lammam and Hugh MacIntyre

In the midst of a gathering fiscal storm, the Ontario government recently tabled its budget for the coming fiscal year and beyond. There was a lot riding on getting things right fiscally.

Earlier this year, *Ontario's Debt Balloon: Source and Sustainability*, found that debt in the province is growing at an unsustainable rate and there are real concerns about the government's ability to deliver on its plan to eliminate the deficit by 2017/18. Further credit downgrades and higher interest payments could be on the horizon if the government fails to fix its financial troubles.

Fundamentally, Ontario's financial woes stem from the provincial government consistently spending more than the revenues it collects. Paring back spending is therefore an important step towards a balanced budget. And because spending on the compensation of government



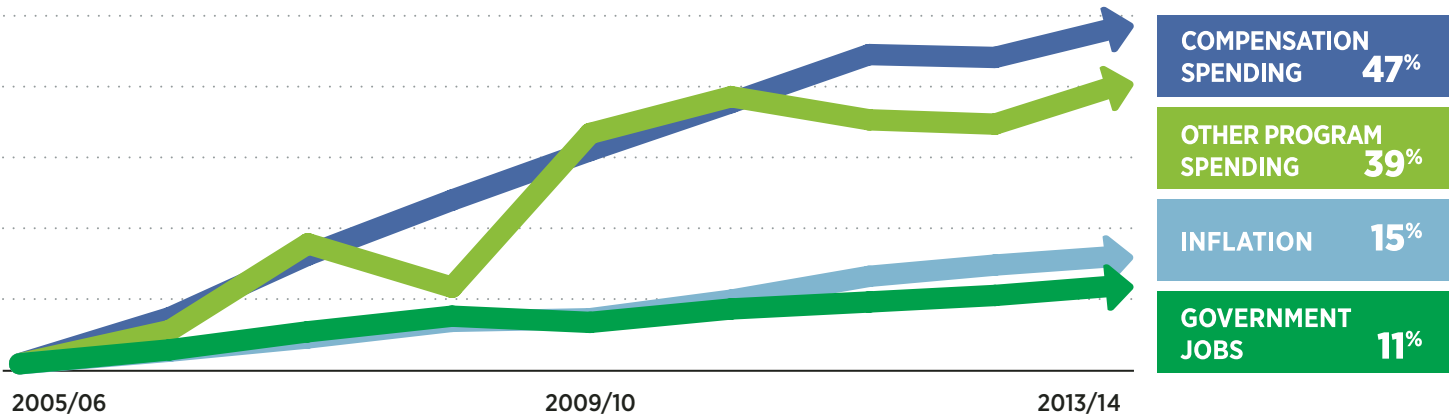
workers (including wages and benefits) consumes more than half the provincial budget, it's a key place to find savings.

In 2013/14, the latest year of available data, compensation spending totalled \$60.2 billion in Ontario (or 52 percent of government program spending), up from \$40.9 billion in 2005/06. That's an increase of 47 percent on compensation spending for Ontario government workers, outpacing the growth in all other program spending (39 percent)

and the combined rate of inflation (15 percent) and provincial government job growth (11 percent) during the same time period.

The fact that compensation spending grew faster than the number of government jobs suggests that a portion of the new compensation spending is to pay for higher wages and benefits for existing government workers—as opposed to hiring more nurses, doctors, and teachers.

COMPENSATION SPENDING GROWTH IN ONTARIO



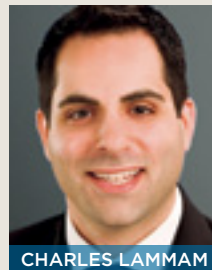
Even after accounting for both inflation and provincial government job growth, compensation spending still increased by 12 percent from 2005 to 2013.

All of that suggests that increased compensation spending may not be translating into more or better public services for Ontario taxpayers. This is particularly the case if the compensation spending is simply to pay for ever higher wages and benefits for government workers.

Consider a recent Fraser Institute study entitled *Comparing Government and Private Sector Compensation in Ontario*, which was reinforced by decades of academic research and found that government workers in Ontario enjoy 11.5 percent higher wages, on average, than comparable workers in the private sector. (This wage premium accounts for a worker’s education, length of time in the workforce, type of job, and other relevant factors.) And the overall compensation premium is likely greater after accounting for the more generous non-wage benefits (such as pensions, earlier retirement, and job security) that the government sector also enjoys.

Despite recent steps by the provincial government to restrain compensation spending growth, compensation spending is still responsible for nearly three-quarters of new program spending from 2009/10 to 2013/14. It also now consumes a larger share of government resources.

Had compensation spending remained at its 2009/10 share of program spending, the province would have spent and borrowed \$14.7 billion less. In 2013/14 alone, the budget deficit would have been \$4.4 billion lower than what was actually the case. Indeed, further restraint on compensation spending would help ease the pressure on Ontario’s finances. Ensuring that the wages and benefits of provincial government workers are in line with private sector norms for similar positions would be a good first step towards getting things right. [FI](#)



CHARLES LAMMAM



HUGH MACINTYRE

Charles Lammam is Director of Fiscal Studies and Hugh MacIntyre is a Policy Analyst at the Fraser Institute. They are co-authors of the Fraser Institute study, *How Compensation Spending Consumes Provincial Government Resources in Ontario*.

Entrepreneurship, Demographics and Capital Gains Tax Reform in Canada

Jason Clemens, Joel Emes, and Niels Veldhuis

A number of prominent Canadians, including Bank of Canada Governor Stephen Poloz, have raised concerns about the state of business start-ups and entrepreneurship in Canada. There is no question that entrepreneurship is critical to a well-functioning, prosperous economy. New firms are the life blood of innovation, creativity, and economic progress. While the decline in business start-ups is a worrying sign for future economic dynamism and progress, the concern has not been met with practical solutions. Capital gains tax reform is one practical possibility.

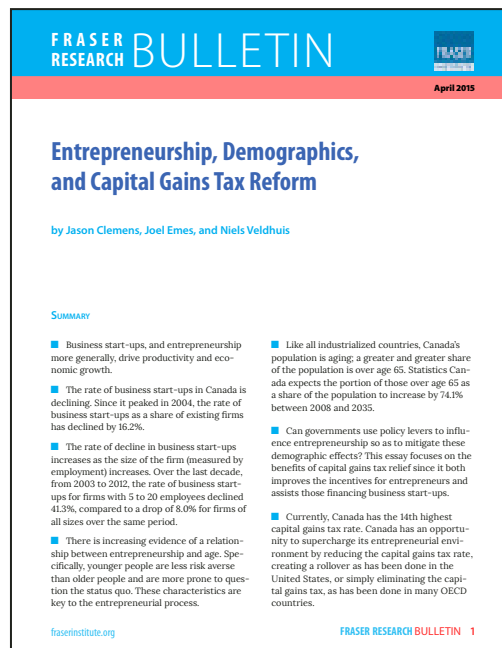
Consider first the worrying trend in Canada that the rate of business start-ups, a key measure of entrepreneurship, is declining. Since peaking in 2004, the rate of business start-ups as a share of existing firms has declined by 16.2 percent. Specifically, in 2004 there were 17.9 business start-ups (all firm sizes) for every 100 existing firms. The rate has since declined to 15.0

business start-ups per 100 existing firms.

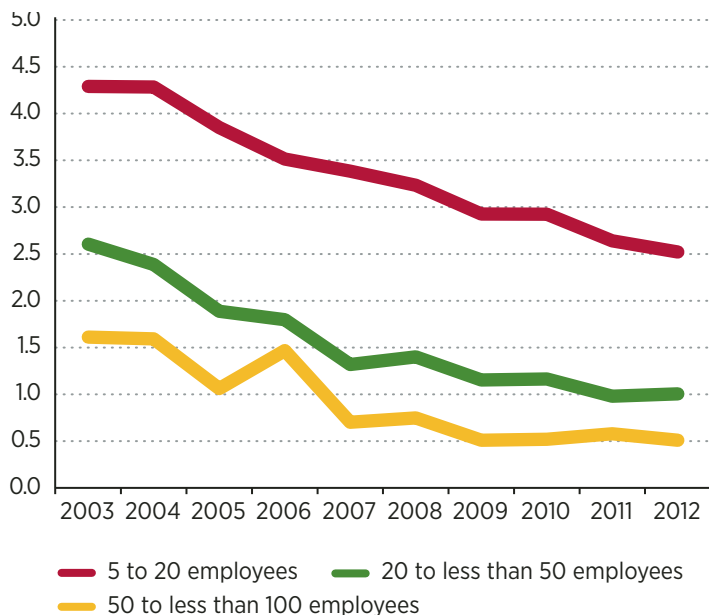
The rate of decline in business start-ups is more pronounced for larger firms (measured by employment). For instance, for firms with 50 to 100 employees, the rate of decline in business start-ups between 2004 and 2012 was 68.0 percent.

Some of the explanation for this decline is not particular to Canada. That is, declines in business start-ups are also observed in other industrialized countries. For instance, over the last decade of available data (2003-2012), the United States has seen an 8.0 percent decline in the rate of business start-ups.

One likely explanation for the decline, which has to-date been almost totally ignored, is the relationship between demographics and entrepreneurship. Younger people, for example, are less risk averse than older people and are more prone to question the status quo and experiment. Such characteristics are key to the entrepreneurial process. In older populations, not only are there propor-



NUMBER OF NEW ENTRANTS (START-UPS) PER 100 INCUMBENTS, VARIOUS SIZE OF FIRMS, 2001-2012



Source: *Entrepreneurship, Demographics and Capital Gains Tax Reform*.

tionately fewer young workers with these characteristics, but they are typically not in positions of influence within firms.

Canada, like all industrialized countries, is experiencing an aging of the population where a larger and larger share of the population is over the age of 65. Statistics Canada expects the portion of those over age 65 as a share of the population to increase by 74.1 percent between 2008 and 2035.

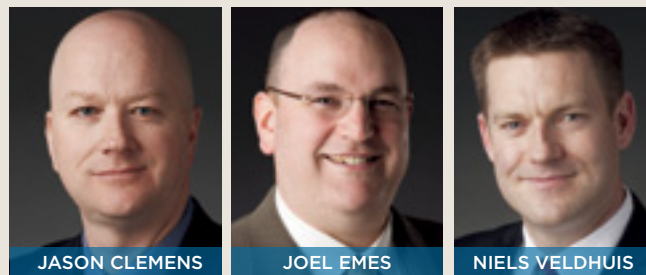
Given the importance of entrepreneurship to the economy and the absence of any serious policy options available to governments with respect to demographics, it's critical that governments enact policies supportive of entrepreneurship.

