

News and information for supporters and friends of the Fraser Institute

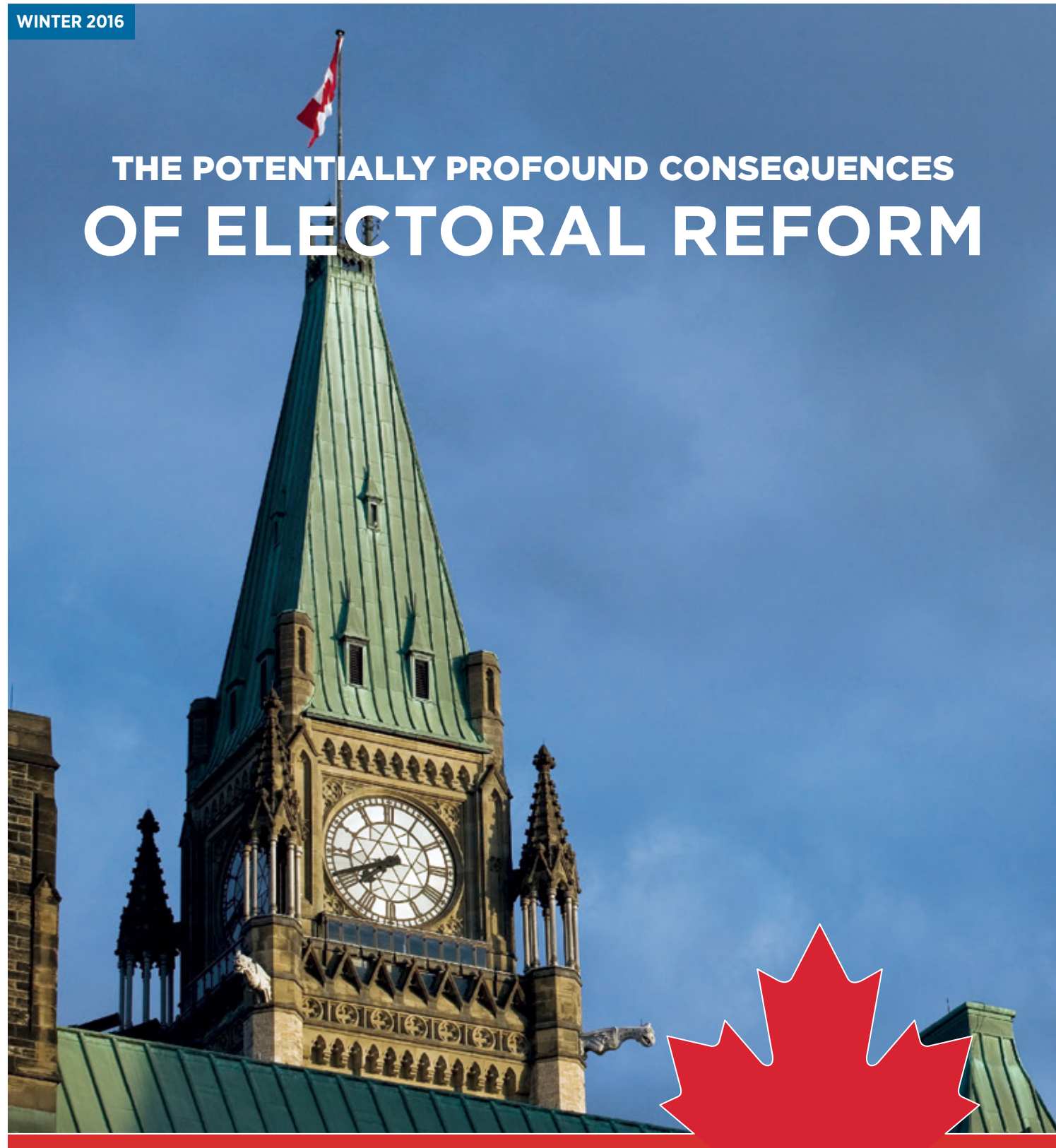
FRASER
INSTITUTE

THE **Quarterly**

WINTER 2016

THE POTENTIALLY PROFOUND CONSEQUENCES
OF ELECTORAL REFORM

CANADIAN PUBLICATION MAIL SALES PRODUCT AGREEMENT NUMBER 40069269



ALSO INSIDE

**Economic Freedom
Under Threat**

**Pipeline
Obstructionism**

**Taxes vs. Basic
Necessities**



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

There is nothing more fundamental to our democracy than the method by which we elect our political representatives. During the 2015 election campaign, the prime minister promised that “2015 will be the last federal election conducted under the first-past-the-post voting system.”

Given that the consequences of electoral reform would be profound and long-lasting, we have been proactively researching and educating Canadians about whether we should reform our election system and the serious costs associated with many of the alternatives.

Thankfully Canadians are listening and there has been some indication that the prime minister’s enthusiasm for electoral reform might also be fading.

In this issue of *The Quarterly*, we include a special section on electoral reform (pages 12 to 19) based on a series of essays we published this year.

