

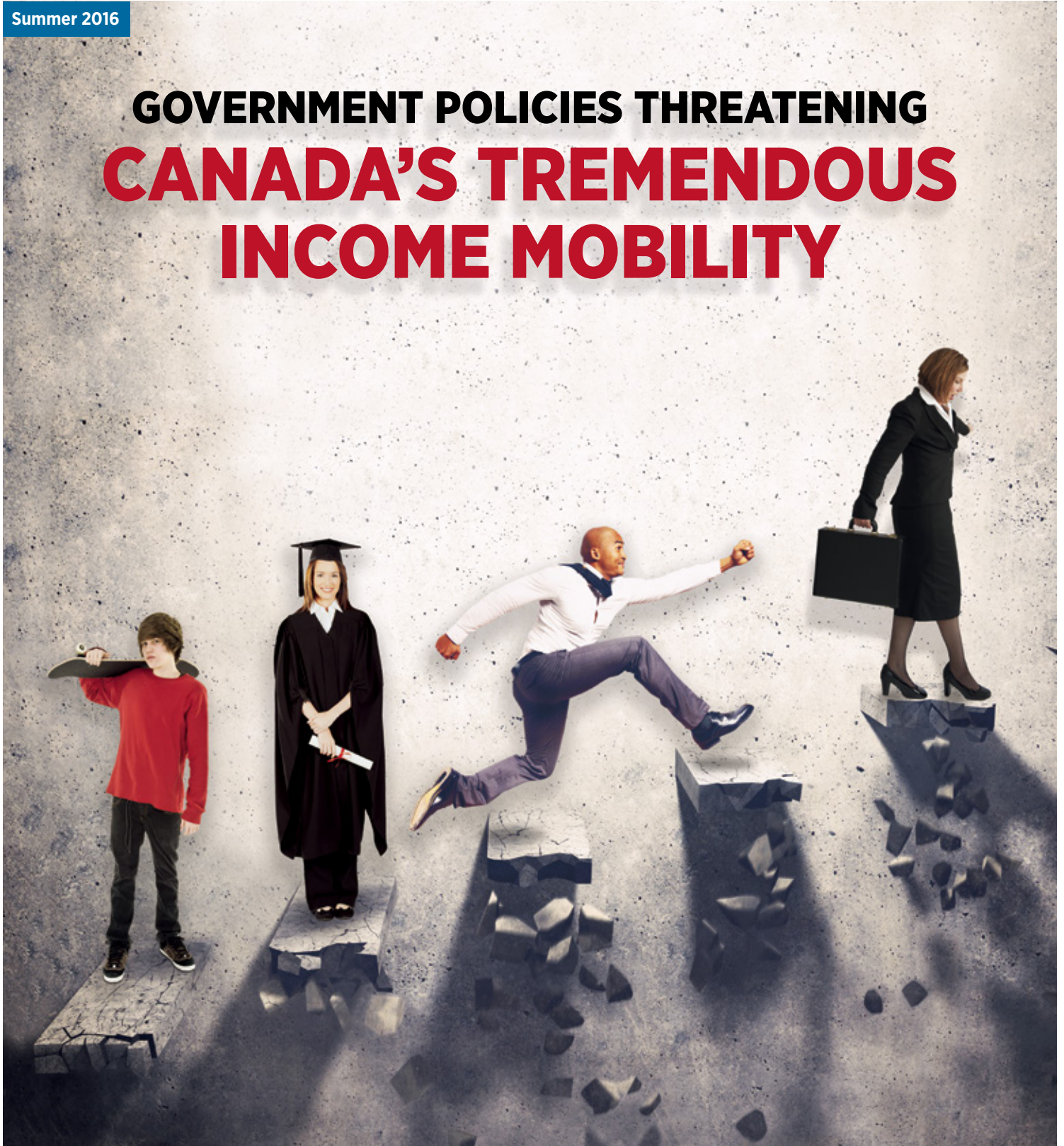
News and information for supporters and friends of the Fraser Institute

FRASER
INSTITUTE

THE **Quarterly**

Summer 2016

**GOVERNMENT POLICIES THREATENING
CANADA'S TREMENDOUS
INCOME MOBILITY**



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Roundup

Canada's True
Environmental Record

Canada's Lack of
Tax Competitiveness



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

I hope you are enjoying these warm spring days. I must say that this winter was tougher than most, not because of the weather, but as a result of the policies that were enacted by governments during budget season. This was particularly true at the federal level.

In his budget speech, the federal Finance Minister painted a rather gloomy picture of Canada being a place where hard work is not rewarded and will not get Canadians ahead: “A fundamental change must happen: Canadians need to believe that hope and hard work will be rewarded again.”

Of course, the Finance Minister is completely wrong.

To understand how wrong the federal government’s view of Canada is, consider an important study recently published by the Institute, *Measuring Income Mobility in Canada*, depicted on the cover of this issue of *The Quarterly* and summarized on page 10.

The focus of government policy should be about expanding mobility rather than stoking fears of a problem that doesn’t exist. Unfortunately, as we highlight on page 16, the federal government’s 2016 Budget was long on pro-growth rhetoric but short on policies that would actually improve Canada’s economy and lead to greater opportunity for Canadians to move up the income ladder.

This issue of *The Quarterly* also contains a series of excellent commentaries highlighting budget issues across the country from infrastructure spending at the federal level (page 24), to Alberta’s debt accumulation (page 8) and Ontario’s excessive spending (page 22).

Finally, I highly recommend an important commentary by my colleagues Deani Van Pelt, director of the Barbara Mitchell Centre for Improvement in Education, and Jason Clemens, on school choice in Alberta (page 20). Parental choice in education has been hotly debated in Alberta’s legislature and our research showing how much private education saves taxpayers most definitely influenced the debate.

As always, I encourage you to pass this issue of *The Quarterly* on to your friends, family and/or colleagues when you’re through reading it.

Thank you for your ongoing support.

Best,

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

Niels

New Research



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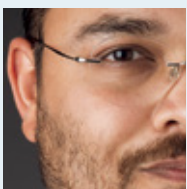
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Canada's Personal Income Taxes Now Among the Highest

Charles Lamnam, Hugh MacIntyre, Feixue Ren, Ben Eisen, and Milagros Palacios

In December 2015, Canada's new Liberal government introduced changes to Canada's personal income tax system. Among the changes for the 2016 tax year, the federal government added a new income tax bracket, raising the top tax rate from 29 percent to 33 percent on incomes over \$200,000. This increase in the federal tax rate is layered on top of numerous recent provincial increases. Starting with Nova Scotia in 2010, at least one Canadian government has introduced one or more new personal income tax brackets with higher tax rates in every year except 2011. Over this period, seven out of 10 governments increased tax rates on upper income earners. As a result, the combined federal and provincial top personal income tax rate has increased in every province since 2009.

The largest tax hike has been in Alberta, where the combined top rate increased by 23.1 percent, in part because the new rates were added to a relatively low initial rate. Alberta has traditionally had Canada's most



competitive top tax rate but now has a higher combined top tax rate than neighbouring British Columbia. In Ontario, the combined top rate increased by 15.3 percent; in Quebec it increased by 10.6 percent.

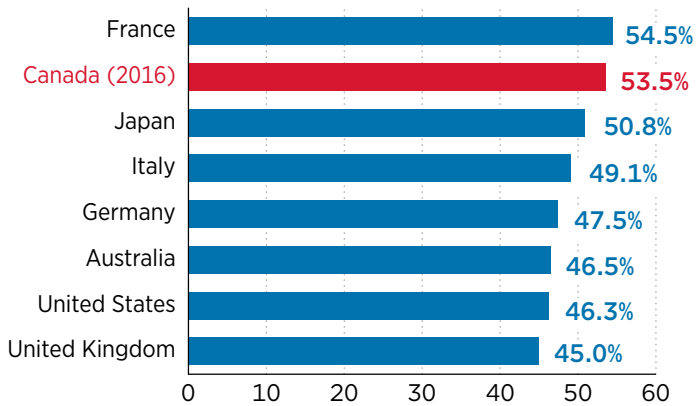
These increases have important consequences for Canada's economy. In particular, high and increasing marginal tax rates—that is, the tax rate on the next dollar earned—discourage people from engaging in productive economic activity, ultimately

hindering economic growth and prosperity. This occurs because marginal tax rates reduce the reward of earning more income and, in the case of personal income taxes, more labour income. There is general agreement in the economic literature on this point; the debate is about the magnitude of the effect.

The federal and provincial increases to Canada's marginal income tax rates from 2009 to 2016 have put the country at a greater competitive disadvantage for attracting and retaining skilled labour and, less directly, investment and entrepreneurs. Even before the changes, the country's combined federal and provincial top

marginal tax rates compared unfavourably to those in the United States and other industrialized countries.

TOP COMBINED PERSONAL INCOME-TAX RATES IN CANADA (2016), G7 COUNTRIES AND AUSTRALIA (2014)



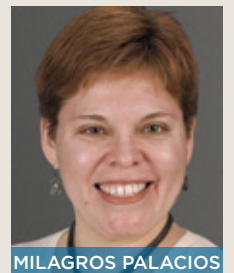
Out of 61 Canadian and US jurisdictions (including the provinces, states, and Washington, DC), Nova Scotia currently has the highest combined top statutory marginal rate (54.00 percent), followed by Ontario (53.53 percent), and Quebec (53.31 percent). Six Canadian provinces occupy the list of 10 jurisdictions with the highest top combined marginal income tax rates and all provinces are in the top 20. There are a total of 42 US jurisdictions with combined top tax rates that are lower than all Canadian provinces.

The fact that Canada’s top tax rates are often applied to lower levels of income than is the case in other countries further erodes our tax competitiveness. To adjust for differences in income thresholds, we compare the combined statutory marginal tax rates at various income levels in Canadian dollars for each Canadian and US jurisdiction. At an income of CA\$300,000, the highest threshold in which a Canadian combined top rate is applied, Canadians in every province face a higher marginal income tax rate than Americans in any US state. Results are similar at an income of CA\$150,000 and Canada’s marginal tax rates are also uncompetitive at incomes of CA\$75,000 and CA\$50,000.

Taken together, Canada’s personal income tax rates are decidedly uncompetitive compared to those in the United

States. And, Canada also competes with other industrialized countries for highly skilled workers and investment. To measure the competitiveness of Canada’s top tax rates, the study compares the combined top statutory marginal income tax rates with rates in 34 industrialized countries. In 2014 (latest year of available international data) Canada had the 13th highest combined top tax rate out of 34 countries. The federal change to the top rate in 2016 has markedly worsened Canada’s competitive position. The new 2016 Canadian top tax rate (53.53 percent) is sixth highest relative to the 2014 international rates.