One such policy lever is capital gains tax reform. Capital gains taxes are applied to the sale of an asset when its sales price is nominally (ie., not adjusted for inflation) above its original purchase price. The sale price is based on the present value expected by the purchaser from the future stream of income received by the

asset. However, that stream of income is subject to annual taxes. The application of a capital gains tax after the sale is a type of double taxation, and worse still, it creates disincentives for entrepreneurs and firms that finance entrepreneurs.

Currently, Canada has the 14th highest capital gains tax rate among the OECD countries despite two reductions in the tax rate implemented by the Liberals under Prime Minister Jean Chrétien. A number of options for capital gains tax reform exist, but one that holds great policy and practical promise is the replication of a Clinton-era reform from the United States. Specifically, the Clinton Administration created a rollover provision whereby the proceeds from the sale of an asset are exempt from capital gains if they are re-invested within a specific time period, perhaps six months. Such a reform frees up capital today that could boost entrepreneurship while deferring the eventual capital gains taxes.

Improving the incentives for, and the environment within which entrepreneurship occurs, can help mitigate the demographic headwinds currently impeding entrepreneurship—a trend that has clear and serious implications for the economy as a whole. Capital gains tax relief offers an opportunity for Canada to supercharge entrepreneurship, and it's an idea worth considering. [FI](#)



Jason Clemens is Vice-President of the Fraser Institute, Joel Emes is a Fraser Institute Senior Fellow, and Niels Veldhuis is President of the Fraser Institute. They are co-authors of *Entrepreneurship, Demographics and Capital Gains Tax Reform*.

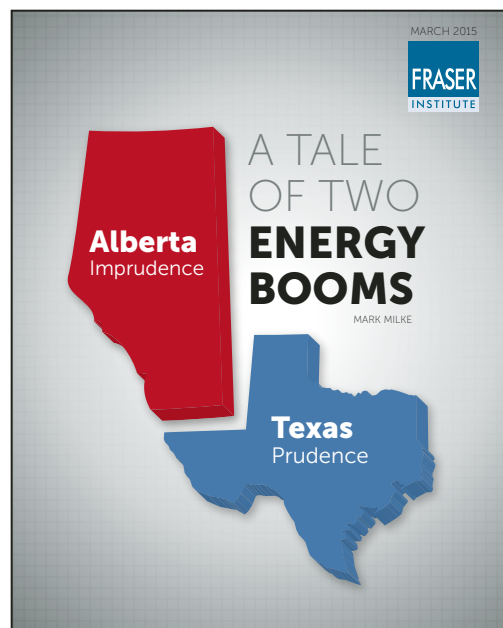
A Tale of Two Energy Booms: Texas Prudence vs. Alberta Imprudence

Mark Milke

Alberta and Texas have always had a lot in common: ranching in the 19th century and a can-do entrepreneurial approach to oil and gas in the 20th century. In the 21st century they are still somewhat similar; oil and gas remain a big part of both economies—26.8 percent in Alberta and 11 percent in Texas.

But as the new Alberta government saddles Albertans with an unknown extra billions in taxes over the next several years (the new NDP government won't release its budget until the fall but promised new and higher taxes in its election platform), it's important to understand where the two jurisdictions diverge—and what Alberta could learn from Texas about controlling the growth of government spending, even given that the two places have different responsibilities.

First though, let's step back and take a look at the two economies. On the economic side of things, Alberta mostly outperformed Texas between 2001 and 2013. For



example, consider private-sector employment growth. Employment in Alberta's private sector, on average in those dozen years, grew by 2.8 percent annually compared to 1.9 percent in Texas. In addition, Alberta's annual unemployment rate was, on average, lower between 2000 and 2013 (4.1 percent unemployment in Alberta vs. 7.4 percent in Texas). On the other hand, Texas beat Alberta on a few things, such as per person GDP growth

between 2001 and 2013 (1.2 percent on average annually compared with 0.9 percent in Alberta). But in the main, Alberta's economy outperformed the Texas economy on overall GDP growth, private-sector job creation, and unemployment rates.

So Alberta's government should boast of a superior fiscal record and balanced books. After all, a higher rate of private-sector job creation, combined with a lower unemployment rate, mean fewer people on welfare, more people employed, more taxpayers contributing to government coffers through provincial income tax. And yet,

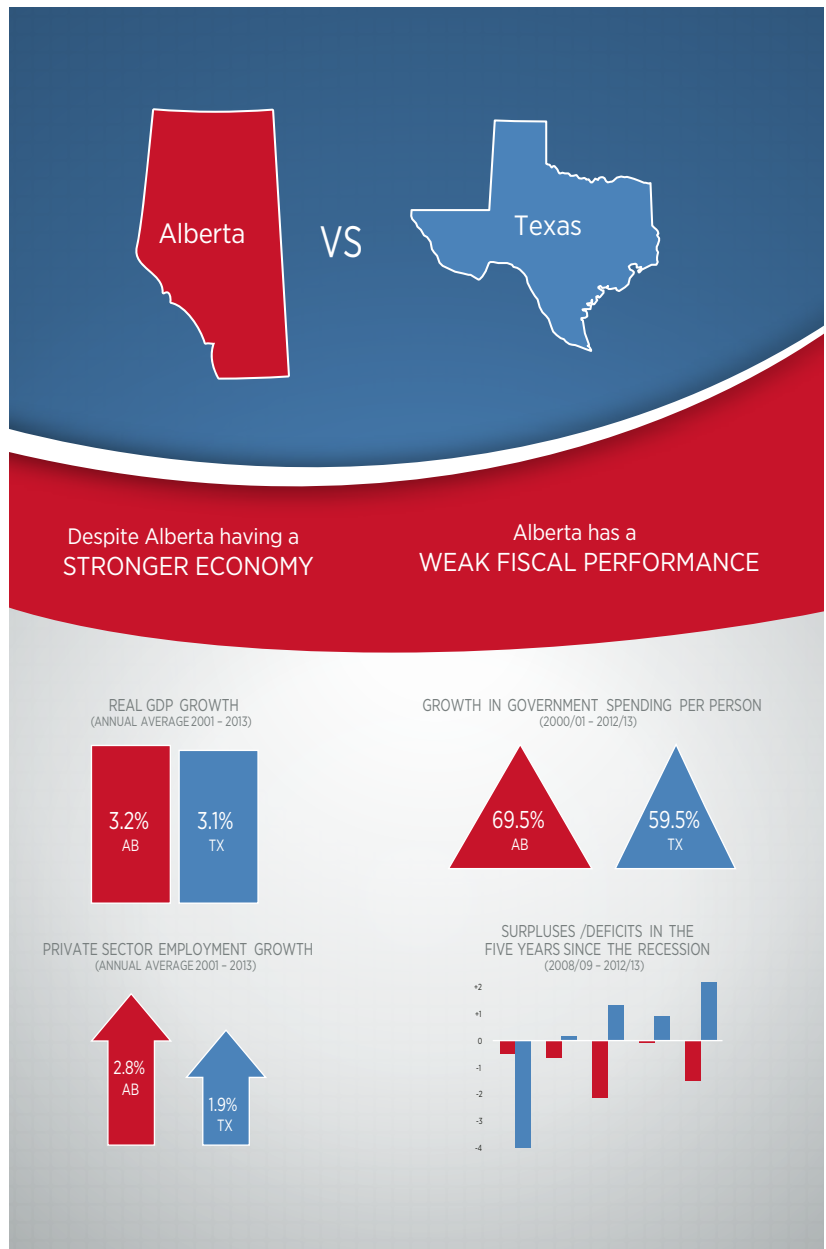
on the fiscal side of things, Alberta has been bested by the Lone Star state.

As a share of the economy, Alberta's provincial government has always been larger than the Texas state government, at 13.1 percent of GDP on average, annually. That compares to Texas at 9 percent of the economy (as an annual average between 2000/01 and 2012/13).

One can explain away some of that spending difference due to different responsibilities in Alberta and Texas. However, what cannot be explained away is the difference in the growth in government spending. In Texas, per capita spending grew by 60 percent over that 12-year period. Alberta's per person government spending growth was up 70 percent.

Part of the explanation for Alberta's bigger-than-big-Texas government spending growth is found in public sector employment figures. The size of the public sector in Alberta (those employed) grew at an annual average rate of 2.8 percent between 2000 and 2013. That took place while annual population growth was just 2.2 percent, on average. In Texas, growth in public sector employment grew at 1.1 percent, on average annually, while population growth averaged 1.8 percent between 2000 and 2013. Texas thus kept the growth in public sector employment below the increase in population.

Put simply, Texas had a better grip on the growth of government than did Alberta, even though Alberta had the better economy. Ergo, between the recession year of 2008/09 and 2012/13, Texas recorded just one deficit, which happened in the recession year. It has had surpluses ever since. And Alberta? Five straight deficits in and after the recession, more to come, and thanks to the recent provincial budget, new and higher taxes added to Alberta's other fiscal failures. Advantage: Texas. [FI](#)

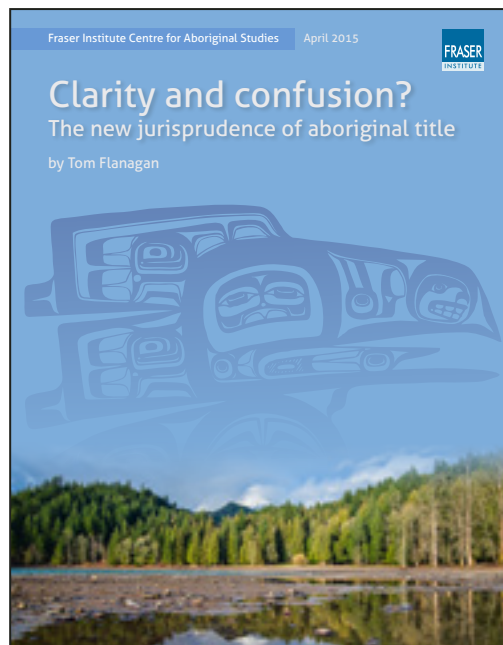


MARK MILKE

Mark Milke is a Senior Fellow with the Fraser Institute and author of *A Tale of Two Energy Booms*.

Where is Economic Efficiency in the New Jurisprudence of Aboriginal Title?

Tom Flanagan



The Supreme Court of Canada has revolutionized the jurisprudence of aboriginal rights and title.