The first commentary by John Pepall (page 12) discusses the fact that many people believe that our present way of voting is deeply flawed. However, the reality, as Pepall notes, is that our first-past-the-post system is simple (i.e., we all understand how it works) and allows us to “throw the bums out,” which ultimately helps ensure accountability.

Also included in this issue are articles on proportional representation and alternative voting systems.

On page 14, Institute analysts Jason Clemens and Taylor Jackson discuss the likely impact of moving to proportional representation—more minority and coalition governments, and consequently higher government spending.

On page 18, Fraser Institute Senior Fellow Lydia Miljan and her co-author analyze our prime minister’s preferred system, alternative voting. They re-estimate the results of each election since 1997 using alternative voting electoral rules and find that those rules would have resulted in a number of markedly different electoral outcomes—outcomes that would have favoured the current governing party.

Finally, Professor Patrice Dutil finds that without a national referendum (something the current government has repeatedly rejected), changes to the country’s electoral rules would likely be unconstitutional (page 16).

If you still have colleagues and friends that believe Canadians should fundamentally change our electoral reform, I encourage you to pass this issue of *The Quarterly* on to them when you’ve finished reading it.

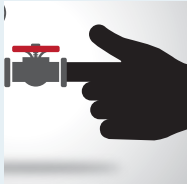
Thank you for your ongoing support.

Best,

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

Niels

New Research



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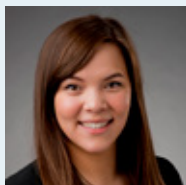
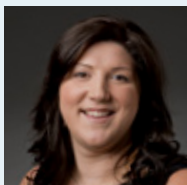
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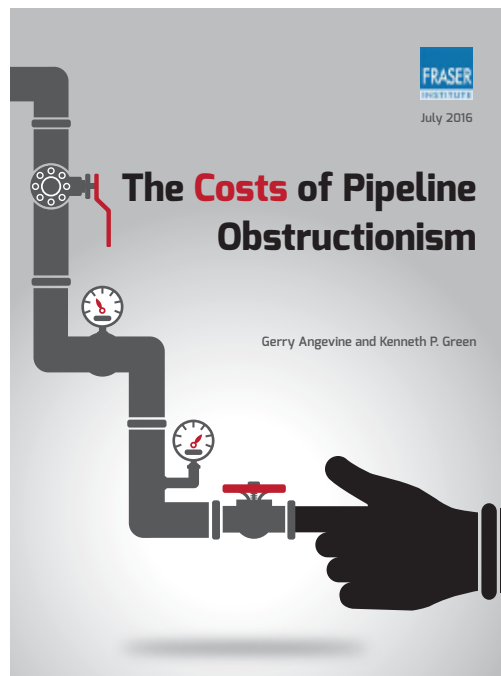


Rhogene Dadashzadeh and Laura Chan **32**

Pipeline Obstructionism May Prove Very Costly

Gerry Angevine and Kenneth P. Green

Our recently released study, *The Costs of Pipeline Obstructionism*, reviews how Western Canadian oil producers are being constrained by the inability to access new markets via ocean ports and how this constraint, along with the drop in oil prices, the Alberta ceiling on greenhouse gas (GHG) emissions in oil sands operations, and regulatory obstacles, are affecting pipeline infrastructure requirements and decisions.



as \$2 billion per year (in Canadian dollars) compared with selling into the flooded US market. At an average price of US\$60/bbl, it could reach CA\$4.2 billion; and at US \$80/bbl, CA\$6.4 billion. If higher netbacks from markets accessed from tidewater connections were realized by all Western Canada heavy oil production, at the US\$40, US\$60, and US\$80/bbl price levels the annual benefits could reach CA\$8.9 billion, CA\$18.5 billion, and \$CA28.2 billion, respectively.

Western Canadian conventional and non-conventional (i.e., oil sands) heavy crude oils continue to suffer from price discounts relative to world region crude oil prices, such as North Sea Brent (adjusted for quality differentials and transportation cost), and are at risk of being displaced by increasing US oil production. Access to port facilities on the west and/or east coast would allow Canadian producers to access world crude oil prices.

If Canada were able to export 1 million barrels of oil per day to markets accessible from ocean ports—with the lion's share of heavy oil and bitumen exports continuing to flow to US oil markets—substantial additional revenues would likely result. At a US\$40/bbl price this could be as high

If 1 million barrels of oil per day were exported to markets accessible from ocean ports, substantial additional revenues would likely result.

Both the oil price and the volume of production drive the Alberta and Saskatchewan crude oil royalty formulas. The importance of the price factor is underscored by

the impacts of much lower prices on royalty revenues. In the Alberta October 2015 budget, royalty revenues were projected to plunge to \$1.5 billion in 2015-16 from \$5.0 billion. Royalties from conventional oil production were estimated at \$0.5 billion compared with \$2.2 billion in 2014-15 (Alberta, 2015a). Saskatchewan's February 2016 Budget Update projected oil royalty revenue of \$347.9 million in fiscal 2015-16—38.5 percent less than previously (Saskatchewan Ministry of Finance, 2016a).