Canadian governments have put the country in this uncompetitive position, in part, to raise more revenue as they grapple with persistent deficits and mounting debt. However, the tax increases are unlikely to raise as much revenue as governments expect since taxpayers—particularly upper income earners—tend to change their behaviour in response to higher tax rates in ways that reduce the amount of tax they might pay. Federal and provincial governments would do well to consider reversing the trend towards higher marginal tax rates on upper income earners, and lower personal income tax rates. **FI**



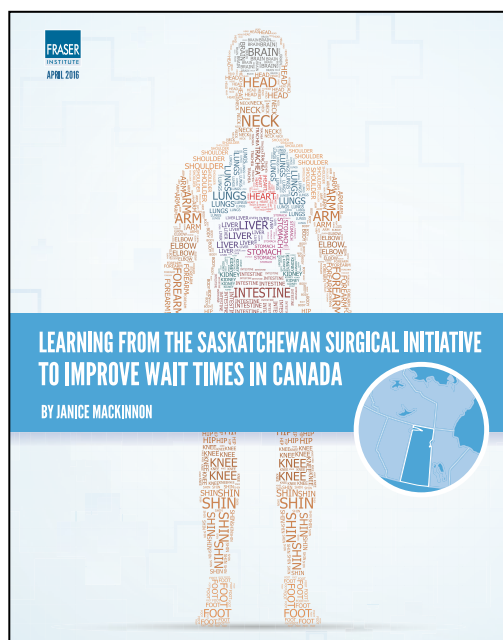
Charles Lammam, Hugh MacIntyre, Feixue Ren, Ben Eisen, and Milagros Palacios are all policy analysts with the Fraser Institute. They are the authors of the study *Canada’s Rising Personal Tax Rates and Falling Tax Competitiveness*.

How Saskatchewan Dramatically Reduced Wait Times

Janice MacKinnon

Based on marked reductions in medical wait times in Saskatchewan (see accompanying figure) in the Institute's annual *Waiting Your Turn* survey, the Institute contracted with former NDP Finance Minister Prof. Janice MacKinnon to analyze the causes of the province's improvements. In April 2016, the Institute published Professor MacKinnon's study *Learning from the Saskatchewan Surgical Initiative to Improve Wait Times in Canada*, which is summarized below.

According to the Fraser Institute's annual *Waiting Your Turn* study, Saskatchewan had some of the longest wait times for medical treatment in the country in the late 1990s and throughout the 2000s. In response, in 2010 the Saskatchewan government made the bold promise that by 2014, no patient would wait more than three months for elective surgery as part of the province's wait time reduction strategy, the Saskatchewan Surgical Initiative (SSI). In developing the



SSI, Saskatchewan worked with and learned from other provinces, belying the image of Canada having a fragmented health care system where leadership must come from the federal government. Saskatchewan built upon its previous initiatives to reduce waiting lists.

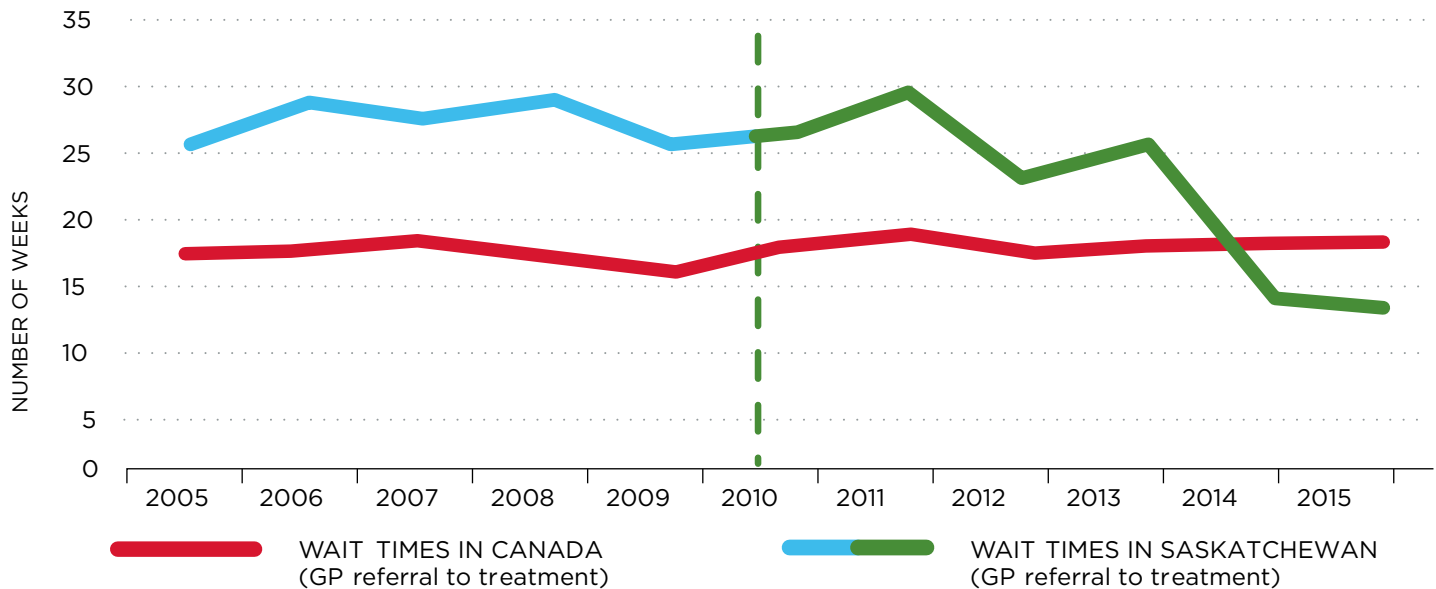
The SSI changed the way waiting lists were managed: waiting lists were centralized, patients prioritized, and referrals pooled

so that patients now armed with knowledge about the length of their wait for treatment could use the Internet to choose their physician.

The SSI also fundamentally changed the province's health care culture and decision-making process. The 2015 Health Canada report on health care innovation cited three factors that drive innovation and all were central to the SSI.

One was leadership, provided by the provincial government, which set the target. Another was a patient-centered focus, which included patients in decision-making, and a better integration of the various components of

SASKATCHEWAN'S SURGICAL INITIATIVE REDUCED WAIT TIMES



the system so that patients could be moved through it in record time.

The SSI also included the use of private for-profit clinics to deliver day surgery procedures covered by Medicare. In response to criticism of the clinics, the government was transparent about the selection process for companies that would run the clinics and the standards they had to meet. Also, government communications focused on patients and their right to timely care rather than on the significant savings that were going to be achieved by moving procedures from hospitals to clinics. (On a per-procedure basis, the private clinics delivered care at a cost that was, on average, 26 percent less than comparable public hospitals).


In March 2014 the government declared victory when it announced a 75 percent reduction since 2010 in patients waiting more than three months for surgery. In 2015, the Fraser Institute *Waiting Your Turn* survey showed that Saskatchewan had the shortest waiting lists (from GP referral to treatment) for elective surgery in Canada.

Though the SSI dramatically reduced wait times for elective surgery, long waits remained in other areas and

capacity had to be increased, which meant more money for an already expensive health care system.

Neither did the SSI tackle what international studies cite as a major cause of Canada’s long waiting lists: the structure and funding of Medicare. Thus, the SSI treated the symptom—the waiting lists—rather than the root problem—Medicare’s structure and funding.

But the SSI was not designed to fix Medicare. Its goal was to relieve the suffering of patients who were waiting far too long for surgery. In that, it succeeded. **FI**



Professor Janice MacKinnon is a former Saskatchewan NDP finance minister and current professor of fiscal policy at the University of Saskatchewan School of Public Health. She is the author of the Fraser Institute study *Learning from the Saskatchewan Surgical Initiative to Improve Wait Times in Canada*.

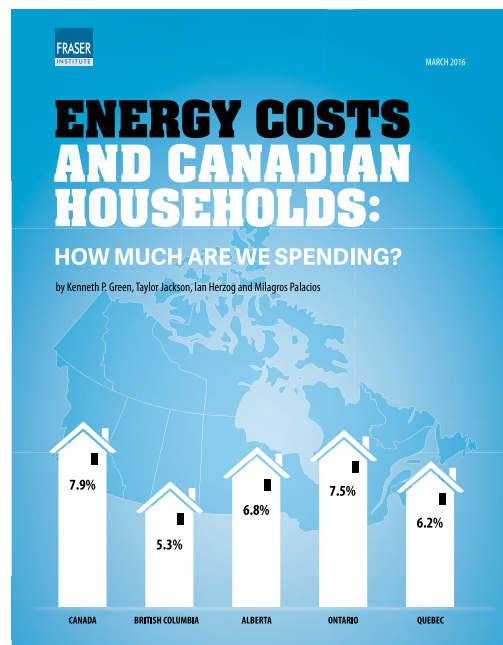
Energy Poverty on the Rise in Canada

Kenneth P. Green, Taylor Jackson, Ian Herzog, and Milagros Palacios

Energy is the basis of our modern lives. It fuels our economy, generating the economic production that underpins the high living standards Canadian households have achieved. But energy costs have been rising for Canadians in recent years, potentially burdening Canadian families.

From 2010 to 2013, electricity prices have risen by an average of 1.31¢ per kWh, with increases of over 4¢ occurring in some Canadian cities. Electricity prices are also higher in Canada than in the United States, with wide variances in the amount of tax applied contributing to this difference. Prices have risen for gasoline as well, increasing by 53¢ per litre in real terms from 1994 to 2013. Canadians also pay on average 31.2¢ per litre more for gasoline than their American counterparts. Growth in energy prices has outpaced both income growth and the rate at which household energy intensity is declining.

Our study, *Energy Costs and Canadian Households: How Much Are We Spending?* begins by estimating av-



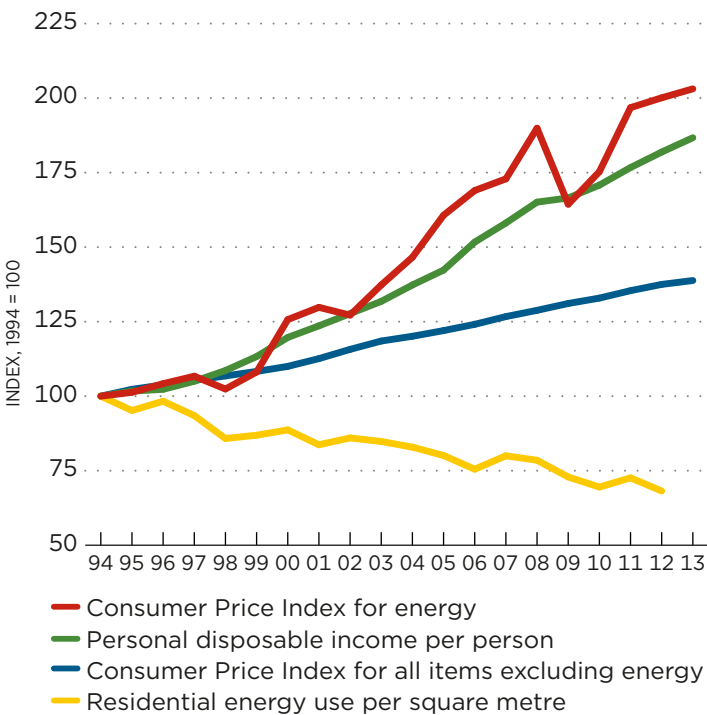
erage energy expenditure as a percentage of total expenses in Canada as a whole, and for seven regions across Canada. Estimates throughout the paper were calculated in two ways: first, including energy used just in the home—electricity, natural gas, and other heating fuels; and second, these sources of energy plus gasoline, an important energy expenditure that has often

not been factored into previous analyses.