Various decisions have:

- overturned the doctrine of adverse occupancy, which at one time had been thought to have extinguished aboriginal title in British Columbia (*Delgamukkw*);
- created a governmental duty to consult First Nations regarding use of land to which they have a claim of aboriginal rights or title (*Haida Nation*);
- approved a specific claim to aboriginal title (*Tsilhqot'in*); and
- extended the duty of consultation to First Nations whose aboriginal title was previously thought to

have been extinguished by treaty (*Mikisew*).

These decisions have created a new range of property rights for First Nations, which they should be able to use to

advance their prosperity. However, the new jurisprudence has also set up many barriers to voluntary market transactions by multiplying the number of owners and claimants, and laying down opaque and unpredictable rules for making decisions about lands that are subject to claims of aboriginal title or to treaty rights such as hunting and fishing.

According to the Coase Theorem, it is possible to reach economically efficient outcomes from any initial assignment of property rights as long as low transaction costs



The Supreme Court's jurisprudence has taken no account of transaction costs when it has created new aboriginal property rights. As transaction costs rise, essential economic projects such as pipelines may be abandoned because they are no longer profitable.

These decisions have created a new range of property rights for First Nations, which they should be able to use to advance their prosperity. However, the new jurisprudence has also set up many barriers to voluntary market transactions by multiplying the number of owners and claimants ...

make voluntary exchanges possible. But the Supreme Court's jurisprudence has taken no account of transaction costs when it has created new aboriginal property rights. Complicated legal tests and decision making procedures increase transaction costs by extending the number of participants and the time taken to reach

decisions. As transaction costs rise, essential economic projects such as pipelines may be abandoned because they are no longer profitable, as happened to the Mackenzie Valley pipeline proposal. Aboriginal peoples are thus in the paradoxical position of receiving new property rights that they will find difficult to use. This is an unfortunate situation both for them and for the wider Canadian economy.

The ball is in the courts' court. It is recommended that the courts try to resolve this emerging impasse by taking judicial notice of basic economic principles in future decisions. In the *Secession Reference*, the Supreme Court referred to "underlying principles animating the whole of the Constitution, including the principles of federalism, democracy, constitutionalism and the rule of law, and respect for minorities." Economic efficiency is arguably as important to the welfare of Canadians as these other principles. If the courts cannot take account of it in its aboriginal jurisprudence, governments may have to resort to legal and even constitutional solutions that would be politically difficult to enact. [FI](#)



TOM FLANAGAN

Tom Flanagan is a Fraser Institute Senior Fellow and author of *Clarity and Confusion? The New Jurisprudence of Aboriginal Title*.

Leaving Canada to Escape Medicare's Failings

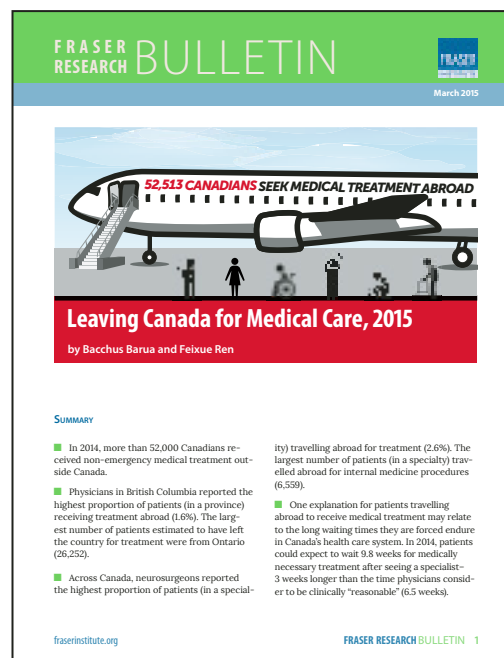
Bacchus Barua and Feixue Ren

One of the unfortunate realities of Medicare is that it fails to meet the needs of some Canadians who ultimately feel they have no choice but to travel abroad to receive the health care they need. And who can blame them? Faced with waits for treatment that are often months long (sometimes stretching over a year), it should come as little surprise that Canada's monopolistic government-run health care system has created a sizable population of medical tourists.

The question of course is: how many Canadians received medical care outside of the country last year?

While data on exactly how many patients seek treatment abroad are not readily available, it is possible to estimate this number using data from the Fraser Institute's annual waiting list survey and from the Canadian Institute for Health Information.

The Fraser Institute's annual waiting list survey asks physicians in 12 major medical specialties what percentage



of their patients received non-emergency medical treatment outside Canada in the past year. In 2014, averaged across the 12 medical specialties, 1.1 percent of patients in Canada were estimated to have done so, up somewhat from 2013's 0.9 percent.

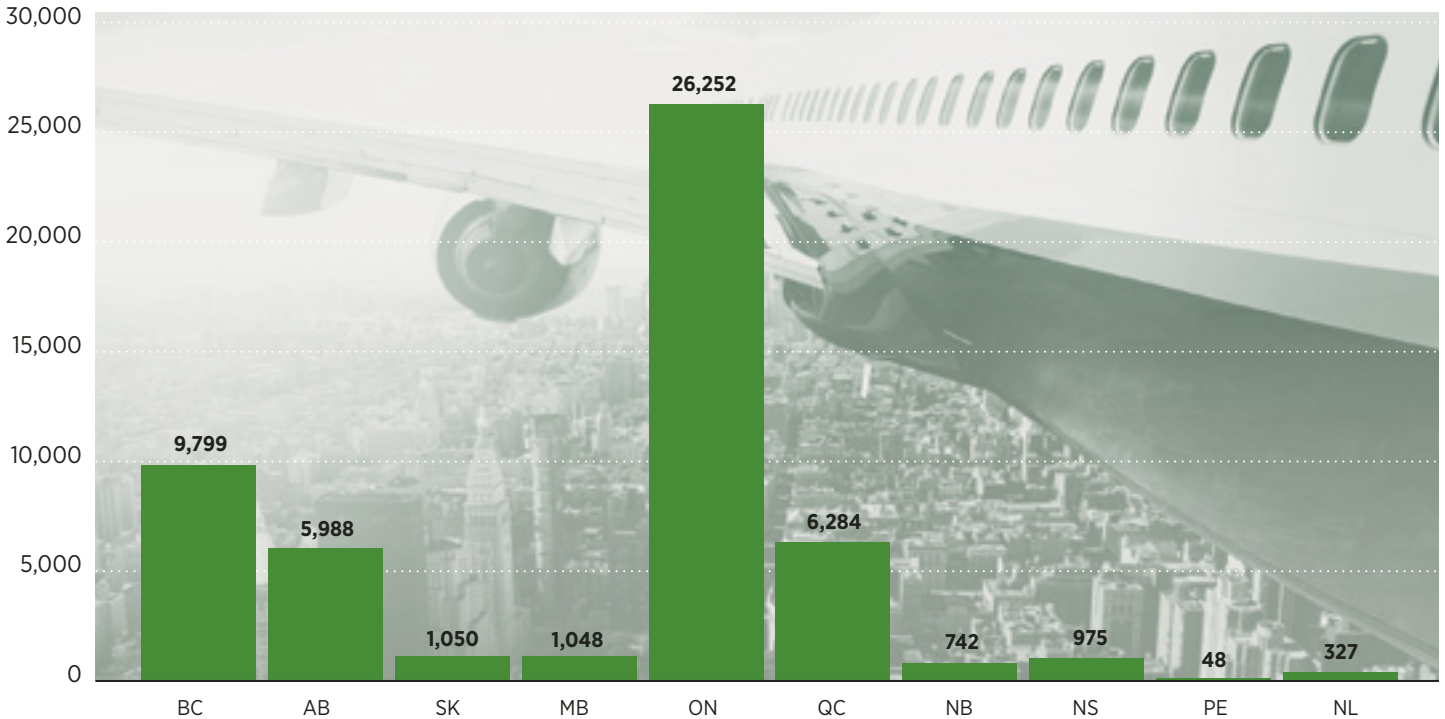
Putting these numbers together with data on the number of procedures performed in Canada from the Canadian Institute for Health Information reveals that

an estimated 52,513 Canadians received treatment outside the country in 2014.

Among the provinces, physicians in British Columbia reported the highest proportion of patients (in a province) receiving treatment abroad (1.6%). The largest number of patients estimated to have left the country for treatment was from Ontario (26,252).

Among the 12 medical specialties, neurosurgeons reported the highest proportion of patients (in a specialty) travelling abroad for treatment (2.6%). The largest number of patients (in a specialty) travelled abroad for internal medicine procedures (6,559).

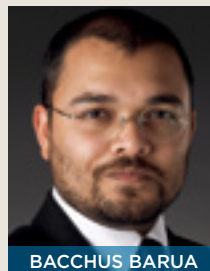
ESTIMATED NUMBER OF PATIENTS RECEIVING TREATMENT OUTSIDE OF CANADA, 2014



Those numbers are not insubstantial. They point to a sizable number of Canadians whose needs and health care demands could not be satisfied in Canada. They also point to a large market of patients that might choose to remain in Canada (and in their home province) if only they had that option. One can only wonder how many more would have liked to join them, but couldn't afford the travel on top of the privately funded care.

There are a number of possible reasons why Canadians ultimately received the care they required outside of the country. Some may have been sent abroad by the public health care system because of a lack of available resources or the fact that some procedures or equipment are not provided in their home jurisdiction. Others may have left in response to concerns about quality, seeking out more advanced health care facilities, higher tech medicine, or better outcomes. Others may have fled Canadian health care in order to avoid some of the consequences of waiting for care such as worsening of their condition, poorer outcomes following treatment, disability or death. And some may have done so simply to avoid delay and to make a quicker return to their life.

That a considerable number of Canadians traveled and paid to escape the well-known failings of Canadian Medicare speaks volumes about how well the system is working for them. It leaves open the question of just how many more Canadians might choose an alternative if given the opportunity. [FI](#)



BACCHUS BARUA



FEIXUE REN

Bacchus Barua is a Senior Economist in the Fraser Institute's Centre for Health Policy Studies. Feixue Ren is a research intern at the Fraser Institute. They are co-authors of the study *Leaving Canada for Medical Care, 2015*.



High school students participate in an activity that uses snacks to demonstrate benefits, costs, and scarcity.

This past quarter the Centre for Education Programs focused on high school students through its teacher workshops and high school seminars.

STUDENT SEMINARS

Most students graduate from high school with little or no understanding of economics, the benefits of competition, and the impact of government intervention. To help remedy this, we offer seminars for students in grades seven through twelve. Through the use of exceptional instructors, short lectures interspersed with video clips and activities, students are engaged throughout the day and keen to participate as they learn how economics is relevant to their lives.