Understanding the sensitivity of royalty revenues to price changes allows governments to predict how revenues will be affected by improved prices as, for example, access to new markets is achieved. Oil royalty revenues in Alberta and Saskatchewan would increase by about CA\$1.2 billion a year if the WTI oil price were to increase by US\$7/bbl. A US\$5/bbl increase in the price of WTI crude oil would increase Saskatchewan's annual royalty revenue on heavy oil production by approximately \$29.5 million, and total oil production royalties by about \$94.5 million (assuming an exchange rate of 71.5 cents per Canadian dollar).

The capacity to transport crude oil to coastal refineries is insufficient to solve the pricing dilemma that western Canadian oil producers face due to heavy dependence on the US mid-continent region. Oil pipeline projects with a combined capacity of about 4 MMbpd (million barrels per day) have been proposed or conditionally approved. But investors may be less inclined to move ahead with oil sands and related infrastructure projects than before the downturn in prices.

With no reduction in GHG emission rates, the 100 Mt limit on GHG emissions from oil sands operations will be reached in 2025, at which point total oil sands production is projected to increase by 1.5 MMbpd. If, as the NEB has suggested, Western Canadian conventional oil production will then have peaked, the required increase in pipeline takeaway capacity will be about 1.9 MMbpd (assuming a system capacity utilization rate of 80 percent). Clearly, without significant reductions in oil sands GHG emissions rates, much of the proposed increase in pipeline capacity from Western Canada will not be needed.

The Energy East Pipeline, the Trans Mountain Pipeline Expansion, and the Northern Gateway Pipeline proj-

ect would enable about 2MMbpd of Western Canadian crude to access coastal US and overseas markets. But all three projects face serious challenges, mostly environmental, from First Nations and from various communities. Further, the federal government has imposed new consultation obligations and upstream GHG emission assessment requirements on the Energy East and Trans Mountain projects that will prolong the review process.

Every effort should be made to expedite pipeline project review and assessment processes before windows of opportunity for access to new markets are largely preempted by competitors.

Every effort should be made to expedite pipeline project review and assessment processes before windows of opportunity for access to new markets are largely preempted by competitors. If the legislated regulatory review process with regard to a particular project is unduly delayed, the federal government may need to help resolve impasses or, in the case of projects that are truly in the national interest, introduce special legislation to allow a project to proceed. [FI](#)



GERRY ANGEVINE



KENNETH P. GREEN

Gerry Angevine is a senior fellow and Kenneth P. Green is senior director, Natural Resources Studies, at the Fraser Institute. They are co-authors of *The Costs of Pipeline Obstructionism*.

Ontario Could Learn Plenty From Michigan's Economic Revival

Ben Eisen, Robert P. Murphy, and Joel Emes

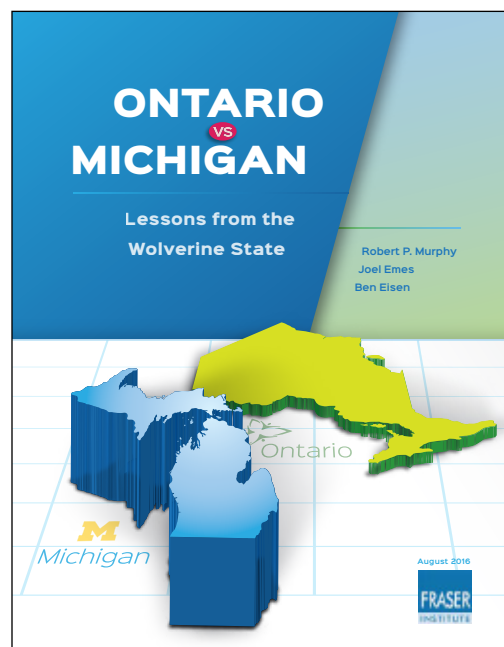
Notwithstanding a recent uptick in economic growth, Ontario has been mired in a long-term economic slump that has lasted more than a decade. In fact, inflation-adjusted economic growth per person averaged an anemic 0.4 percent annually between 2003 and 2014.

Some contend that the decline of Ontario and its manufacturing-based economy is an inevitable outcome of global economic restructuring, with the movement of manufacturing away from rich countries to poorer ones.

The evidence, however, does not support such claims. A glance across our border at the manufacturing sector of neighbouring Michigan shows that economic decline is not an inevitable outcome for manufacturing jurisdictions in affluent countries.

Two key metrics illustrate the divergent trajectories of Ontario and Michigan in the years since the great recession. A natural starting point is to look at real (inflation-adjusted) economic growth.

Throughout much of the 2000s, Michigan's economy was in abysmal shape and Ontario's economy was regularly outgrowing Michigan's on a year-to-year basis. Yet



after the great recession that all changed. From 2011 to 2014, average annual economic growth in Michigan was actually higher than in Ontario, despite slower population growth. In fact, inflation-adjusted economic growth per person in Michigan averaged 1.7 per cent annually between 2011 and 2014—that's about double Ontario's real per-person growth rate of 0.9 percent.