Energy use within the home represents a relatively modest portion of total expenses. The Canadian average in 2013 was 2.6 percent, ranging from a high of 4.0 percent in Atlantic Canada to a low of 2.1 percent in British Columbia. Adding vehicle fuel to energy expenditures has a substantial impact on the percentage of expenditures being devoted to energy. In 2013, the share of the average Canadian family's expenditures devoted to all energy goods was 5.8 percent. Atlantic Canada was again the highest, with 8.2 percent of expenditures on average being devoted to energy.

This study also used a benchmark measure of 10 percent or more of expenditures going to energy goods—commonly referred to as “energy poverty”—to determine how many Canadian households are facing relatively high energy costs. Energy poverty is an issue because of the effect of high energy expenditures on consumption and discretionary income, an effect that places a burden on households. When a household’s high energy bills force them to substitute away from consuming other goods, this is, in a sense, a deprivation of access.

COMPARATIVE GROWTH IN PRICES, INCOME, AND ENERGY USE IN CANADA, 1994–2013



When only energy used within the home was included in the calculation, 7.9 percent of Canadian households were classified as being energy poor in 2013, up slightly from 7.2 percent in 2010. Atlantic Canada had the highest incidence of energy poverty in 2013—20.6 percent of households—while British Columbia had lowest, 5.3 percent. Energy poverty using this basket of energy goods has risen in most Canadian regions since 2010.

When the gasoline expenses of Canadian households are also included in the calculation, the incidence of energy poverty increases substantially. In 2013, 19.4 percent of Canadian households devoted at least 10 percent or more of their expenditures to energy. Alberta had the lowest incidence of energy poverty in 2013 at 12.8 percent. Five out of seven Canadian regions experienced a decline in the incidence of energy poverty from 2010 to 2013 when gasoline expenditures are included.

Estimates of energy poverty were also calculated for income groups or quintiles. Energy poverty disproportionately affects lower income Canadian households. The incidence of energy poverty in 2013 was estimated to be over 15 percent of households in each of the two lowest income quintiles. Once gasoline expenditures are included, those costs further exacerbate energy poverty in the low income groups and uncover a prevalence of high energy spending amongst middle-income Canadians.

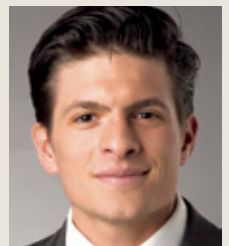
The high incidence of energy poverty in Canada, particularly when gasoline expenditures are included, should be of central concern when policies regarding energy are being devised. Policies that raise prices could exacerbate problems for families who are in energy poverty or those on the cusp of energy poverty. **FI**



KENNETH P. GREEN



TAYLOR JACKSON



IAN HERZOG



MILAGROS PALACIOS

Kenneth P. Green is senior director of natural resource studies. Taylor Jackson, Ian Herzog, and Milagros Palacios are research analysts at the Fraser Institute. They are the authors of *Energy Costs and Canadian Households: How Much Are We Spending?*

Alberta's Debt Could Exceed \$36 Billion

Steve Lafleur, Ben Eisen, and Milagros Palacios

Alberta's NDP government recently delivered its 2016/2017 budget. Unfortunately, the budget failed to deliver needed spending reforms, with the government committing to increased spending. This will result in a string of deficits and more debt. These outcomes could be avoided with a different approach. In our study, *How Much, How Fast? Estimating Debt Accumulation in Alberta through 2019/20*, we show that if the provincial government fails to restrain its spending, Alberta's debt burden will grow even more quickly than is currently projected in the years ahead.

For the first time since the 1999/2000 fiscal year, the government of Alberta is poised to reach a negative net financial asset position in the 2016/17 fiscal year, down from a \$35 billion positive net financial asset position in 2007/08. This simply means that the province's debt will soon exceed its financial assets, a situation that is sometimes referred to as being in a net debt position.



It is clear that the province will return to a net debt position in 2016/17, but an important question remains: how much debt will Alberta actually accumulate in the next few years? Our study documents the recent deterioration in Alberta's net financial asset position over time, and estimates how much net debt the

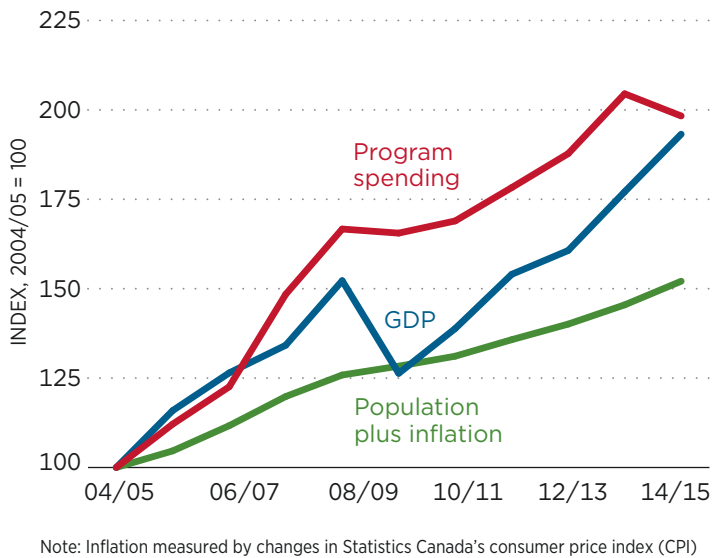
province could accumulate in the years ahead under a range of scenarios.

Currently, government forecasts suggest that Alberta's net debt will reach \$19.8 billion by 2019/20. However, these forecasts likely understate the amount of debt Alberta will accumulate in the years ahead.

There are two important sets of risks to the government's fiscal plan. The first is that Alberta's revenue outlook has weakened considerably since the publication of the government's October 2015 budget. The prospect of reduced revenue rightly received considerable attention in recent months, given that lower than projected revenues in the years ahead could cause the province's debt to increase significantly faster than is currently projected.

Our study, however, makes a new contribution to public

INDEX COMPARING GROWTH IN ALBERTA'S PROGRAM SPENDING, GDP, POPULATION, AND INFLATION, 2004/5–2014/15



discourse on these issues by focusing primarily on another set of risks that have received much less attention—those found on the spending side of the ledger. Specifically, this paper analyzes the extent to which Alberta's debt will grow faster than currently expected if the government fails to restrain spending in the years ahead.

These risks are deserving of careful attention because they are, to a much greater extent than revenue, under the government's control. Regardless of whether the government's current revenue projections materialize, the government's spending choices in the years ahead will play an important role in determining how quickly the province acquires debt.

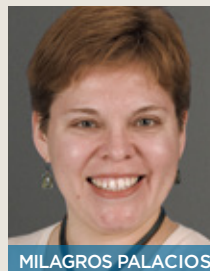
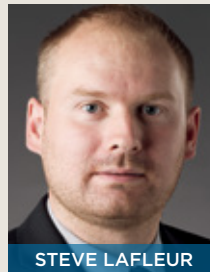
The budget calls on the government to restrain spending growth to significantly less than the rate of inflation plus population, less than the rate at which it has increased spending in recent years, and less than the rate of economic growth. This paper considers the implication for Alberta's pace of debt accumulation if the government does not adhere to these spending targets.

The paper examines three scenarios where spending diverges from budget plans. In the first alternative scenar-

io, program spending increases by 3.9 percent annually, in line with the projected average increase in population growth plus inflation. That scenario would result in the province accumulating \$7.0 billion more in net debt than it currently expects by 2019/20, when the province's net debt would stand at \$26.8 billion.

The second scenario assumes that program spending increases at the same average rate as it did in the past five fiscal years, 3.8 percent. In that case, the provincial government's net debt would be \$6.2 billion larger than it currently expects by 2019/20, totaling \$26 billion.

Finally, the third scenario assumes that program spending increases at the same rate as GDP growth, which is expected to be 4.7 percent annually. In that scenario, the province's net debt will be \$11.3 billion larger than would be the case if spending targets were met, resulting in total net debt of \$31.1 billion in 2019/20. Because the minister of finance recently announced that the deficit for 2016/17 could be \$5 billion greater than projected in the budget, the paper also considers the impact of a one-time revenue loss of \$5 billion in 2016/17. This is likely a conservative estimate, given that further revenue losses could occur in future fiscal years. **FI**



Steve Lafleur, Ben Eisen, and Milagros Palacios are policy analysts at the Fraser Institute. They are the authors of *How Much, How Fast? Estimating Debt Accumulation in Alberta through 2019/20*.

Income Mobility—Public Policy in Canada Can't Ignore the Facts of Life

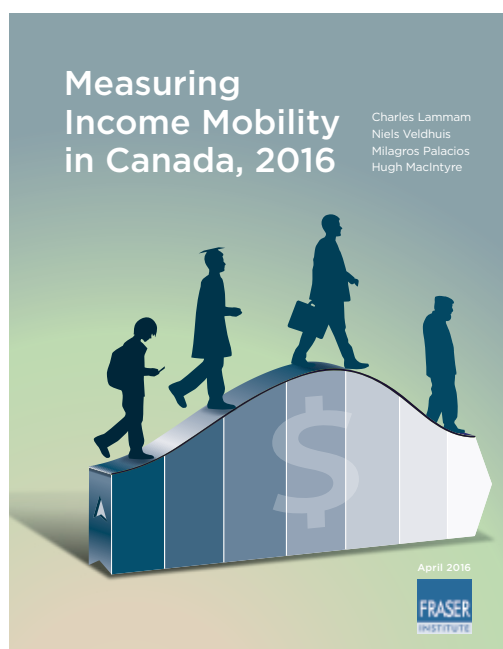
Charles Lamnam and Hugh MacIntyre

It may be hard for Canadians to believe, but a key feature of our society is regularly ignored in the discussion and setting of public policies. Whether we're talking about taxes, income inequality, poverty, or the minimum wage, policy often ignores the obvious yet important fact that where people are today isn't where they'll be in five, 10, or 20 years from now.