In April and May, 756 students participated in five high school seminars held in Vancouver, Victoria, Surrey, and Kelowna. The seminars are a sought-after opportunity for students; we continue to receive requests to hold more of them. In fact, these programs had a wait list of over 400 students.



Professor Ninos Malek, PhD, demonstrates positive incentives by giving a student a raffle ticket for contributing to the discussion on positive incentives!

Our program tailored for junior high school pupils (grades 7-9) is called *Economics is Everywhere! Applying Basic Concepts to Everyday Life*. The seminar uses concrete activities to demonstrate economic concepts. After a day filled with events that include eating candy, singing, and fishing for Goldfish crackers, students re-



Students take part in a hat making activity that illustrates the differences between a traditional economy, a centrally planned economy, and a free market economy.

turn to their schools having learned to think critically about decisions they make today, the future consequences of those decisions, and how their behavior influences the world around them.

I liked the way you did the activities in a grade appropriate, easy to understand way, with lots of hands-on work.

(JUNIOR HIGH SCHOOL STUDENT SEMINAR)

Why Do People Behave the Way They Do? An Introduction to Economic Reasoning is our seminar for high school students (grades 10-12). Students apply economic thinking to common situations and scenarios. From hitting the “snooze” button on an alarm clock, to saving for university or choosing to go out with friends rather than study, students learn how every decision they make stems from an economic choice. At one of these seminars in Vancouver, a whopping 216 students made this event our best attended high school seminar of the year. In Victoria, the trade game exercise, which takes places in small break-out groups, went over so well that the groups began trading amongst each other when students returned to the main room.

TEACHER WORKSHOPS

In March, an *Economics of Disasters* workshop, funded by the Barbara Mitchell Centre for Improvement in Education, was held in Toronto. The same workshop was held in Edmonton in April and was jointly supported by the Barbara Mitchell Centre for Improvement in Education and the Lotte and John Hecht Memorial Foundation.

I can honestly say that Friday's session was one of the best ProDs that I have ever attended. I came back with so many great ideas to use in my classes.

(WHISTLER TEACHER WORKSHOP)



Teachers take turns acting as the “Disaster Tsar” during the “Nobody Knows Everything” activity, designed to illustrate what F.A. Hayek famously identified as “the knowledge problem.”

In the seminar, teachers take a close look at the role of markets versus the role of government immediately following a natural disaster as they seek to answer the question, “Are disasters good for the economy?” The participants examine a combination of examples—some taken straight from recent headlines, such as the recent earthquake in Nepal or the Alberta floods of 2013—while other examples are more historical, such as the ice storm that affected Eastern Canada in 1998 and the San Francisco fire of 1906.

In May, teachers gathered in Whistler to attend our *Economic Principles* workshop. This workshop is ideal both for teachers who are new to economics and for those wanting to review the fundamentals or in need of new activities and lessons. It covers incentives and property rights, supply and demand, economic systems, marginal utility, and voluntary trade.

Every teacher who attends our workshops receives a binder of lesson plans and activities, online materials, and a PowerPoint presentation, all of which enable them to walk into their classrooms the day after the workshop and put what they've learned into action.

The impact of our workshops is sizable. Consider that the 75 teachers who participated in these three workshops will each go on to teach the lessons we provided to an average of 90 students a year. That's 6,750 students annually who benefit from our materials.

We were impressed with the style of teaching and gained a great deal of ideas that we feel will engage our students.

(TORONTO TEACHER WORKSHOP)

2015 INTERNS WELCOMED

The time is upon us once again when we can welcome our summer interns to the team. This year we have 8 interns working in the Vancouver office. They will have the good fortune to work on a variety of projects in our various research centres. We look forward to their contributions as the summer progresses.

The interns joining us are:

Brianna Brown has just completed her BA in Political Science (Honours) and Economics from McGill University, where she held recognition as a McCall-MacBain Prestige Scholar.

Josef Filipowicz has a bachelor's degree in urban and regional planning (B.URPI) from Ryerson University and an MA in Political Science from Wilfrid Laurier University.



While visiting our Vancouver office, Fraser Institute Senior Fellow Preston Manning took time to pose for a photo with some of our summer interns. From left: Sazid Hasan, Josef Filipowicz, Feixue Ren, Preston Manning, Brianna Brown, Kayla Ishkanian, Kristine Ramsbottom.

Sazid Hasan is an MA candidate in Economics from Simon Fraser University. Previously he earned his BSS (Honours) and MSS degrees in Economics from the University of Dhaka.

Kayla Ishkanian is a fourth year joint honours history and political science student from McGill University.

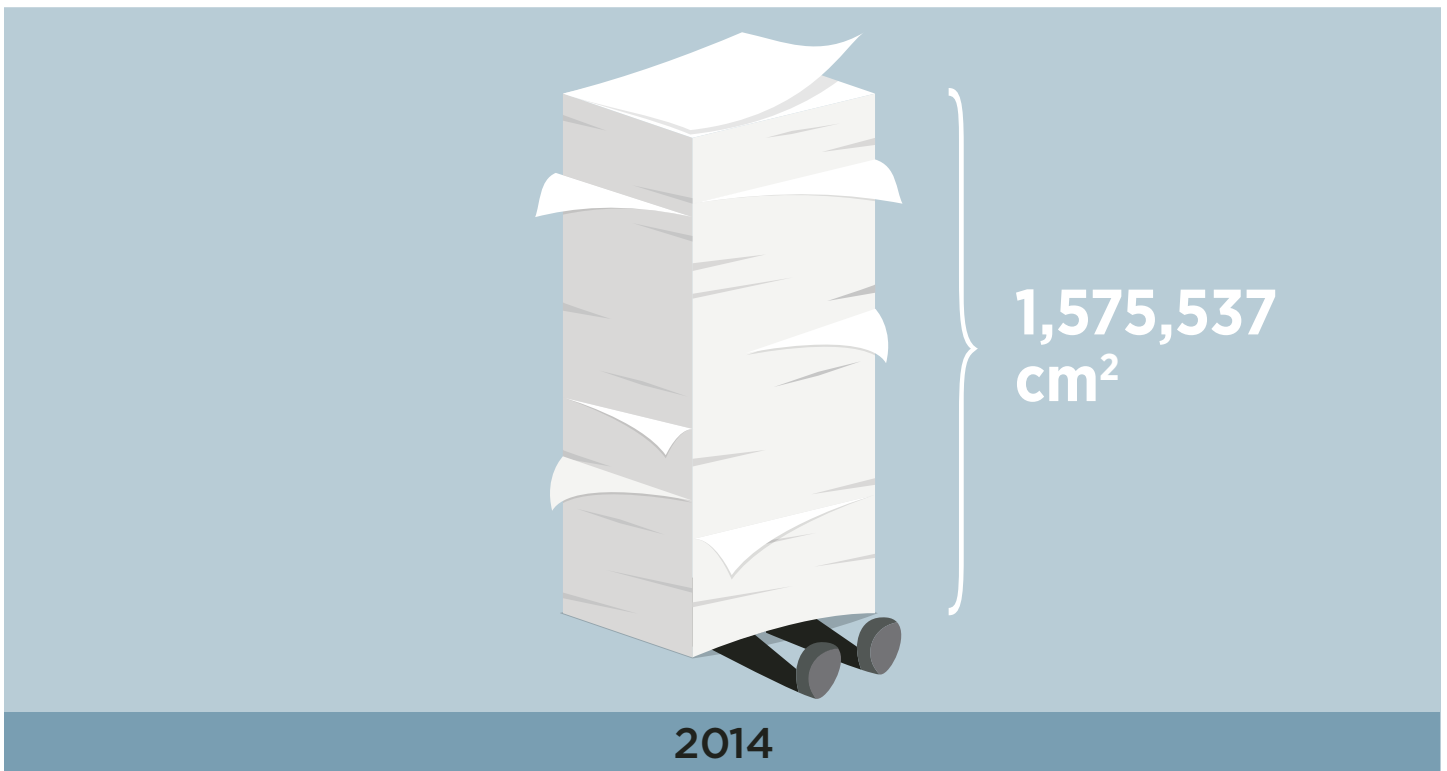
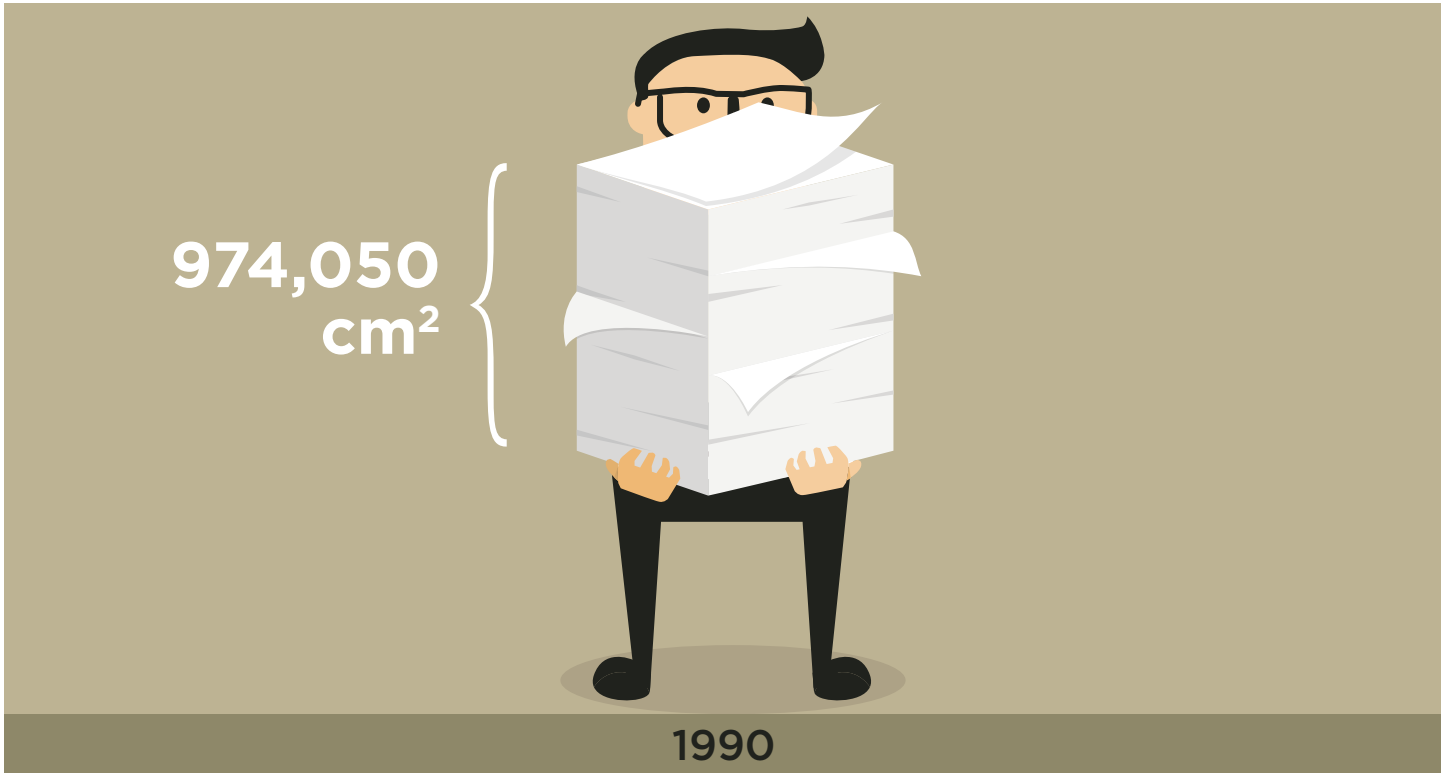
Ian Nason is pursuing an MSc in International Health Policy (Health Economics) at the London School of Economics and Political Science, beginning in September. He currently has a Bachelor of Arts in Economics (Honours) from Mount Allison University.