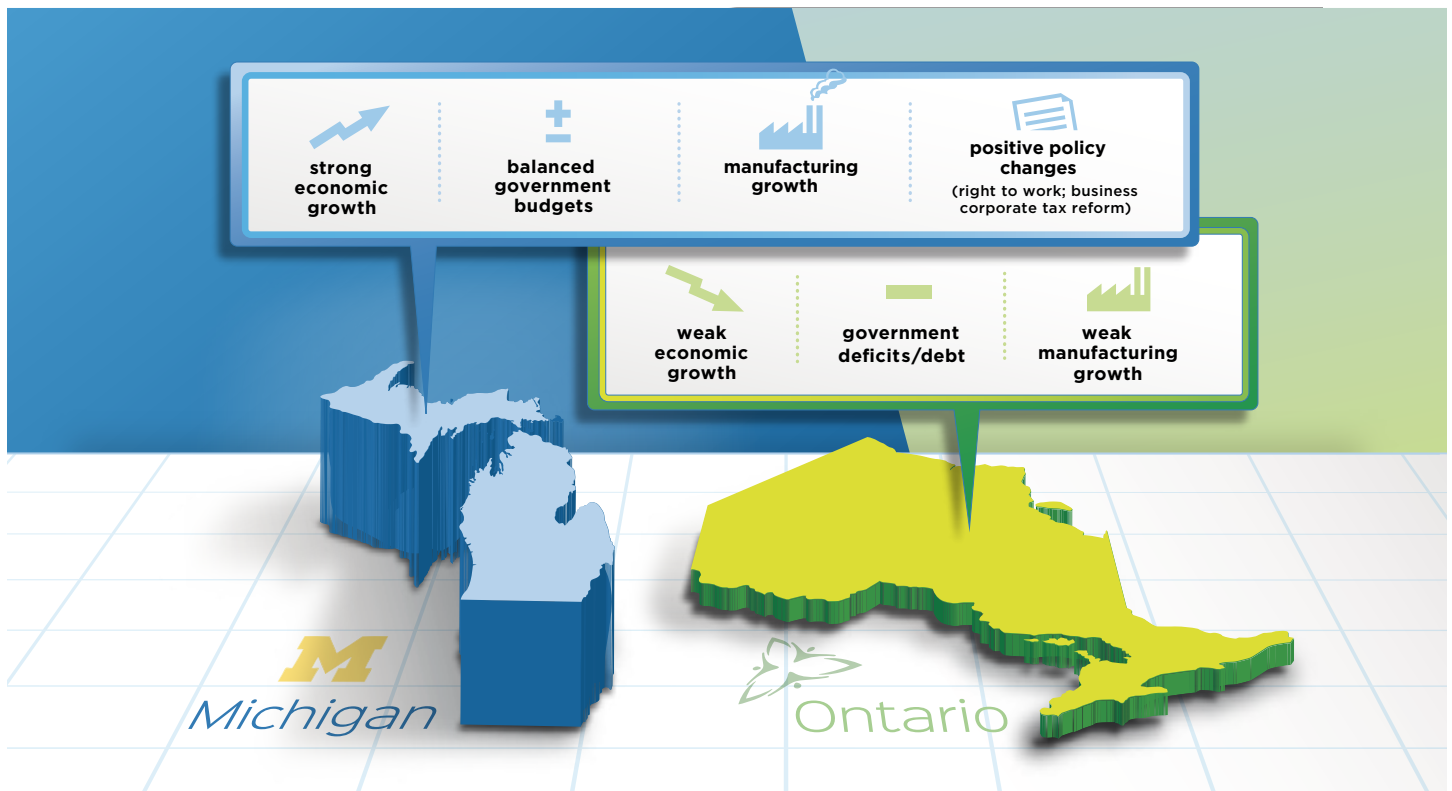
One key reason for these different growth trajectories has been a much stronger recovery in the manufacturing sector in Michi-

gan. Consider that in Michigan, employment in manufacturing actually grew at an average annual rate of 6.1 percent from 2011-2014, while in Ontario manufacturing employment *declined* at an average annual rate of 0.5 percent. Clearly, the manufacturing sectors in the two jurisdictions—and indeed the broader economy—went in opposite directions during this period.

It is noteworthy that Michigan's remarkable economic turnaround happened at the same time as its state government was implementing a series of economic reforms. These reforms included:

- Right-to-work legislation (signed in 2012 and taking effect in March 2013). "Right-to-work" legislation means that workers in the state cannot

TWO DIFFERENT PATHS, TWO DIFFERENT RESULTS (2010–2014)



be compelled financially support a union as a condition of employment.

- The replacement of the complex and onerous Michigan Business Tax (MBT) with a simpler and lighter flat corporate income tax of 6 percent.
- Prudent fiscal management. The state government introduced sharp budget cuts in 2012, and allowed only modest growth in state spending since then.

This final dimension of the reform package, which was dismissed as reckless by critics, produced a string of balanced budgets and helped rebuild Michigan’s “budget stabilization fund.” This contrasts sharply with Ontario, where the province has failed to adequately restrain spending and has seen a rapid run-up in government debt.

Despite the province’s recent uptick in growth, Ontarians continue to suffer from previous years of sluggish economic performance and the burden of servicing the province’s mountain of debt.