We cannot have meaningful policy debates about these and other issues without understanding how the incomes of individuals naturally change over time.

Most Canadians have life experiences along the following lines.

In our youth, most of our work is informal: we cut a neighbour's lawn, sell lemonade, or deliver newspapers. In our teen years, this informal work progresses to formal part-time work, often at restaurants or retail stores. For many of us, this is our first experience not only with

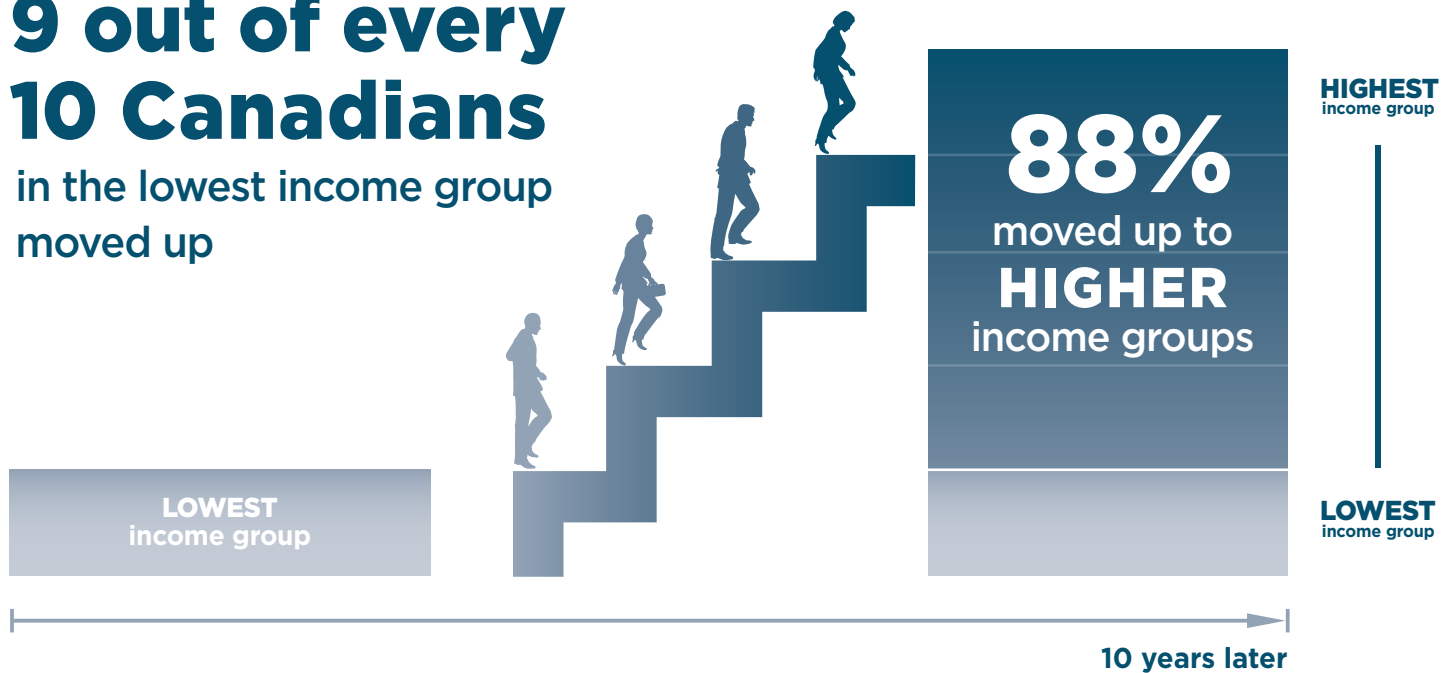


getting a paycheck, but having formal responsibilities, such as showing up to work on time, doing reasonable work, and being a good employee. That basic work experience is extended when we attend college or university, and then augmented as we complete our formal education and enter the workforce full-time.

Almost all of us start out at the bottom when we first enter the full-time labour force. However, as we gain real-world experience and put our education to use, we move up in our organizations, or perhaps vault to the next step by leaving one company for another. With each step our responsibilities increase based on our greater experience, knowledge, and productivity, which is rewarded with higher compensation. This period extends for decades as we work through our prime earning years. Eventually we start scaling back our work time as we approach retirement.

This experience, to varying degrees and depending on

9 out of every 10 Canadians in the lowest income group moved up



one's age, is familiar to the vast majority of Canadians. And critically, it's supported by the data. In our recent study *Measuring Income Mobility in Canada 2016*, we used Statistics Canada data to follow a sample of a million Canadians to see how their incomes change over time. The study put individual Canadians into five income groups (from lowest to highest) with each group comprising 20 percent of the total. It then tracked the movement of people between income groups over time. The results are striking, especially when it comes to those who start out in the lowest income group.

For instance, from 1993 to 2003, nine of every 10 Canadians (88 percent) who started out in the lowest income group moved up to higher income groups.

Upward mobility is even more pronounced over a longer time period. Notably, one of every four Canadians (24 percent) who began in the lowest income group in 1993 reached the very top income group by 2012.

Again, these results demonstrate the natural progression that most Canadians experience over the course of their lives. People can and do better themselves by completing (and continuing) their education, acquiring

job skills, and gaining work and life experience. They naturally move up the income ladder over time as their circumstances change.

When policymakers ignore the natural progression of people's lives, they risk producing public policies that are based on a static and inaccurate view of our society. Indeed, there is a real threat that by ignoring mobility, policies may worsen or even limit the degree of mobility in Canada—and that outcome won't help anyone. [FI](#)



CHARLES LAMMAM



HUGH MACINTYRE

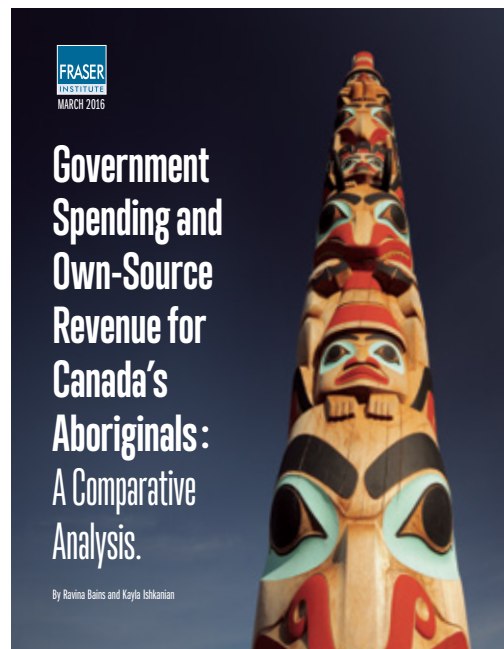
Charles Lammam is director of fiscal studies and Hugh MacIntyre is policy analyst at the Fraser Institute. They are co-authors of *Measuring Income Mobility in Canada 2016*.

Government Spending on Aboriginals Up Dramatically

Ravina Bains and Kayla Ishkanian

With average unemployment rates on reserve above 20 percent and graduation rates below 40 percent, there is a clear gap in outcomes between Aboriginals and non-Aboriginals in Canada. This is sometimes blamed on funding disparities. Our study, *Government Spending and Own-Source Revenue for Canada's Aboriginals: A Comparative Analysis* provides a fact-based evaluation of the oft-heard claims that spending on Canada's aboriginal population is not comparable to spending on other Canadians. It uses data from the federal department of Indigenous and Northern Affairs Canada, Health Canada, and provincial governments—sources where aboriginal spending was clearly identified in the public accounts.

According to Indigenous and Northern Affairs Canada (INAC), which has data from 1946/47



through 2013/14, the increase in spending on Canada's aboriginal peoples has been significant. In real terms, total department spending on Canada's aboriginal peoples rose from \$82 million annually in 1946/47 to over \$7.9 billion in 2013/14 (all figures in this report are inflation-adjusted to 2015 dollars). It grew from \$939 per registered First Nation indi-

vidual in 1949/50 to \$8,578 in 2013/14—an increase of 814 percent.

In comparison, total federal program spending per capita, on all Canadians, rose by 376 percent, from \$1,532 in 1949/50 to \$7,295 in 2013/14.

The data from Health Canada is from 1994/95 (the earliest year available) through 2013/14. In inflation-adjusted terms, Health Canada spending on First Nations/Inuit health care jumped from just under \$1.4 billion in 1994/95 to \$2.6 billion as of 2013/14. The amount that Health Canada spent per First Nations or Inuit person rose from \$2,358 in 1994/95 to \$2,823 in 2013/14.

Included in the \$2.6 billion figure for 2013/14 is the \$1 billion cost of supplementary health care benefits for 808,686 First Nation and Inuit people, the Non-Insured Health Benefits Program. This Health Canada program delivers health care benefits to First Nations and Inuit peoples that other Canadians normally receive from an employee benefit package or for which they must purchase extra insurance, or purchase out-of-pocket, including vision care (\$31.5 million); dental care (\$207.2 million); medical transportation (\$352.0 million); pharmaceuticals (\$416.2 million) for drug claims not covered by private, public, or provincial/territorial health care plans; and other health care including medical supplies and equipment, short-term crisis intervention, and mental health counselling (\$14.2 million).

Adjusted for inflation, spending per registered First Nations person rose by 1,235 percent over 20 years. In comparison, provincial spending per capita, on all Canadians in the provinces, rose by only 31 percent over the same period.

Adjusted for inflation, spending per registered First Nations person rose by 1,235 percent over 20 years. In comparison, provincial spending per capita, on all Canadians in the provinces, rose by only 31 percent over the same period.

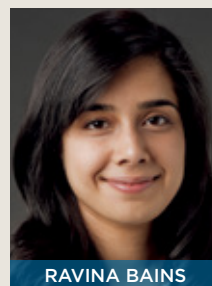
OWN-SOURCE REVENUE

Finally, publicly available audited financial statements for 2013/14 for First Nation communities in Canada show that in total, First Nations communities in Canada generated over \$3.3 billion dollars in claimed own-source revenue. Only 11 percent (\$386.6 million) was identified as natural resource revenue; the rest was classified as from other sources.

In 2013/14, over 100 First Nations communities in Canada were generating more own-source revenue for their communities than they received in government transfers. For example, Tsuu T'ina Nation in Alberta was the top earner of own-source revenue in 2013/14; it generated over \$113 million in own-source revenue that fiscal year—over five times the amount it received in government transfers for 2013/14.