Megan O'Neill is currently a law student and has just completed her first year at the Allard School of Law at the University of British Columbia. She has also obtained a Bachelor of Science Degree from Cornell University majoring in Hotel Administration.

Kristine Ramsbottom holds a Bachelor of Commerce (Honours) from Queen's School of Business as a Chancellor's Scholar, and has studied abroad at the Bader International Study Center in East Sussex, England, where she focused on public policy and finance in the natural resources sector.

Feixue Ren holds an MA in Economics from Lakehead University. She also has a BA in Statistics from Hunan Normal University. **FI**

The area occupied by the Federal Income Tax Act increased 62% since 1990



Canada's Complex Tax System Requires Swift Simplification

François Vaillancourt, Marylène Roy, and Charles Lammam

Did you file your taxes on time? You had until Tuesday, May 5th at midnight. After that, according to the federal government, you were officially in arrears.

Unfortunately, due to Canada's increasingly complex tax system, Canadians today face greater challenges filing their taxes than they did just 20 years ago. Things have gotten a lot more complicated.

For instance, consider the actual legislation—the federal Income Tax Act—which is literally growing in size. As noted in the recent Fraser Institute study, *Measuring Tax Complexity in Canada*, between 1990 and 2014, the Act's text area (the number of pages multiplied by the size of the pages) increased by 62 percent—from 974,050 cm² to 1,575,537 cm². It's important to consider text area because, while the number of pages declined slightly (by 4 percent), the size of the pages increased 69 percent over the same period.

Here's an idea. If you were to lay out all the pages of the Act side by side, you'd cover the same area as 40 king size beds. Or 38 ping-pong tables.


More growth. From 1991 to 2011, the number of federal personal income tax expenditures (credits, deductions, exemptions, exclusions) increased from 105 to 123. At the same time, the number of corporate tax expenditures rose from 48 to 64. A better and simpler alternative to littering the tax code with boutique credits is to cut tax rates broadly. The added benefit, of course, is

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Measuring Tax Complexity in Canada

by François Vaillancourt, Marylène Roy, and Charles Lammam

SUMMARY

- Canadian families and businesses incur significant costs complying with the tax system. Those costs include direct spending on items such as accountants, lawyers, and computer software, as well as the financial cost of the time it takes to compile the materials and complete the forms. Governments also incur costs to administer and collect taxes.

■ These costs are driven in part by the complexity of the tax system. This study measures the evolution of tax complexity and finds that, according to various empirical measurements, the federal tax system in Canada has generally become more complex over time.

■ The study uses three broad categories of indicators for the empirical measurements: tax expenditures, tax legislation, and tax guides. Each indicator measures a different aspect of tax complexity.
- Between 1990 and 2014, the text area occupied by the Income Tax Act and regulations increased 62%, from 974,050 cm² to 1,575,537 cm². It is important to measure text area because while the number of pages declined by 4%, page size increased 69% over the same period.

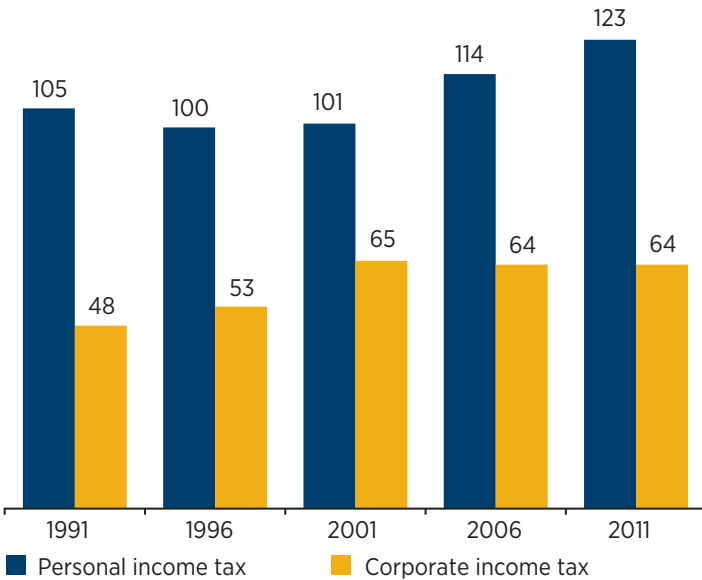
■ Regardless of the indicator used, all show an increase in federal tax complexity over a 20-year period. Of particular note is the similar increase in all the indicators in recent years. From 2000 (or 2001) to 2011 (or 2014), the number of credits, deductions, exemptions, exclusions, and other preferences (otherwise known as federal income tax expenditures) increased 22%, the text area of tax legislation increased 19%, and the size of the federal personal income tax guide increased 25%.

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improved economic incentives for work, saving, investment, and entrepreneurship.

But it doesn't stop there. From 2001 to 2011, the federal personal income tax guide, which includes information and instruction intended to *help* tax preparers, actually increased in size by 25 percent—to 70 from 56 pages.

NUMBER OF FEDERAL PIT AND CIT TAX EXPENDITURES IN CANADA, SELECTED YEARS, 1991-2011



Source: *Measuring Tax Complexity in Canada*.

Why are these numbers important? Because each new page, each new addition, can add to the complexity of Canada’s tax system. And the more complex the system, the more difficult—and often, more costly—that system is to navigate.

Today, Canadian families and businesses incur significant costs, above and beyond what they already pay in taxes, to merely comply with the tax system. They spend time and money collecting and organizing tax receipts, and working with accountants. If necessary, they hire lawyers. (In 2011, there were 499 court cases related to the Goods and Services Tax (GST)—up from 320 in 1993.) Many Canadians, feeling overwhelmed by the tax system, buy computer software programs to help them weave through Canada’s tax maze.

And remember, these costs add no value to society. They don’t pay for new factories or new machinery or new jobs. They don’t improve lives through investments in education or training. And they certainly don’t increase living standards—in fact, they reduce incomes and the time available for family and friends.

Most disturbing, perhaps, is that Canada’s tax compli-

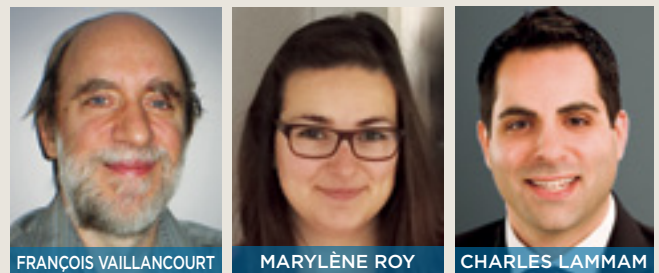
ance costs fall disproportionately on lower-income Canadians who pay the highest share of their income to comply with the tax system. Similarly, on the business front, smaller businesses pay a higher cost (as a share of revenues) to comply with the tax system than larger Canadian businesses. In short, our complex tax system imposes costs on those least able to afford them.

Paradoxically, there’s also an increased cost to government. As the tax system grows denser, the government can spend more time and money managing it, which, of course, may translate into more costs for taxpayers.

So what’s the solution? Simply put, simplify it. Make the tax system easier to understand and less expensive. If you’re a taxpayer, this would lighten your load, reducing the amount of time and money required to meet that looming tax filing deadline.

And if you’re the government, you’ll free up resources, currently dedicated to Canada’s tax web, which could be used for other priorities including pro-growth tax relief for individual Canadians and businesses.

In the United Kingdom, they have an Office of Tax Simplification, which measures tax complexity with an eye on reducing it. There’s nothing like that in Canada. If policymakers are genuinely interested in helping Canadians keep more of their money—a common claim made during budget season—they should act now. Next year’s deadline is less than 12 months away. **FI**



François Vaillancourt is an Emeritus Professor of Economics at Université de Montréal. Marylène Roy is a research assistant with Quebec-based CIRANO. Charles Lammam is the Director of Fiscal Studies at the Fraser Institute. They are co-authors of *Measuring Tax Complexity in Canada*.

Canada's Greenhouse Gas Story Better than Advertised

Kenneth P. Green

A recent Environment Canada report, *National Inventory Report 1990-2013: Greenhouse Gas Sources and Sinks in Canada*, is making news. And as usual, the bad news leads.

The media focus is on the probability that Canada will miss its Copenhagen emission-reduction targets from 2009. (Canada agreed to cut emissions by 17 percent from a 2005 base-year by 2020). In reality, however, this is less about Canada being an environ-

mental laggard, and more a problem with agreeing to politically derived targets you have no idea how to hit. But, fair enough, a miss is a miss—whether you think we should have accepted that target or not.

So that's the bad news. Now let's look at the good news. Emissions are indeed up 18 percent since 1990. But real GDP went up by 71 percent, meaning there was a 31 percent decrease in the amount of emissions per unit of economic production over that same time

period. That's actually a great trend in emissions intensity. And before people pooh-pooh emissions intensity, remember that back in 2009 China and India were lauded for agreeing to eventually improve their emissions intensity.