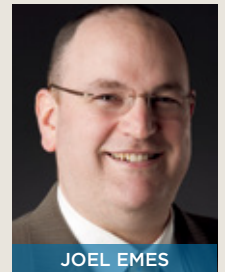
Finally, Ontario’s economic decline relative to the rest of Canada and several peer jurisdictions over the past decade was not inevitable. Policy choices matter, and have important impacts on economic performance in different jurisdictions. Given Michigan’s strong economic performance in recent years, policymakers in Ontario would be well-advised to learn lessons from the Wolverine state. [FI](#)



BEN EISEN



ROBERT P. MURPHY



JOEL EMES

Robert P. Murphy and Joel Emes are senior fellows, and Ben Eisen is the director of the Ontario Prosperity Initiative at the Fraser Institute.

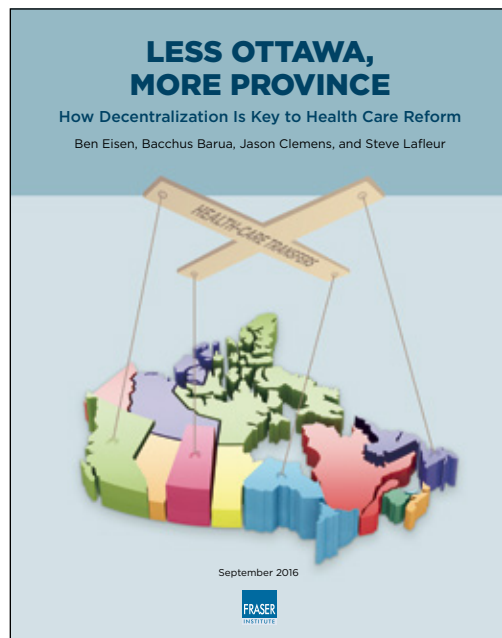
On Health Care Reform, Trudeau Should Finish What Chrétien Started

Ben Eisen, Bacchus Barua, Jason Clemens, and Steve Lafleur

In the 1990s, Prime Minister Jean Chrétien's Liberal government reduced the amount of money it sent to the provinces to help fund provincial welfare programs. In return, it gave the provinces greater freedom to design and implement their own welfare programs. A recent Fraser Institute study, *Less Ottawa, More Province: How Decentralization Is Key to Health Care Reform*, shows how success of these reforms, which generally reduced costs and shrunk the welfare rolls, provides a road map for improving Canadian health care.

Before the Chrétien welfare reforms, provinces had to comply with a series of federal rules governing their welfare programs; if they did not, their federal transfers were reduced. The Liberals cut these strings, freeing the provinces to innovate.

The “less cash for greater autonomy” swap spurred a flowering of policy innovation across the country, as provinces pursued different reform strategies to meet the needs of their specific populations. The following years saw impressive reductions in welfare dependency and



increases in employment across Canada, as provincial welfare reforms improved work incentives, provided job training and experience, and helped many Canadians escape poverty.

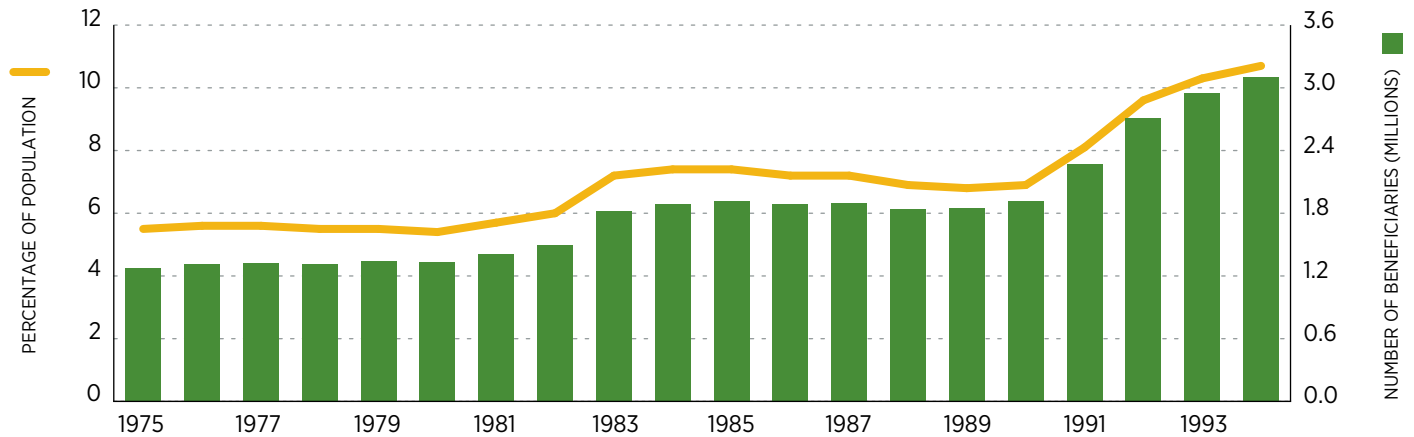
Chrétien's government also reduced federal transfers to the provinces for health care. However, there was no wave of health care innovation at the provincial level comparable to provincial welfare reforms. This is partly because, unlike with welfare,

Chrétien's government avoided the more controversial health care reforms.