In 2013/14, Frog Lake First Nation in Alberta generated the most natural resource based own-source revenue in the country—over \$45.6 million in one fiscal year. On a per-capita basis, Yale First Nation in BC generated the largest natural resource revenue in the country. Their small community of just over 100 people generated \$45,557 per capita in natural resource revenue for 2013/14.

Our study reveals that spending on Canada's aboriginal population has risen substantially in real terms—in total, per capita, and compared with overall government program spending. Meanwhile, in one year alone, First Nations communities in Canada were able to generate over \$3.3 billion in own-source revenue, and many First Nations communities in Canada are generating own-source revenue that surpasses their government transfers. [FI](#)



Ravina Bains is the former associate director of the Centre for Aboriginal Policy Studies and Kayla Ishkanian is a researcher at the Fraser Institute. They are the authors of *Government Spending and Own-Source Revenue for Canada's Aboriginals: A Comparative Analysis*.

While this past quarter the Centre for Education Programs concluded its post-secondary student seminar program for the 2015-2016 academic year, its engaging work with high school students and teachers continues.

STUDENT SEMINARS

Students in attendance at the Montreal and Calgary post-secondary seminars in March enjoyed a Saturday filled with engaging presentations and discussions about policy issues relevant to students in Canada. Our seminars not only enable students to become better informed about the important policy issues of the day, but to engage with policy experts and talk with their peers about what they have learned from a market perspective.



Philip Cross answers a student's question regarding the speed of Canada's economic growth at the Montreal Student Seminar in March.

The Montreal seminar offered students the unique opportunity to hear Don Boudreaux, economics professor at George Mason University, explain how government regulation can cause more harm than good; Philip Cross, columnist at the *Financial Post*, detail how slow economic growth is not the new normal for Canada if governments adopt better and more predictable policies that encourage investment; and Youri Chassin, economist and research director at Université de Montréal, make key climate change concepts easier to understand while discussing public policy options for battling these changes. Not only did local students attend, but over 40

students from Ottawa (with more on a waiting list), who took advantage of the bus transportation that we offer to enable students attend the Montreal seminar at no cost. In Calgary, students came out to discover, among other topics, how life-extending discoveries could dramatically change our future social and economic worlds from Sonia Arrison, best-selling author and associate founder of Singularity University; ways we can help the developing world out of poverty from Fred McMahon, Dr. Michael A. Walker Research Chair in Economic Freedom at the Fraser Institute; and how we can preserve Canadian culture without taxpayers footing the bill from Steve Gliberman, Kaiser Professor of International Business at Western Washington University.

It was great to have such engaging and enthusiastic presenters!

MONTREAL POST SECONDARY STUDENT

In February and April, over 450 students participated in three student seminars held in Vancouver and Burnaby (two senior high school and one junior high school). Through the use of exceptional instructors, short lectures interspersed with videos clips, activities, and lots of incentives, students are engaged throughout the day and keen to participate as they learn how economics is relevant to their lives.

The seminar was very informative! I am glad we were able to talk about contemporary issues concerning Canada and Alberta.

CALGARY POST SECONDARY STUDENT

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 appealing and concrete activities to demonstrate economic concepts. After a day filled with events that

include eating candy, singing, and fishing for Goldfish crackers, among other things, students return 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.

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 balancing a budget or saving for university, students learn how every decision they make stems from an economic choice.

TEACHER WORKSHOPS

In March, the centre held an *Issues of International Trade* workshop in Toronto, funded by the Barbara Mitchell Centre for Improvement in Education. 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.

Issues of International Trade is one of our most popular workshops and provides teachers with topical information on trade deficits, free trade zones, sanctions, and tariffs. Teachers take part in the very popular “trade game,” designed to illustrate the complex marketplace in which goods and services are traded. Each person receives a brown paper bag containing a simple inexpensive item (such as a pencil or candy) and is asked to take it out, examine it, and then rate their level of satisfaction with the item on a scale of 1-5. This rating is recorded and totaled for the group. In the second round, each person can trade their item with the person on their immediate right (representing restricted trade). They again rate their item and the total for the group gets recorded. In the final round, participants are free to go to any other person to trade as often as they wish in the allotted time (representing free trade). Again, each person’s level of satisfaction is recorded and tallied for the group. Overall, we see that with no barriers to trade the satisfaction level of the group increases. Participants learn that voluntary trade occurs only when all

participating parties expect to gain, and that without trade barriers, people are able to take full advantage of the opportunities of the international marketplace.



At the *Issues of International Trade* workshop teachers indicate on a map where the clothes they are wearing were made, which demonstrates the very real presence of international trade in our daily lives.

Every teacher who attends our workshops receives a binder containing 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.

Thank you for the opportunity to have accessible resources and the opportunity to have higher level discussions and guidance from other educators. Such opportunities aren't always available.

HIGH SCHOOL TEACHER

The impact of our workshops is sizable. Consider that the 63 teachers who participated in these two workshops will each go on to teach the lessons we provided to an average of 90 students a year. That’s 5,670 students annually who benefit from our insights and materials. **FI**

Liberal 2016 Budget Long on Pro-growth Rhetoric but Short on Economic Action

Niels Veldhuis and Charles Lammam



In his budget speech, rookie Finance Minister Bill Morneau went to great lengths to highlight that the Liberal government's budget would improve the long-term growth prospects for the Canadian economy. His opening monologue started with, "Today, we begin to restore hope for the middle class. Today, we begin to revitalize the economy," and ended with "[The budget] is an essential step in a sustained, strategic effort to restore prosperity."

Good rhetoric to be sure.

Unfortunately, the budget lacked any real policy action that will positively affect long-term economic growth. Worse, many of its policies will hinder the Canadian economy.

For starters, the budget proposes to ramp up spending under the mistaken notion that governments can spend our way into prosperity. This year alone, spending is pro-

jected to increase by \$20.5 billion, a 7.6 percent jump. Add the 6.7 percent increase in spending last year and spending will increase 14.8 percent over just two years.

While the government claims increased spending will help the economy grow, the evidence from Canada and around the world shows otherwise. For example, leading fiscal policy expert and Harvard University professor Alberto Alesina conducted a comprehensive analysis of stimulus initiatives in Canada and 20 other industrialized countries from 1970 to 2007. He and his co-authors found that “a one percentage point higher increase in the current [government] spending-to-GDP ratio is associated with a 0.75 percentage point lower growth.”

The federal budget lacked any real policy action that will positively affect long-term economic growth. Worse, many of its policies will hinder the Canadian economy.

His findings do not bode well for the Liberal government, which is planning to increase federal spending as a percentage of GDP by almost two percentage points by the end of next year (from 12.9 percent of GDP to 14.6 percent in just two years).

The dramatic ramp-up in spending will also materially increase the federal debt, leaving a larger bill for the next generation. Specifically, the budget calls for a \$29.4 billion deficit this year and projects that total federal net debt will increase by \$123 billion over the next five years. Also troubling is that the Liberals have no plan to bring the budget back to balance during their first mandate. In other words, the budget leaves the task of balancing the books to the next government.

The consequence of sustained government borrowing will be heightened uncertainty for entrepreneurs, investors, and businesses, as it increases the risk of tax hikes in the future, dampening the viability of current investment while endangering our future prosperity.

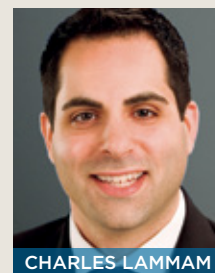
The Liberals have also increased taxes on highly skilled, educated workers (such as entrepreneurs, business professionals, engineers, and doctors), which will further harm our ability to attract skilled workers and discourage Canadians from realizing their full potential. Canada now has the second-highest personal income tax rate on skilled, educated workers of any G7 country, behind only France.

Canada now has the second-highest personal income tax rate on skilled, educated workers of any G7 country, behind only France.

As both the previous Conservative governments have acknowledged, Canada needs lower personal income tax rates—not higher—to attract, retain and encourage entrepreneurship and investment. Unfortunately, the Trudeau Liberals have chosen to ignore the evidence regarding policies needed to improve the long-term outlook for the Canadian economy. A genuinely pro-growth agenda would have focused on prudent, focused spending and competitive tax rates. Instead, the budget commits the government to big increases in spending and debt that will hamper future economic growth, making it harder for businesses in BC and across Canada to succeed. **FI**



NIELS VELDHUIS



CHARLES LAMMAM

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

Canada's New Greenhouse Gas Requirements Will Inflict Widespread Pain

Kenneth P. Green

Carbon pricing

Upstream GHG emissions

United Nations framework convention on climate change

Canada's environmental assessment process

Trans Mountain project twinning delayed



On Jan. 27th, the federal government injected yet another syringe full of uncertainty into the country's oil and gas sector, announcing a nebulous plan to overhaul Canada's environmental assessment process to incorporate concerns over greenhouse gas emissions. As always, the initial announcements were long on lofty goals, and short on the devilish details. But some things are clear.

First, cue the climate accountants. A safe assumption is that whatever shakes out as the process of defining how Canada defines "upstream emissions," it will be something roughly in line with the methods used by the United Nations Framework Convention on Climate Change, or UNFCCC. The UNFCCC defines upstream emissions as "GHG emissions associated with the production, processing, transmission, storage and distribution of a fossil fuel, beginning with the extrac-

tion of raw materials from the fossil fuel origin and ending with the delivery of the fossil fuel to the site of use.”

The UN graciously excludes “Other greenhouse gas (GHG) emissions sources, such as those associated with the construction of equipment [which] are relatively small and therefore not considered.” So, oil and gas producers won’t have to go all the way back to tally up the GHG emissions associated with producing their drilling equipment, trucks, pipeline segments, or the materials used to build the materials used to produce said equipment. That’s a silver lining, since one can only imagine the recursive navel-gazing that would be required to calculate the GHG emissions leading up to the fabrication of the staples used in the administration centers.

Canadian investors, consumers, and those who benefit from the public services funded from oil production and trade will feel the pain of our new greenhouse gas accounting requirements.

Second, set a course to delay. Decisions on the proposed twinning of the Trans Mountain Project will be set back at least four months with additional consultations, community involvement, and critically, this new process that must “Assess the upstream greenhouse gas emissions associated with this project and make this information public.”

And what does this new process mean for Canada’s oil and gas sector? Well, a self-inflicted public relations problem, for one thing. The oil from Canadian oil sands does take more energy to produce than many other types of oil; the oil sands must be heavily processed before they can be used, and they must be transported for long distances to reach markets. The new requirements will almost certainly boost estimates of the greenhouse

gas intensity of oil sand production compared to alternative sources of hydrocarbons. ENGOs will latch onto these upstream estimations with glee, further raising the barriers that Canadian companies must overcome to obtain what is an increasingly will-o’-the-wisp-like “social license” to develop and export Canada’s oil and gas resources.