Per-capita emissions in Canada dropped by more than 14 percent (from a 2000 peak) by 2009, and have stayed at a record low level ever since... The same story has played out in Canada's transport sector, which is responsible for about as much greenhouse gas emissions as is the oil and gas sector... While vehicle-kilometres travelled rose by 12.5 percent, emissions only went up by 3.7 percent since 2005.

Per-capita emissions in Canada also dropped by more than 14 percent (from a 2000 peak) by 2009, and have stayed at a record low level ever since. That's a success story, not a failure.

The same story has played out in Canada's transport sector, which is responsible for about as much greenhouse gas emissions as is the oil and gas sector. Emissions there showed a significant increase (up by about 31 percent) since 1990. But even there, the glass is half full. While vehicle-kilometres travelled rose by 12.5 percent, emissions only went up by 3.7 percent since 2005. The report discusses similar (though less pronounced) trends for heavy-duty truck transport, which is also doing more with less: "Emissions from heavy-duty diesel vehicles (large freight trucks) rose by 22.7

Mt (112%) between 1990 and 2013. Growth in emissions reflected a 137% increase in tonne-kilometres shipped by trucks between 1990 and 2003."

So, you can read the new Environment Canada Report as a glass half empty, or you can read it as a glass half full. What you can't read it as, and what environmentalists will no doubt insist it shows, is that Canada is some kind of international laggard that has grossly shirked its responsibilities to reduce greenhouse gas emissions.

Canada's emissions intensity will continue to improve, and eventually emissions will peak and then decline simply due to the evolution of new technologies. It has happened in the US, and it's only a matter of time before it happens here.

Emission rates may not peak and drop as fast as some politicians and environmentalists demand, but then, letting markets do what they do best—drive efficiency through competition—is never fast enough for those who don't trust markets in the first place.

Canada's small share of global emissions isn't completely irrelevant. But Canada's emissions are sufficiently small that there's no reason to insist on a radical reduction at a high cost, rather than letting technological growth drive emissions down over a slightly longer time at much lower cost. [FI](#)



Kenneth P. Green is Senior Director, Natural Resource Studies at the Fraser Institute.

Conservatives' Economic Vision for Canada is Hardly conservative

Niels Veldhuis and Charles Lammam



As expected, the recent 2015 federal budget had the general feel of an election budget, with a small surplus and a smattering of initiatives to satisfy various voting groups. As Liberal leader Justin Trudeau noted in the House of Commons, “The budget is a political document produced to that end. It is a vision for a Conservative election campaign.”

While many, including Trudeau, have tried to paint the Conservatives as radical, the 2015 budget actually points to a different conclusion. When it comes to the size and scope of the federal government, it's hard to distinguish the 2015/16 Conservatives from the 2005/06 Liberals.

Let's start with the most important measure of the size of government: spending as a share of the economy. Federal program spending (total spending minus interest payments on the federal debt) as a share of the economy (GDP) was 12.6 percent in 2005/06, the last year the Liberals were in office. On this measure, the federal government grew in the first three years under the Conservatives (2006/07 to 2008/09) before skyrocketing during the recession.

Federal program spending now stands at 12.9 percent of GDP with the Conservatives planning to increase it to 13.2 percent this year (2015/16). Simply put, the Conservatives have increased the size of the federal government, and if re-elected, plan to keep the federal government larger than the previous Liberal government.

Moreover, when provincial and local governments are added, total government spending in Canada is currently about 40 percent of GDP. In a recent book, *Measuring Government in the 21st Century*, Lakehead University Professor Livio Di Matteo examines a wide range of international data to measure how the size of government affects economic growth and social outcomes. Di Matteo finds that economic growth is maximized when total government spending is at approximately 26 percent of GDP, and for social outcomes there is little additional benefit once government reaches 30 to 35 percent of GDP.

A truly conservative vision for the federal government would recognize that it is in the best interests of Canada's economic and social health to reduce the size of government—not increase it.

A deeper look at the composition of federal spending tells a similar tale. There has been little change in the composition of federal program spending since 2005/06 across the three major categories (direct federal government spending, transfers to persons, and transfers to government). Today, the federal government's direct spending is a little lower as a portion of the total while transfers to Canadian families and other levels of government are a little higher.

Specifically, direct federal spending decreased from 47 to 44 percent of the total; major transfers to individuals and families increased from 30 to 31 percent of the total; and major transfers to other levels of government increased from 23 to 25 percent of the total. Again, when we consider the composition of federal spending, there's only a marginal difference between the 2005/06 Liberals and the 2015/16 Conservatives.

The one big difference between 2005/06 and 2015/16 is on the revenue side. Federal revenues as a share of the economy are now smaller (14.5 percent) than in 2005/06 (15.9 percent). The main reason for this decline is the Conservatives' two-point reduction in the GST and, to a lesser extent, the general business tax reduction from 21 percent to 15 percent (an extension of the Liberals' reduction from 28 percent).

The Conservatives were able to reduce taxes and increase the size of the federal government (program spending as a share of GDP) for two reasons. First, interest payments on the federal debt decreased due to substantially lower interest rates. Second, the Liberals consistently over-

taxed Canadians by running significant surpluses. The distinguishing difference between the Conservatives and Liberals is that the Conservatives ended the practice of over-taxing.

But as for further tax reductions, the Conservatives' 2015 budget hardly lives up to its own name: *Low-Tax Plan for Jobs, Growth and Security*. The budget is actually set to increase the federal tax burden.

There is little question that Canada would benefit from a more focused, smaller federal government, which would allow for personal income tax rate reductions that lead to positive economic results by providing better incentives for skilled, educated, and hard-working middle-income Canadians.

Former Prime Minister Paul Martin and current Prime Minister Stephen Harper seem to agree on that point. Paul Martin highlighted it in 2005 when he said, "Lower personal taxes would also provide greater rewards and incentives for middle-and high-income Canadians to work, save, and invest." Prime Minister Stephen Harper made much the same point in 2007 when he said, "Canada needs lower personal income tax rates to encourage more Canadians to realize their full potential."

Regardless of the rhetoric surrounding the federal budget, it seems that the Liberals and Conservatives have more in common than they like to admit. [FI](#)



NIELS VELDHUIS



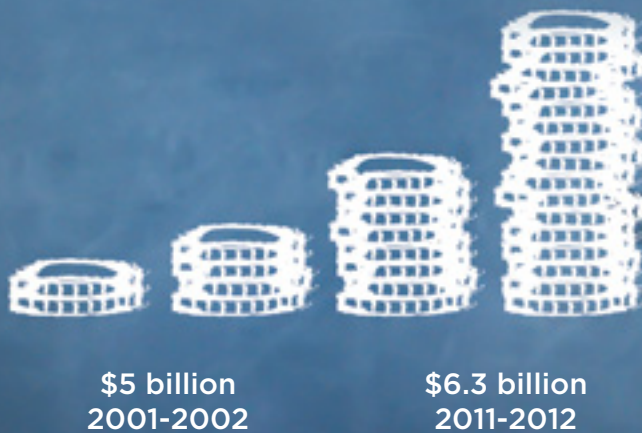
CHARLES LAMMAM

Niels Veldhuis is President and Charles Lammam is Director of Fiscal Studies at the Fraser Institute.

Barbara Mitchell Centre
FOR IMPROVEMENT IN EDUCATION

The Myth of Education Spending Cuts in British Columbia

Deani Van Pelt and Jason Clemens



The recent British Columbia budget was delivered amidst a backdrop of fallen commodity prices and a generally sluggish economy. In light of British Columbia's mounting government debt, vigilance and restraint will be key to keeping the province's fiscal house in order.

Spending on K-12 education, the second largest spending envelope in British Columbia, can rightly be seen as an important investment for the next gen-

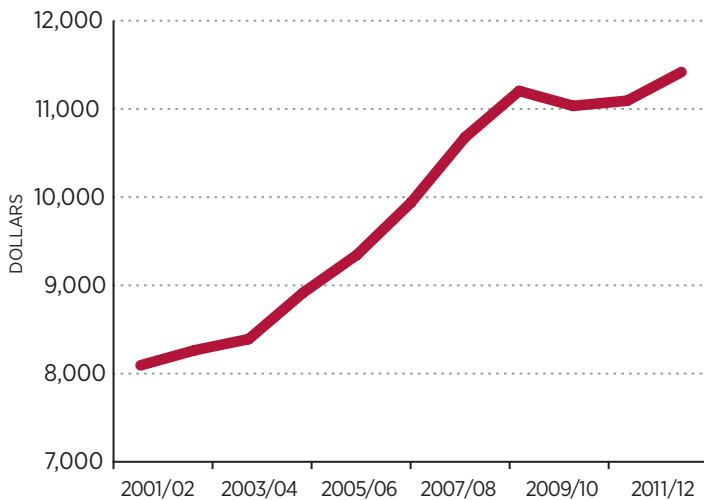
eration. It provides the building blocks for a prosperous and opportunities-oriented society.

There is no doubt, though, that those who profit from government spending increases will argue that restraint will mean continued cuts in education. The reality is quite different.

According to data from Statistics Canada, between 2001-02 and 2011-12, the most recent years available,

spending on public schools in British Columbia increased from \$5 billion to \$6.3 billion—an increase of 24.7 percent. When price changes (inflation) are considered, the increase is 4.6 percent.

EDUCATION EXPENDITURE PER PUPIL IN GOVERNMENT SCHOOLS IN BRITISH COLUMBIA



Source: *Education Spending in Canada: What's Actually Happening?*

However, these numbers are a rather rudimentary way of understanding education spending because they don't account for changes in student enrolment. If a jurisdiction increases education spending but simultaneously experiences a larger proportional increase in the student population, it can actually be cutting per-student spending. Alternatively, a jurisdiction with a declining enrolment could actually reduce total education spending but still increase per-student spending.

A recent Fraser Institute study, *Education Spending in Canada: What's Actually Happening?* calculated the per-student levels of education spending over the last decade. Except for three of Canada's eastern provinces, BC experienced the largest provincial decline in public school enrolment—from 622,800 to 550,700 students between 2001-02 and 2011-12, an 11.6 percent decrease. This drop in enrolment amplifies the increase in the province's education spending. During the same 11-year period, spending per student increased 41.1 percent, from \$8,093 to \$11,418.

Another common claim, one which is potentially more damaging, is that there's a consistent relationship between education spending and education results. In this simple world, all you have to do to improve education is spend more money. That is a simplistic and incorrect way to think about inputs and outputs.