The 1995 federal budget made this difference explicit, stating that the provinces would be “free to pursue innovative approaches” to welfare reform without having to consider whether those reforms would trigger a reduction in transfer payments. On health care, however, it would continue to punish provinces that deviated from federal rules “by withholding funds, if necessary.”

This refusal to cut the strings on health care transfers has had long-lasting repercussions. Instead of a wave of policy innovation, health care policy during the 1990s was characterized by inertia. Though they had less mon-

NUMBER OF WELFARE BENEFICIARIES, INCLUDING DEPENDENTS, AND AS PERCENTAGE OF POPULATION, 1975-1994



ey to work with, the provinces remained unable to pursue many reform strategies that have improved health outcomes and reduced costs in other countries with universal health care systems.

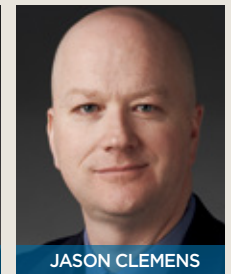
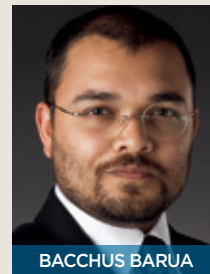
For example, provinces were forbidden to experiment with cost-sharing programs (user-fees, co-payments, and deductibles) that could potentially give individuals incentives to use scarce health care services more responsibly. This, despite the fact that such fees (with annual limits and exemptions for vulnerable populations) are commonplace in most other countries with universal health care systems. Canadian provinces have declined to introduce such fees for fear of seeing their transfers cut.

Partly because the provinces have not had the freedom to experiment with and pursue reform policies, Canada's health care system continues to underperform relative to peer jurisdictions. Despite health care spending levels that are among the highest in the developed world and growing at an unsustainable rate, Canadians continue to face remarkably long wait times for care not generally seen in countries with higher performing universal health care systems.

In short, the Chrétien Liberals dramatically improved the federal government's approach to welfare transfers but, on health care, did not finish the job.

Once the Liberals were replaced by Stephen Harper's Conservatives, the Tories also failed to act, opting to leave the status quo mostly intact.

A new Liberal government is now in power, and its health minister seems aware that policy innovation—not more money—is necessary to improve Canadian health care. If the government is serious about sparking innovation and change, it should finish the work of transfer reform began by the Chrétien Liberals. This means cutting some of the strings still attached to health care spending, and freeing the provinces to pursue policy reform as they see fit. [FI](#)



Ben Eisen is the director of Provincial Prosperity Studies, Bacchus Barua is a senior economist, Jason Clemens is executive vice-president, and Steve Lafleur is a senior policy analyst at the Fraser Institute.

The Reality of Education Spending in Ontario

Jason Clemens, Joel Emes, and Deani Van Pelt

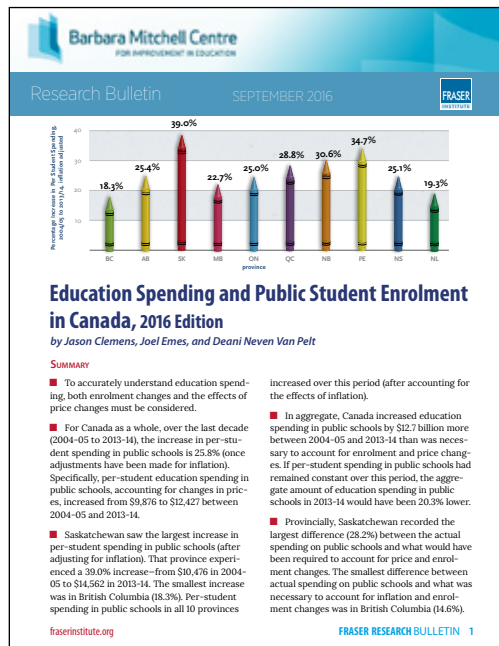


Barbara Mitchell Centre
FOR IMPROVEMENT IN EDUCATION

Parents across Ontario have now started getting back into the routine of sending their kids to school after the long summer break. And when those parents meet in the schoolyards and drop-off zones for the first time in months, conversations may turn to “cuts” in education funding, the elimination of an education assistant, the state of class sizes, or perhaps even the closing of a school.

So it's an opportune time to understand the reality of education spending in Ontario versus the convenient rhetoric.

It's easy for administrators, politicians, and other apologists for public schools to blame the observed problems on a lack of funding. It allows education leaders to point the finger at someone else. The reality, however, is that the public school system in Ontario has received large increases in funding over the last decade, which implies that the problems in the education system relate to organization and management rather than funding.