And if these newly assessed upstream emissions wind up being included in any carbon-pricing scheme, Canadian producers will face a significant disadvantage to competing oil-producing jurisdictions around the world that do not implement such pricing schemes.

All of this, we’re told, is to “restore public trust” in the environmental assessment process. Whether or not it will do so is dubious: environmental groups have made it plain that their goal is to halt fossil fuel production altogether, and to start immediately. They will hardly be appeased by new GHG accounting methods, but will certainly be happy to use them to continue their attacks on Canada’s oil-sands as “dirty fuel.”

Needless to say, at the end of the day, Canadian investors, consumers, and those who benefit from the public services funded from oil production and trade will feel the pain of our new greenhouse gas accounting requirements. **FI**



KENNETH P. GREEN

Kenneth P. Green is senior director of Natural Resource Studies at the Fraser Institute.

Independent and Charter Schools Reduce the Strain on the Alberta Budget

Deani Van Pelt and Jason Clemens



Barbara Mitchell Centre
FOR IMPROVEMENT IN EDUCATION



While parents in Alberta have more choice for their children's education than Canadians in most other provinces, that level of choice may soon be reduced by the current government in Edmonton. In response, Ric McIver, Progressive Conservative Party leader, recently tabled a private member's motion, asking the government to affirm its commitment to allow parents the choice of education for their children, including home, charter, private, francophone, separate, or public education

programs. A debate on the motion took place in mid-April, highlighted by a heated exchange between McIver and the house speaker, and McIver's expulsion from the legislative assembly. So what's really going on here?

Recently, Public Interest Alberta, an advocacy group, called for an end to the funding of independent schools in Alberta and the absorption of charter schools into the public school system.

The group's reasons follow the usual line of argument. Public boards are strapped for cash; public dollars should go to public schools. At a time where every bit would help in the public education system, we have to support public education. Education alternatives outside of the public system take money away from public education. But is this indeed the case?

As Albertans ponder this potential landmark education reform, they should bear a few basic education spending facts in mind.

First, Alberta already has the third highest per-public-school-student funding in the country, behind only Saskatchewan and New Brunswick. As our study, *Enrolments and Education Spending in Public Schools in Canada* shows, Alberta spent \$13,234 per student (in 2012/13, the latest year of comparable data). After adjusting for increases in student enrolments and price changes (inflation), Alberta increased per-student spending by 31.2 percent over the previous decade, more than the average provincial increase for that period.

Second, consider, in contrast to public school spending, what Alberta spends educating students in private schools. According to the office of Alberta Education Minister David Eggen, in 2015/16, \$151 million was spent on students in accredited independent schools (most, but not all, are funded). With 28,627 students in independent schools, this translates into average government spending of less than \$5,275 per private school student.

Consider the same calculation for charter schools—government schools that operate with more autonomy outside of the local school district structure and with their own board of trustees. Charter schools receive no capital funding, only funding for operations, and they may not charge tuition. According to Minister Eggen's office, in the current school year, the Alberta government will spend \$83 million on charter schools. With total enrolments of 9,275 students, the average spending per student is under \$8,950.

The logic of calls to cease this funding is difficult to follow. If public schools require more than \$13,000 taxpayer dollars to educate a student while other forms of schooling, such as independent and charter schools,

require substantially fewer public dollars, under \$5,300 and \$9,000 respectively, how is it cost-effective to discontinue funding these alternatives?

It's easy to see how the reform touted by those such as Public Interest Alberta could actually result in more government spending to educate the same number of students. For example, if we examine only operational spending, the Alberta government would actually need to spend more money educating the same number of students if fewer than one in three students remained in independent schools after funding was eliminated. There's little doubt that such a change would result in public boards being even further "strapped for cash."

Third, parents in Alberta want choice in education. Public school enrolments as a share of total school enrolments declined in Alberta from 2000/01 to 2012/13 while the share of students enrolled in independent and charter schools increased.

Independent schools and charter schools don't take money away. They leverage public dollars so they can provide cost-effective alternative approaches to education—approaches that parents seem generally satisfied with, if their increasing propensity to enrol their children in these schools is any indication. If the current funding arrangements are eliminated, those education choices will be constrained in the future, particularly for low- and middle-income families. [FI](#)



DEANI VAN PELT



JASON CLEMENS

Deani Van Pelt is director of the Barbara Mitchell Centre for Improvement in Education at the Fraser Institute. Jason Clemens is the executive vice-president of the Fraser Institute. They are co-authors, with Joel Emes, of the study *Enrolments and Education Spending in Public Schools in Canada*.

Ontario Budget: Spending Growth Responsible for Province's Fiscal Mess

Ben Eisen, Charles Lammam, and Milagros Palacios



In late February, Ontario tabled its 2016 budget, and it continues to spill more red ink. This is par for the course, given that the province has run deficits in 10 of the past 13 years, averaging \$9.7 billion annually.

The big question is why Ontario has run these deficits and racked up so much debt, particularly since 2003/04? A popular narrative from Queen's Park holds that factors beyond the control of policymakers are to blame, including slow revenue growth resulting from global economic forces that have hampered Ontario's economic performance.

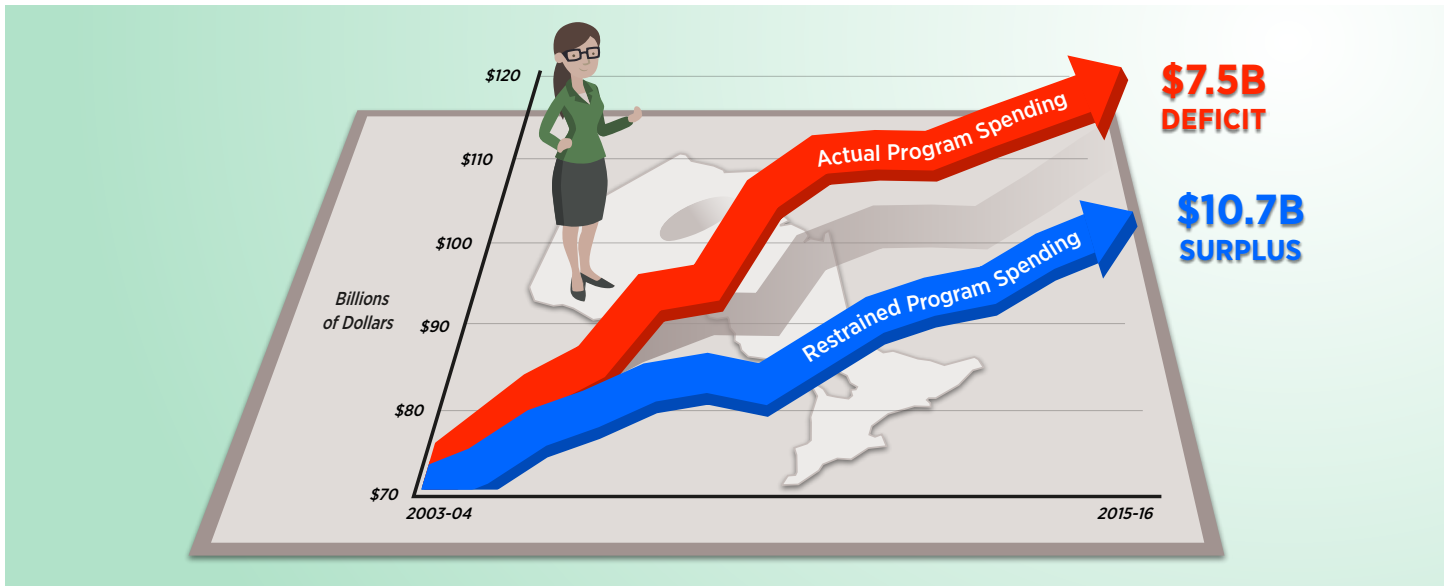
This narrative, however, does not withstand scrutiny. The fact is that revenue growth in Ontario since 2003/04 has

averaged more than four percent annually—that's more than enough to offset the cost pressures resulting from price changes (inflation) and a growing population.

So if global economic forces and weak revenue growth aren't to blame for Ontario's fiscal woes, what is? The answer lies on the other side of the ledger, namely, provincial government spending.

Since 2003/04, program spending in Ontario (which excludes interest payments on government debt), has increased at an average annual rate of 4.7 percent. This rate of spending growth greatly exceeds relevant economic metrics. For example, over this same period, the provincial economy has grown at an average annual rate of 3.2 percent. In other words, government spending has

ONTARIO'S DEFICIT WOULD BE A SURPLUS HAD THE PROVINCIAL GOVERNMENT RESTRAINED SPENDING INCREASES



grown at an average annual rate that is approximately 47 percent faster than the provincial economy over a 12-year period. The result: provincial finances have suffered a major blow, with the government consistently spending more than it takes in while racking up debt at a dangerous pace.

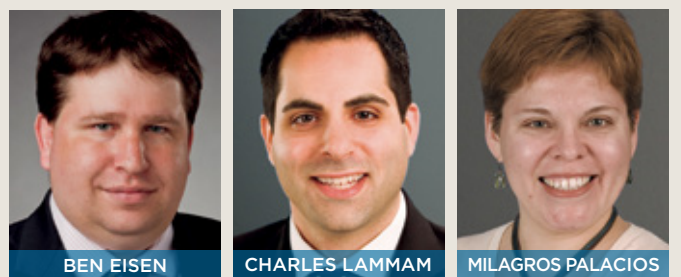
To illustrate this point, consider an alternative scenario where the government increased spending (since 2003/04) but at the same growth rate as the provincial economy. Under this scenario, Ontario would actually be enjoying a budget surplus of approximately \$10.7 billion this year, instead of a projected deficit of \$7.5 billion. Furthermore, instead of 10 budget deficits since 2003/04, Ontario would have run just one during this period.

Ontario's persistent deficit spending has rapidly eroded the province's financial position. Consider that in 2003/04, Ontario's net debt stood at \$139 billion, equal to 27 percent of the provincial economy. In 2015/16, debt is projected to reach \$298 billion, or 40 percent of the provincial economy. Today, Ontario's provincial debt amounts to more than \$21,600 per Ontarian. Much of this economically damaging run-up in debt could have been avoided if the province had restrained spending increases.

In very recent years, the provincial government has finally begun to exercise greater spending restraint, as Premier Wynne's government has slowed the rate of

spending growth compared to what it was under her predecessor Dalton McGuinty. Unfortunately, the steps taken so far have been inadequate to resolve Ontario's fiscal problems, which is why the province continues to rack up debt at an alarming rate.