British Columbia had the lowest spending increases—on both a nominal and per-pupil basis—of any province in the country. Yet, unlike other provinces, many of which experienced a worrying decline in the OECD's Programme for Student Assessment (PISA) scores in math, reading, and science, BC has some of the highest PISA scores in the country.

Study after study has demonstrated that it's far more important to focus on how money is spent rather than worrying about the total amount spent. The key to better education isn't spending more—it's spending wisely. A recent CD Howe study examined BC's system of school choice, and confirmed its positive effect on test results. Consider, for example, that one in eight students in BC attends an independent school. Independent schools offer parents real choice in their children's education and foster competition between schools. Choice and competition are the keys to a well-functioning, efficient education system.

Contrary to the rhetoric, spending on public education in British Columbia has increased. And while the increases have been the most modest in the country, performance has not suffered. The focus should be on reform—how we spend on education, and how we deliver that education to students—not on simply worrying about increasing the amount we spend. **FI**



DEANI VAN PELT



JASON CLEMENS

Deani Van Pelt is the Director of the Barbara Mitchell Centre for Improvement in Education. Jason Clemens is Executive Vice-President at the Fraser Institute.



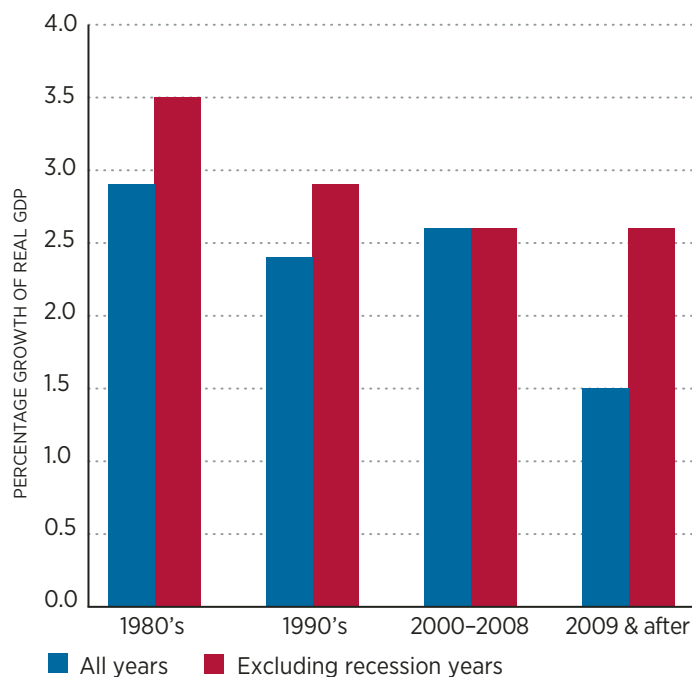
The idea that we are trapped in a “new normal” of slow economic growth has gained currency with many analysts. Proponents list a number of factors allegedly restraining the trend of growth, including the lingering impact of the 2008 financial crisis, an aging population, and even a slowdown in the underlying rate of innovation and technological change. Christopher Ragan argues that Canada’s governments have run out of options to stimulate the economy; others cite the uncertainty created by the unprecedented monetary and fiscal stimulus in response to the financial crisis and recession as a major drag on the recovery itself.

In a recently released study for the Fraser Institute, *Is Slow Growth the New Normal for Canada?* I argue that slow growth early in a recovery is not unprecedented and does not augur that weak growth will continue. There is reason to believe that pessimism about growth will prove to be an over-reaction to the current environment, just as happened in the 1930s (when the phrase “secular stagnation” was coined) and 1970s. These past periods of prolonged slow growth ended when governments adopted better and more predictable policies.

The US economy is improving as the price of oil falls and the lingering effect of the financial crisis dissipates,

which is typical seven years after its onset. The United States seems poised to return to above-trend rates of growth, as shown by a string of strong employment reports. In Canada, both GDP and employment surprised to the upside recently, even as a majority of Canadians say they think the economy is in decline. The last time a slumping resource sector and robust growth in the US occurred simultaneously was in 1998, when growth in Canada accelerated (commodities were hit by the Asian financial crisis). The implication is that a stronger US economy can trump lower commodity prices. The importance of our resource sector has increased since then, which will dampen growth somewhat, but the impact will be less for the real economy than for the stock market, which appears to be driving public perception of how much difficulty the economy is in.

GROWTH OF REAL GDP (%) IN CANADA, BY DECADE



Source: *Is Slow Growth the New Normal for Canada?*

Other structural headwinds are unlikely to offset the impact of an improving US economy. An aging labour force is much more of a problem for Europe and Japan than North America, which has a younger population that's not projected to contract in the future, thanks to high immigration. The possibilities for innovative technological change remain encouraging for growth, although this variable is the most difficult to project.

In Canada, growth since the recession has not been unusually weak compared with the previous two decades. Last year's real GDP growth of 2.5 percent exceeded its 25 year average, which was reflected in the adult unemployment rate already reaching the historically low level of 5.5 percent. Canada is particularly well-positioned to take advantage of an upturn in the US economy, since the lingering effect of the recession in our financial sector and labour markets was much less pronounced than in the US. This will help Canada overcome the recent slump in commodity prices. A further boost to growth would come from a better policy framework, especially in central Canada where provincial government debt continues to increase. More policy stimulus, like the Bank of Canada's surprise interest rate cut in January, is not needed in North America at this time. Growth would be better served by more predictable policies. **FI**



Philip Cross is a former chief economic analyst for Statistics Canada. He is the author of *Is Slow Growth the New Normal for Canada?*

Oil-train Derailments in Canada Expose Folly of Anti-pipeline Movement

Kenneth P. Green



Four recent oil-train derailments—two in the United States and two in Canada, accompanied by yet another drive-by rhetorical smear of the Keystone XL pipeline by US President Barack Obama—have re-invigorated the debate over how Canadians and Americans transport oil. The most recent spills and explosions in Illinois, West Virginia, and Ontario all involved long oil trains of about 100 cars. So far as we know, they all met the most recent railcar designs and regulatory requirements in the US and Canada.

The barrage of derailments continues to illuminate the folly of the anti-pipeline movement.

Because of an artificially created shortage of pipeline capacity in the US and Canada, more petroleum products are moving by rail. This issue was deeply analyzed in a 2013 Fraser Institute study I co-wrote entitled *Intermodal Safety in the Transport of Oil*. Using the most comprehensive available US data, we observed that while the vast majority of oil transported by any mode arrives safely at its destination, there are still discernable differences in relative safety. On virtually all metrics of safety, whether environmental or occupational, it was clear that movement of oil and gas is safest via pipeline and less safe via rail.

Here are some specifics: in the transport of one billion tons of oil over a mile by pipeline, the likelihood of leak-

COMPARATIVE STATISTICS FOR PETROLEUM INCIDENT RATES ONSHORE TRANSMISSION PIPELINES VS. ROAD AND RAILWAY (2005-2009)

Mode	Average billions ton-miles shipment per year	Average incidents Per Year	Incidents per billion ton-miles
Road*	34.8	695.2	19.95
Railway*	23.9	49.6	2.08
Hazardous liquid pipeline	584.1	339.6	0.58
Natural gas pipeline	338.5	299.2	0.89

*Only incidents involving and ton-mileage carrying those products carried by pipeline (petroleum products, liquid natural gas, etc.) are counted for road and railway.

Sources: *Intermodal Safety in the Transport of Oil*.

age is very low—less than one incident per billion ton-miles. The risk of a leak by rail is twice as high, at two likely incidents. And the change for leakage if the oil is transported by truck is 10 times higher still, with 20 incidents likely in moving a billion tons of oil over a mile. On volumes spilled, it’s true that pipeline ruptures release larger quantities of oil than individual truck or train spills, but recovery rates for oil spilled from pipelines can reach 50 percent. Furthermore, pipelines are far less likely to pose a threat to large population centres. When it comes to worker safety, pipelines also look safer. Safety data from the US suggests that one would have only 0.007 injuries per billion ton-miles, while rail injury rates are 30 times as high.

That pipelines are safer than trucks or trains should come as no surprise. A pipeline is fixed infrastructure with little exposure to the elements, fewer opportunities for operator or mechanical failure, and with greater capacity for real-time monitoring and pre-planning for remediation based on the specific and well-understood characteristics of the pipeline route. Pipeline routes are also often built away from densely populated areas. Trains and trucks, running above ground, are on fluid routes subject to constant change. That offers far more opportunities for breakdown, operator error, and injuries to workers as

well as the general public. And, rail and roadways, by intent, pass through major population centres putting more people at risk when an accident happens.

Environmentalists and anti-fossil-fuel allies have successfully stalled the development of safer pipeline capacity for years now. As a result, more oil is transported by railways, increasing health and environmental impacts rather than reducing them.

Anti-pipelineers would undoubtedly say that the solution to these problems is just to “stop using oil,” but that idea is essentially the mother of all denial: developed economies are essentially fossil-fuel economies from top to bottom, with a helping of hydro and nuclear power on the side—87 percent of all the energy used around the world is generated from fossil fuels, and 80 percent of all transportation is powered by oil and its derivatives. Renewables such as wind and solar power are akin to the skin of an apple—pretty, but not terribly filling in and of itself.

Opposition to pipelines flies in the face of safety data, which show that pipelines are safer modes of transport than railways. This is not the pipeline engineering equivalent of rocket science. And despite the current downturn in world oil prices, energy agencies and companies expect future demand to rebound, and create the incentives to develop oil in both the US and Canada.

Environmentalists who engage in anti-pipeline crusades risk causing more harm than good. Their pipeline-stalling actions are diverting oil to rail; oil that would otherwise be transported more safely by pipeline. **FI**



Kenneth P. Green is Senior Director, Natural Resource Studies at the Fraser Institute. He is the co-author of the Fraser Institute study, *Intermodal Safety in the Transport of Oil*.

Pharmacare is the Wrong Solution at the Wrong Time

Dr. Brett Belchetz



Recently, to great fanfare and much media attention across the country, the *Canadian Medical Association Journal (CMAJ)* announced the publication of a new study trumpeting the great benefits Canada would accrue by going ahead with national government funded pharmaceutical drug coverage. Dubbed “Pharmacare” by its proponents, the study’s authors claimed that such a plan would save Canadians approximately \$7 billion per year in drug costs, with little to no tax increases, and would greatly improve the health of Canadians by providing drugs to the 10 percent of us that currently cannot afford to pay for prescribed medications.