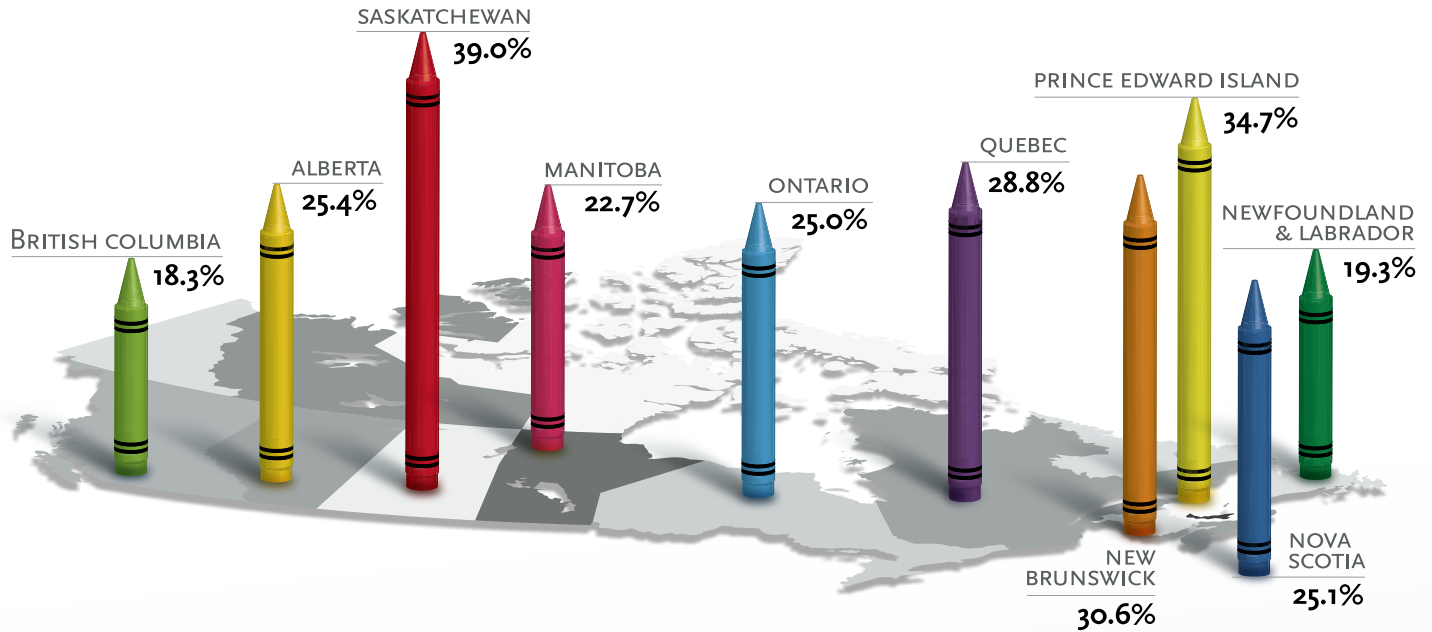
First, some facts about education spending on public schools in Ontario. According to data from Statistics Canada, total spending on public school education in Ontario has grown from \$18.4 billion in 2004-05 to \$25.7 billion 2013-14, the most recent year of available data. That's an increase of \$7.3 billion in education spending in just a decade.

But crucially, that \$7.3 billion increase underestimates the

real rise in education spending in the province because it ignores enrolment. Statistics Canada data indicate that over the same 10-year period, enrolment in public schools in Ontario declined 5.1 percent, from roughly 2.1 million students to 2.0 million students.

Accounting for the higher spending levels and lower number of students means that the *per-student* level of spending in public schools increased 25.0 percent between 2004-05 and 2013-14. (And this data accounts for the effects of inflation). Specifically, per-student spending in public schools in Ontario increased from \$10,204

CHANGE IN INFLATION-ADJUSTED, PER STUDENT SPENDING IN PUBLIC SCHOOLS (2004-05 TO 2013-14)



in 2004-05 to \$12,753 in 2013-14. Simply put, Ontario is spending considerably more money now, per student, on public schools than it did a decade ago.

This is not to say that individual schools, school districts, and even the province as a whole are not struggling with K-12 education. Indeed, many parents (including the two authors of this commentary) are acutely aware of resource challenges at our local schools.

But the explanation for these individual resource challenges cannot be a lack of money. And it certainly can't be from a cut in education spending, which as noted above, has actually been increased dramatically over the last decade.

Rather, for an explanation of the resource challenges in Ontario's public schools, look to the organization and management of the system. Public schools suffer from the same incentive and organizational problems as any other government agency or department, which leads to the misallocation and waste of resources.

Archaic regulations, union monopoly (which helps create misaligned incentives for both bureaucrats and ed-

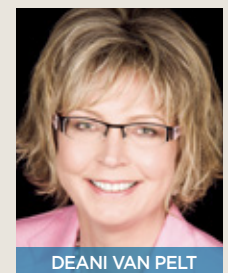
ucators), lack of responsiveness to parental demands, and a centralized, prescriptive curriculum are just a few of the many handcuffs holding back Ontario's public school systems. Consequently, solutions to the problems in Ontario public education require a fundamental restructuring rather than simple complaints about a lack of resources. [FI](#)



JOEL EMES



JASON CLEMENS



DEANI VAN PELT

Jason Clemens is the executive vice-president, Joel Emes is a senior fellow, and Deani Van Pelt is director of the Barbara Mitchell Centre for Improvement in Education at the Fraser Institute.