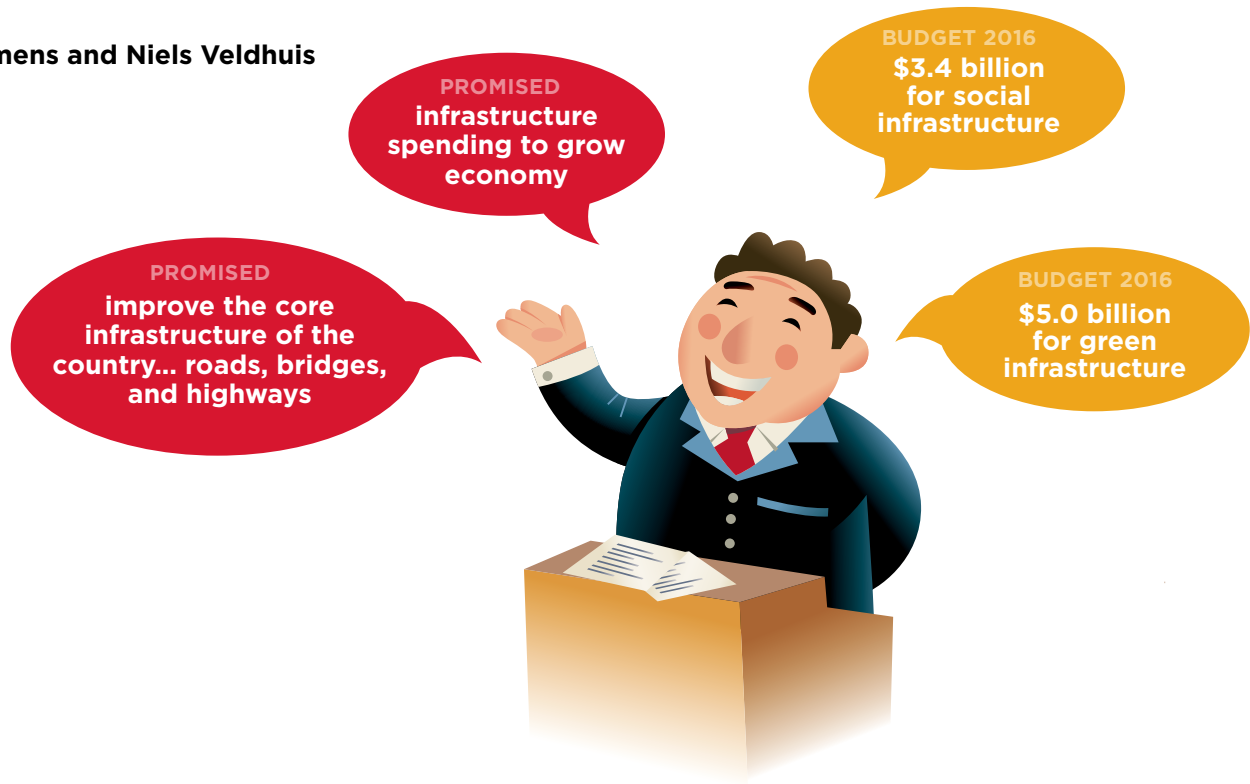
The Ontario government now confronts a self-inflicted fiscal mess that has been years in the making. Spending growth over a long period—not insufficient revenue—is the reason for the province's perennial deficits and rapid debt accumulation. Hopefully the government will recognize the cause of its fiscal problems and begin to lay out a credible plan to strike at its root by reforming and reducing government spending. [FI](#)



Ben Eisen is associate director of provincial prosperity studies, Charles Lammam is director of fiscal studies, and Milagros Palacios is a senior economist with the Fraser Institute. They are co-authors of *Spending is the Source of Ontario's Deficit and Debt Problem*.

Infrastructure Spending Okay, But That's Not What the Liberals Proposed

Jason Clemens and Niels Veldhuis



The dust is settling from the Liberal government's first budget, which proposed large spending increases, some tax hikes, and deficits throughout their mandate with no balanced budget in sight. Some of the details of the nearly 270-page budget are now emerging and are leading to serious questions.

As a number of researchers have already observed, the rhetoric around the Liberal budget simply doesn't match the party's specific plans. This gap between the budget's rhetoric and its actual proposals is front and centre in one of the budget's signature sections: infrastructure spending.

The Liberal Party ran on a promise to improve the

long-term economic growth prospects of the Canadian economy, which is a laudable goal. The rationale for infrastructure spending, both during the campaign and in the budget itself, has focused on improving the ability of the economy to grow over time.

The logic behind the argument is straightforward: invest in infrastructure such as roads, bridges, highways, etc., to enable producers to more efficiently (i.e., at lower costs) deliver goods and services to their customers. Put differently, the economic rationale for infrastructure is to reduce the costs of doing business.

Put aside the argument advanced by a wide range of economists that such investments could be achieved without public funds by using tolls and other pricing mechanisms. The problem with the Liberal plan is that

very little of the nearly \$12 billion in new infrastructure spending is intended for these types of investments. The Liberal budget proposes to spend the money on “infrastructure” as follows:

- \$3.4 billion over three years to upgrade and improve public transit;
- \$5.0 billion over five years for green infrastructure, which includes:
 - \$518 million for climate change adaptation and mitigation projects;
 - \$250 million for municipal capacity-building;
 - \$2.0 billion for clean water and wastewater; and
 - \$2.2 billion for water, wastewater, and waste management infrastructure for First Nations communities.
- \$3.4 billion over five years for social infrastructure, which includes:
 - \$1.2 billion for social infrastructure in First Nations communities;
 - \$342 million for cultural and recreational institutions;
 - \$400 million for early learning and child care; and
 - \$1.5 billion for affordable housing.

Without debating the specific merits of any of these individual initiatives, it’s fairly clear that most of the “infrastructure” spending is not aimed at improving the core infrastructure of the country such as our roads, bridges, and highways. In other words, simply calling the spending delineated above “infrastructure” doesn’t mean the spending is actually on infrastructure.

In addition, there are genuine questions about the “multipliers” included in the budget as a rationale for this spending. The argument, which is rooted in Keynesian economics, is that the governments can spend one dollar and generate more than one dollar’s worth of economic activity. The narrative employed in the budget, which combines the concepts of both improving the long-term performance of the Canadian economy and the multiplier of infrastructure spending, is that such spending pays for itself.

The problems with this argument are twofold. One, as outlined above, almost none of the spending referred to

as infrastructure is actually on infrastructure. And two, the concept of multipliers has been rigorously discussed in economics and there is genuine debate about their validity. For instance, economist Valeria Ramey of the University of California, San Diego, has been one of the leading researchers into government spending and multipliers over the last decade. Her extensive research indicates that multipliers of government spending above 1.0, which means \$1.00 of government spending actually results in more than \$1.00 of economic activity, are arguable at best. There is substantial evidence that the multipliers are actually less than \$1.00, meaning that the government spending actually results in a reduction in economic growth rather than an expansion.

Compensation decisions must be made in the context of the fiscal realities facing the province, and the ability of the taxpayer to foot the bill for further wage increases.

As is the case with so much of the first Liberal budget, the rhetoric is not matched by actions. In this case, a laundry list of social and environmental-related spending is couched as infrastructure when actual infrastructure spending is largely absent from the proposed spending. [FI](#)



JASON CLEMENS



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Ontario in No Position to Increase Teacher Salaries

Deani Van Pelt and Ben Eisen



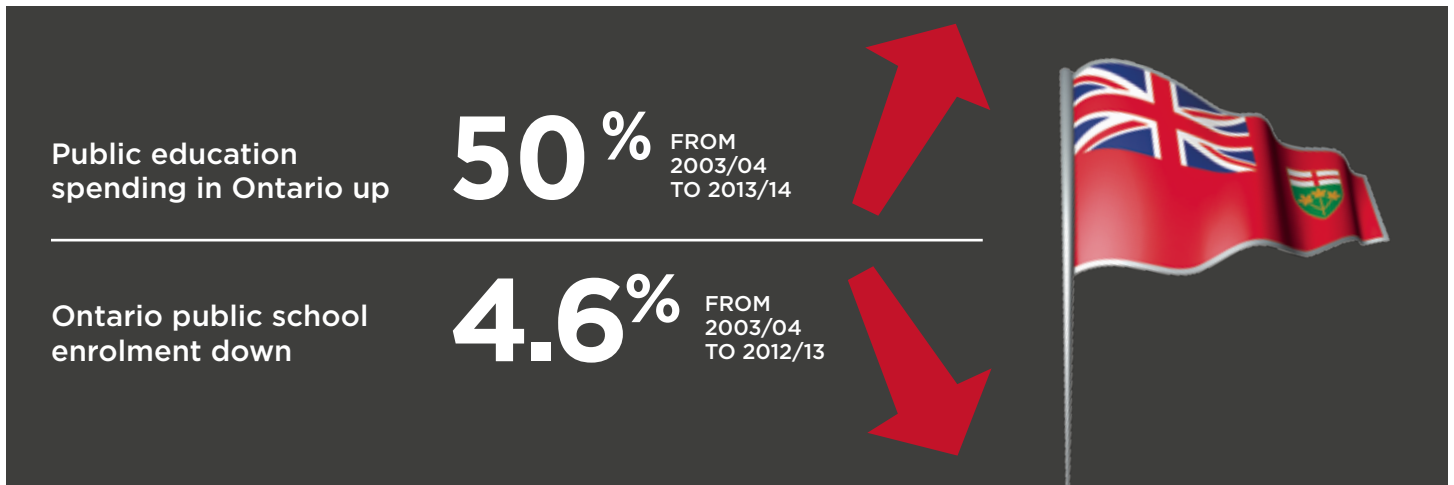
Barbara Mitchell Centre
FOR IMPROVEMENT IN EDUCATION



The Ontario Secondary School Teachers' Federation, one of Ontario's largest teachers' unions, wants to bolster its strike fund, apparently readying itself for possible labour action when its current contract expires in August 2017. For the sake of students, parents, and rank-and-file teachers who would rather focus on their classroom duties than labour action, let's hope the union leadership considers recent education spending increases in Ontario and the fiscal realities facing the province.

Ontario is simply in no position to increase teacher salaries. The province will run its ninth consecutive budget deficit in 2016/17, and will see its net debt climb to more than \$300 billion. Simply put, provincial finances do not permit further increases to teacher salaries.

Furthermore, despite misguided rhetoric about “cuts” in funding and inadequate spending on education, the reality is that rapid spending increases in the public education sector—and specifically on teacher compensation—have been major drivers of overall provincial spending growth in recent years. For example, between



2003/04 and 2012/13 (the last year of available comprehensive data), spending on education in public schools in Ontario increased by 50 percent. Almost \$25 billion was spent on public school education in 2012/13, \$8.3 billion more than was spent a decade earlier.