On the surface of it, such claims sound like a win-win situation—more coverage for less money, with better health outcomes. But on closer inspection, the CMAJ study makes some highly dangerous assumptions and ignores the potential of Pharmacare to expose Canadians to a financial sinkhole that could further push our already strained health care system towards collapse.

The study’s authors falsely claim that Canada is the only industrialized country with a universal health care system that does not provide national drug coverage to its

citizens. In actuality, Canada is the only country in the industrialized world with universal health care that does not have a second, private tier of health care, and one of only three nations in the industrialized world that does not require its citizens to pay some form of user fee for medical services. The nations cited in the CMAJ article as examples Canada should copy all have extensive private health care systems, and all achieve significantly better health outcomes than do we, usually at lower cost. This is significant in that public drug coverage is affordable to the governments in many of these countries due to the savings achieved by shifting part of the burden of paying for health care to the private sector. So, unless the CMAJ authors are interested in discussing Pharmacare within the setting of a fundamental rethink of our health care system, including private care and user fees, the entire premise of their argument—comparing us to our international peers—is misleading and inappropriate.

Additionally, the cost savings the CMAJ study claims are highly suspect. The authors state that Canadians would save \$8 billion annually by eliminating out-of-pocket and private insurance expenses they currently pay for prescription drugs, and that doing so would only require \$1 billion in extra government spending. The magical transformation of \$8 billion of private spending into \$1 billion of public spending would be brought about through

better bulk pricing, more use of generic drugs, and smarter, formulary-based prescription choices. While bulk pricing is an idea worth exploring, the study's pricing assumptions are based on us achieving costs similar to those achieved by Europeans, a dubious claim given the example to date of Canada's only public drug plan, in Quebec, which at a cost of \$1,065 per capita in 2014, achieved the second highest level of drug expenditures in this country. Similarly, savings proposed by switching more patients to generic drugs, or by ensuring physicians comply with a formulary of recommended drugs, may quickly disappear as our population demands access to newer, vastly more expensive brand name drugs. For instance, Sovaldi, a brand new drug that cures over 90% of hepatitis C cases, costs approximately \$650 per pill, or about \$55,000 for a required 12-week course. The extreme costs of many such newer therapies were completely excluded from the CMAJ analysis.

... now is not the time to introduce an untested new national program of unpredictable cost.

Also, the study authors based all of their cost assumptions for future pharmaceutical use on historic levels of demand. This is a highly incorrect methodology that completely misses the impact on drug demand that will occur when the price of prescriptions approaches zero. Any first year economics student can tell you that, for any good, as price approaches zero, demand skyrockets. Our health care system, with its zero dollar pricing for patients, has shown just such growth in demand. Shortly before the Canada Health Act of 1984 mandated free health care for Canadians, health expenditures totaled 7 percent of our GDP. In 2012, the most recent year for which data are available, health expenses were almost 11 percent of our GDP—a 50 percent increase in the percentage of our economy devoted to medical care. This has definitely been mimicked in the case of Quebec's drug plan, where total costs have risen by 10.7 percent

per year since 1998, despite a population growth of only 14 percent between 1991 and 2011—an astounding level of growth that would throw off the cost predictions of the CMAJ analysis by many billions of dollars.

Meanwhile, our health care system teeters on the verge of collapse. Health spending consumes approximately 40 percent of all provincial budgets across the nation, and this threatens to only increase as our population ages and sickens. In the hospitals where I work, we often struggle to find the funds for basic repairs—to fix leaks in our roof, or to replace broken otoscopes that I require to look inside the ears of sick children. The Ontario government recently unilaterally imposed a 2.65 percent pay cut on the province's doctors, citing a complete lack of funds to pay previous wage levels.

Such levels of expenditure would be forgivable if our health care system was a world leader, but despite all of the money we are pouring into it, it is broken. In June 2014, a Washington, DC-based Commonwealth Fund study ranked Canada's health care system second worst in the industrialized world, beaten by every nation except the United States on metrics such as wait times, efficiency, and health outcomes.

So, when our national health care system is broke and underperforming, and when even the CMAJ authors admit in their own overly optimistic "worst-case" scenario that Pharmacare might require \$5 billion in additional government funding off the bat—money that our governments simply do not have—now is not the time to introduce an untested new national program of unpredictable cost. As a famous Irish proverb says, "It's no use carrying an umbrella if your shoes are leaking." A good umbrella Pharmacare may be, but when it comes to health care in Canada, we should have only one priority—fixing the leaks in the shoes we already own. **FI**



Dr. Brett Belchetz is an emergency room physician and Fraser Institute senior fellow.

Which Path Will Alberta's NDP Government Take?

Charles Lammam and Jason Clemens



Once the euphoria of the Alberta NDP's historic election victory subsides, Premier-elect Notley and her leadership team will have to make a fundamental decision about the fiscal policy path the new government will pursue. This decision will shape the immediate and future prosperity of Albertans.

Too often people confuse political branding with the policies implemented by a government. For in-

stance, it's fair to say that the federal Liberals between 1995 and 2002 were one of the most fiscally prudent federal governments in modern history. Similarly, during their reign in the 1990s and 2000s, the Saskatchewan NDP implemented a series of fiscally prudent policies. Alternatively, there are many instances where Conservative governments across the country didn't actually implement fiscally "conservative" policies. Simply put: what matters are the policies that a government implements—not its political branding.

The Notley government must now decide what policies it will pursue over its tenure. When it comes to fiscal policy, the Saskatchewan NDP of the 1990s and early 2000s offers ideas worthy of serious consideration. Consider that Saskatchewan's NDP was the first Canadian government to seriously and genuinely tackle its deficit problem in the 1990s. In fact, it was the first government to actually reduce nominal spending to balance its books.

The choice before the Notley government is whether to pursue pragmatic policies in a challenging environment with low energy prices, large deficits, and the erosion of Alberta's tax advantage.

The Saskatchewan NDP government tabled a budget in 1992 that reduced the deficit by relying mainly on spending cuts (although there were some tax increases). Subsequent budgets maintained this commitment with additional reductions in nominal program spending, amounting to a 7 percent reduction over two years. These reforms led to a balanced operating budget in 1994/95. Successive balanced budgets ultimately opened the door to major tax reforms in the 2000s that were geared toward making Saskatchewan competitive in attracting and retaining high-skilled workers, investors, and businesses.

The first set of reforms, announced in the NDP's 2000 budget, focused on personal income taxes. Shortly after, in the 2006 budget (following the recommendations from Saskatchewan's Business Tax Committee Review), the NDP government announced major reforms to the business tax regime including elimination of the highly damaging general corporate capital tax and reduction of the corporate income tax from 17 to 12 percent.

The alternative path for the Notley government to follow is the model of the Ontario NDP or the British Columbia NDP. In both cases, these parties were much more ideologically driven in the 1990s with respect to policy than

their more pragmatic brethren in Saskatchewan during the 1990s and early 2000s.

After a surprising election victory, the Ontario NDP pursued an ideological agenda. Spending and taxes increased dramatically (though not enough to balance the budget), leading to large-scale borrowing. There was very little fiscal discipline applied in the province until the reality of budget arithmetic set in.

After several years of runaway spending and relentless tax increases, the Ontario NDP was forced to markedly change course. It restrained spending (remember "Rae Days") and even introduced some targeted tax relief. But it was too little, too late. The fiscal fiasco of the Ontario NDP laid the foundation for the reformist government of Mike Harris and the Conservatives in 1995.

The choice before the Notley government is whether to pursue pragmatic policies in a challenging environment with low energy prices, large deficits, and the erosion of Alberta's tax advantage.

The practical solution is to reduce and reform spending so that better results are produced with fewer resources. Incidentally, this is exactly what provinces like Saskatchewan and Alberta did in the 1990s—under two very different political "labels"—when they faced similar circumstances. It also means avoiding tax increases, particularly those that reduce competitiveness and the incentives for investment and entrepreneurship.

Such a combination would lay the foundation for a prosperous Alberta. The alternative path will have predictable results as demonstrated by the economic experiences of Ontario and B.C. Sound policies based on real-world experiences can result in good economics regardless of political branding. **FI**



Charles Lammam is Director of Fiscal Studies and Jason Clemens is Executive Vice-President at the Fraser Institute.



Charles Lammam

What's your role at the Institute?

I am the Institute's Director of Fiscal Studies, its largest research department, which covers government budgets and taxes. I work with a top notch team of in-house economists, senior fellows, and outside scholars. The department's bread and butter is analyzing government spending and taxes. After all, almost all government decisions and good policy really start with prudent fiscal policy. Among our most well-known and important annual projects is Tax Freedom Day—a widely reported reminder of the full extent of the average Canadian family's tax burden. My goal is that our team is part of all the major fiscal and economic debates in the country, both federally and provincially.

How did you arrive at the Institute?

I began at the Institute as an intern in 2006 after finishing my undergraduate degree in economics. I stayed on while going to graduate school because I found the real-life experience of working at a think tank to be invaluable. In total, I have spent nine years at the Institute and have published over 50 studies and 200 articles during my tenure. My time here has been rewarding, largely owing to great colleagues and impactful work.

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

Looking ahead, I am especially excited about a major research study I'm working on with François Vaillancourt, a highly regarded public finance expert and economics professor at the Université de Montréal. Our study empirically examines the effect of forced government savings for retirement on the private savings behaviour of Canadian households—an issue largely absent in the debate to expand the Canada Pension Plan or enact new provincial pension plans like the Ontario Retirement Pension Plan. I'm also pleased to be involved in a large, multi-year research project examining various key issues related to income inequality, which has become one of the most talked about economic policy issues of our time.

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

I spend most of my non-work hours with my two young kids (six months and 26 months) and lovely wife. My limited spare time now goes to working out, reading, or playing car enthusiast (mostly this involves ogling everything from cool SUVs to "hot hatches" to high performance sedans).

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Last year, for example, support from the Foundation allowed the Institute to publish a cutting-edge study on policing levels and crime rates in Canada. The study found that per-person policing costs in Canada rose by 45.5 percent while criminal code incidents per officer (a measure of police workload) dropped by 36.8 percent. The study sparked debate in almost every city about effective policing and spending on policing across the country. In fact, it generated over 1,300 media stories, the second most for any study published by the Institute in 2014.

This year support from the Foundation will allow us to complete, release, and promote a number of projects including studies on the economics of minimum wages in Canada, the prospects for stronger economic growth based on better policies, and an evaluation of Canada's foreign investment policy.



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The Fraser Institute
4th Floor, 1770 Burrard Street
Vancouver, British Columbia,
Canada V6J 3G7