It's important to put this spending in context by taking inflation and changes to enrolment into account. During the same 10-year period, the number of students enrolled declined by almost five percent. Adjusting spending by inflation and the number of students reveals that expenditures per student increased to \$12,299 (inflation-adjusted) from \$9,193, a 34 percent increase in per-student spending in a single decade. These data demonstrate that the reality of education spending in Ontario has been a story of dramatic increase—not of cuts or spending restraint.

And where did all of these extra dollars for education go?

Unsurprisingly, a large chunk went to increased spending on compensation for public school employees (mostly teachers). Spending on wages and salaries for public school employees grew by 48.4 percent during that decade. In fact, the single fastest growing component of education spending during this time was money directed to teacher pensions, which more than doubled—growing by more than 100 percent.

Of course, everybody agrees that teachers are an extremely important part of our community and need to be paid a fair wage. However, compensation decisions

must also be made in the context of the fiscal realities facing the province, and the ability of the taxpayer to foot the bill for further wage increases. Given that Ontario has dedicated tremendous additional resources to education over the past decade, any demands for further increases by teacher unions should be met with skepticism by Ontario taxpayers.

If teachers' unions across Ontario consider the history of recent growth in education spending in Ontario and adjust their expectations to match the fiscal realities facing the province, perhaps new negotiations can result in deals that are fair to Ontario taxpayers and don't result in labour disputes that hurt students, parents, and teachers. [FI](#)



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Gloomy Report Misrepresents Canada's Environmental Performance

Kenneth P. Green

It would hardly be an Earth Day (which took place on April 22nd) without the publication of a new report damning Canadians as environmental laggards. In prior years, these reports would have come from the Suzuki Foundation. But this year, the Conference Board of Canada has taken on the role of Canada's environmental scold, with their publication of an environmental report card that ranks Canada poorly among ostensibly comparable countries, and gives us less than stellar letter grades for environmental performance.

But let's consider the Conference Board's "environmental" metrics, which were in four catego-

ries—air pollution, waste, freshwater management, and climate change—with several sub-metrics in each category, such as emissions of conventional air pollutants, considering water withdrawals as part of freshwater management, and including factors such as low-emitting electricity production under the climate change category. Some of these indicators are valid, such as air pollution, but other indicators are problematic.

Let's start with air pollution. As we documented in the study *Canadian Environmental Indicators—Air Quality*, in most instances, Canadians currently experience significantly better air quality than at any other time since continuous monitoring of air quality began in the 1970s. Most notably, concentrations of two of the air pollut-

ants of greatest concern—ground-level ozone and ultrafine particulate matter—have generally decreased across Canada since 2000. By focusing on per-capita emissions, the Conference Board turns a great air pollution control story upside down. Of course Canadians are likely to emit more per capita—we live in a huge, cold-weather climate with vast transportation needs, and we service a massive economy to our south with goods and services, including natural resources.

Contrary to the Conference Board's gloomy report, Canada's environmental performance is one of the country's great success stories.

What's important about air quality is not absolute emissions per capita, but whether people and the environment are being harmed by air pollution. On that front, the answer is "very few." But don't take my word for it, go to www.yourenvironment.ca and view the air pollution data for your city. What you'll find is that air quality in Canada rarely crosses the thresholds that indicate significant health risk exist. And those thresholds, one should add, are themselves highly conservative. Canadians need have little concern that breathing is a dangerous act.

Now, let's move onto waste generation. First, it's unclear how a metric of waste generation per capita tells us anything about environmental harm—that would all depend on how waste is disposed of, not how much one makes. But Canadians are hardly lackadaisical about waste minimization and diversion. According to Statistics Canada, 92 percent of households in Canada have access to recycling programs, and 98 percent of those households actively recycle: 94 percent recycle glass, 97 percent recycle paper and plastic, and 92 percent recycle metallic waste.

The same is true for water withdrawals and wastewater treatment—what matters is not how much we take out of the environment, it's whether those withdrawals

actually damage surface water and ground water. On that score, Canada's doing just fine. Our recent study, *Canadian Environmental Indicators—Water*, showed that Canada has made amazing progress in cleaning up our waterways and keeping withdrawals to ecologically safe levels.

Finally, about those greenhouse gases. As Environment Canada points out, Canada's greenhouse gas levels have been declining since 2005 on a total mass basis, on a per capita basis, and on the basis of emissions per unit of economic productivity. By any measure, Canada's greenhouse gas emissions are in decline.

Slamming Canada based on an index that looks at indicators tangential to actual environmental and human health impacts while ignoring the massive progress Canadians have made in cleaning up and protecting their environment will not further the cause of environmental and health protection. Indeed, to the extent that it's used to bludgeon Canadian governments into emulating Ontario's green power fiasco (where high energy prices constitute a monthly mugging for Ontario's poorer citizens), the Conference Board report card is likely to lead to reduced economic productivity for both the private and public sectors, sapping the very revenues that are needed to measure environmental progress and deal with environmental problems that the private sector can't, or won't.

Contrary to the Conference Board's gloomy report, Canada's environmental performance is one of the country's great success stories. It hardly justifies slamming the country as some kind of environmental laggard and international lay-about, as the Conference Board would have us believe. **FI**



Kenneth P. Green is senior director, Natural Resource Studies at the Fraser Institute.

Misguided Minimum Wage Policies Miss their Target, Hurt Low-skilled Workers

Robert P. Murphy and Charles Lamnam



Governments across the country have been hiking their minimum wage. Last year, every Canadian province except for New Brunswick (which has an increase planned for this year) hiked their minimum wage. And campaigns are underway, most notably in Alberta, to boost the wage floor further, to \$15 per hour.

Such a policy appeals to many Canadians because they think it will help the poor. Yet as our new study,

Raising the Minimum Wage: Misguided Policy, Unintended Consequences shows, the minimum wage is a very blunt instrument that arguably hurts the working poor more than it helps them. It's time to shift the debate to more effective policies.

The first step in understanding the limitations of the minimum wage is to consider who actually earns the minimum wage. In 2012, 88 percent of Canadian minimum-wage earners did not live in low-income households, as measured by Statistics Canada's Low Income Cut-Off

(LICO), a widely used measure of relative poverty. On the other hand, the vast majority of workers who lived in low-income households (83 percent) earned more than the minimum wage. Put differently, most Canadians who earn the minimum wage are not “poor,” and most of the working poor earn more than the minimum wage.

Besides being a blunt instrument for helping the working poor, there are outright negative consequences of the minimum wage. Government policies that make low-skilled labour more expensive will cause employers to hire fewer workers.

These surprising results occur because most minimum-wage earners are teenagers or young adults. In fact, nearly 60 percent of minimum-wage earners are aged 15 to 24, with the vast majority of them (85 percent) living with parents or other relatives. And 20 percent of minimum-wage earners live with an employed spouse, meaning there are other earners in the household. Crucially, just two percent of Canadian minimum-wage earners are single parents with at least one child.

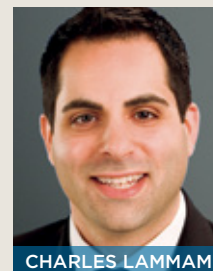
Besides being a blunt instrument for helping the working poor, there are outright negative consequences of the minimum wage. A large body of evidence finds that government policies making low-skilled labour more expensive will cause employers to hire fewer workers. Our study reviews the Canadian research, which tends to find that a 10 percent increase in the minimum wage will likely decrease employment of teens and young adults by three to six percent.

It is true that several studies in the United States since the 1990s have challenged the traditional consensus among economists that minimum wage laws cause unemployment, but the Canadian evidence is much sharper and more consistent, partly because of the wider variance in policy experimentation across provinces.

In any event, there is more at stake than simply the total number of jobs available for low-skilled workers. If employers are forced to pay higher wages to low-skilled workers, then they have the incentive to cut back on other forms of compensation (such as job training and health benefits). They might also “pass along” some of the higher costs of the minimum wage to their customers, which will have a disproportionate impact on the poor in some industries (such as fast food restaurants).

In short, the minimum wage is neither an efficient nor an effective strategy for helping the working poor. Fortunately, there are better options available and with fewer negative consequences. The Working Income Tax Benefit (WITB), a federal program, represents one important example. The WITB, first implemented in 2007, provides a tax credit to low-income workers; it rises with income up to a maximum refund. At a certain point, the WITB begins to phase out with additional income, but only gradually. The crucial advantage of the WITB is that it more efficiently increases the income of the working poor without making it harder for employers to hire less skilled workers.

It is laudable that Canadians want governments to pursue policies that will help the working poor. However, minimum wage hikes are a blunt instrument that may perversely hurt the poor by making it harder to find employment. The WITB is a much more sensible approach that targets the working poor. [FI](#)



Robert P. Murphy is a senior fellow and Charles Lammam is director of fiscal studies at the Fraser Institute. They are co-authors of *Raising the Minimum Wage: Misguided Policy, Unintended Consequences*.



Bacchus Barua

What's your role at the Institute?

My role as the senior economist in the Centre for Health Policy Studies is to assess the current state of Canada's health care system and to identify those policy options that will help improve it. Research has consistently shown that it is possible to achieve a better functioning universal-access health care system, with more freedom and choice, at similar (or lower) cost—and I see it as part of my job to help people understand how to do it.

How did you arrive at the Institute?

As an international student from India, I had the good fortune of being encouraged to enrol in the co-op program while pursuing my MA at Simon Fraser University. And so, in 2009, I applied for, and received the opportunity to work as a research intern in the Institute's Calgary office. This was the beginning of what has developed into a long and fulfilling career at the Fraser Institute.

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

The Canada Health Act has long been cited as a barrier to reform. Over the next few months, we will be undertaking a detailed look at exactly how restrictive it really is, and will identify those specific portions that may need to be amended in order to introduce the sort of policies that have enabled other countries with universal healthcare to deliver more timely services at similar or lower cost.

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

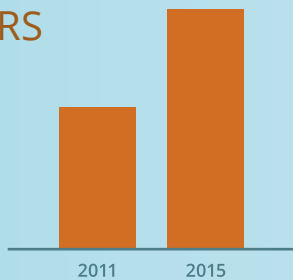
I have long been involved in various aspects of the creative and experimental arts. While this can sometimes include experiments with emerging technology, I suppose the simplest (but also most fun) manifestation is a grunge band in which I sing and play guitar. It's entirely possible that you may see me up on stage with my bandmates the next time you visit a live music venue in Vancouver on a weekend night.

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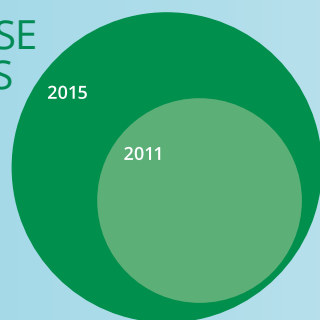
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