Canadian Families Spend More on Taxes than the Basic Necessities of Life

Milagros Palacios, Charles Lammam, and Feixue Ren

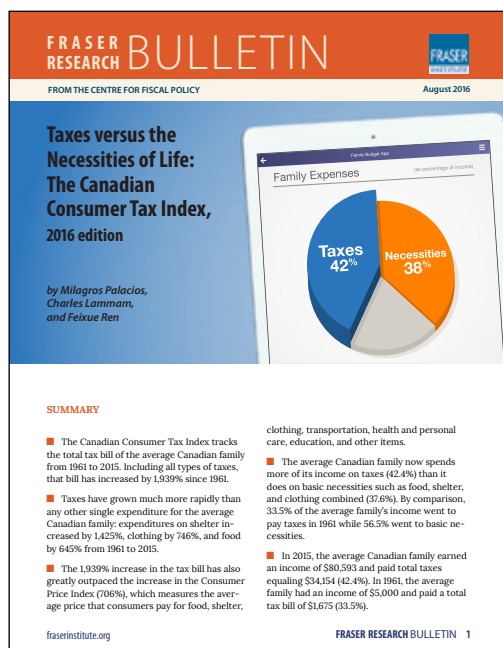
Pop quiz—what's your family's largest expense?

Many Canadians might say housing or perhaps food. But in reality, taxes consume more of the average Canadian family's household income than anything else.

When we say taxes, we don't just mean income taxes. We're talking about all the taxes you pay to all levels of governments. This consists of both visible and hidden taxes including income taxes, payroll taxes, sales taxes, property taxes, health taxes, fuel taxes, vehicle taxes, import taxes, alcohol taxes, and many more.

In a recent study by the Fraser Institute, *Taxes versus the Necessities of Life: The Canadian Consumer Tax Index*, we track the total tax bill of the average Canadian family from 1961 to 2015.

For 2015, we estimate that the average Canadian family (including single Canadians) earned \$80,593 in income



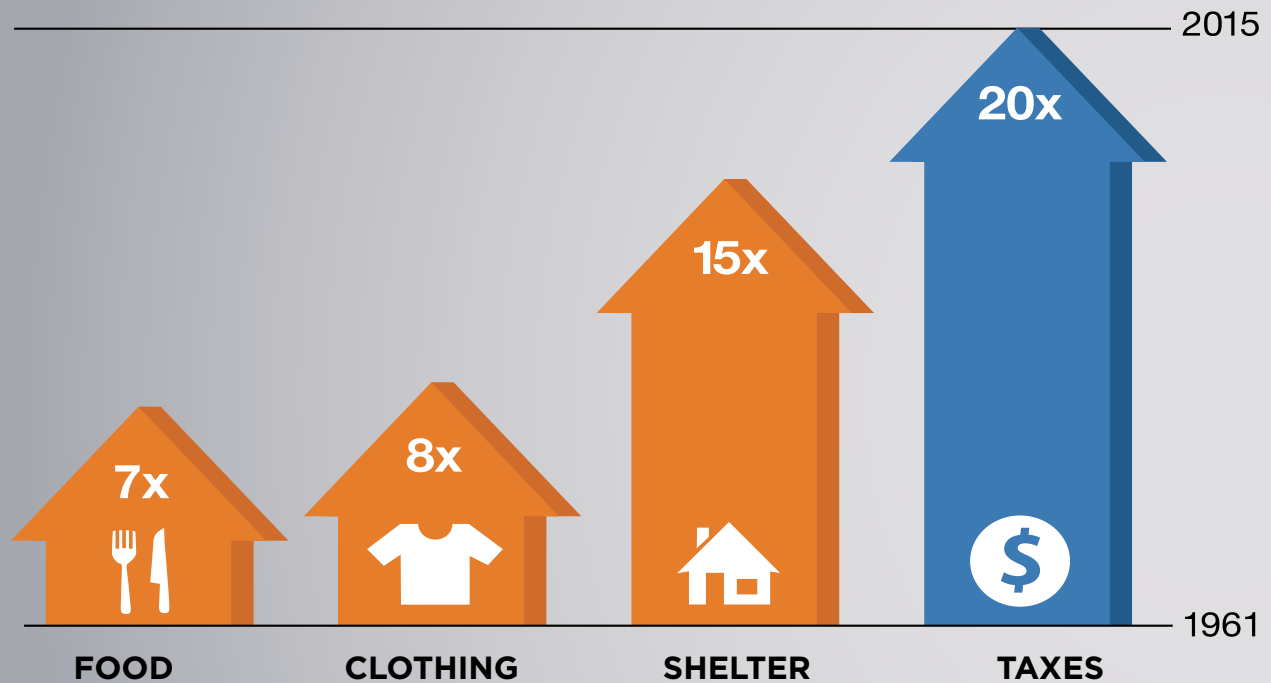
and paid \$34,154 in total taxes. That's 42.4 percent of income going to taxes—more than the 37.6 percent that goes to food, clothing, and shelter combined. Indeed, Canadian families spend more on taxes than the basic necessities of life.

But it wasn't always this way. Back in 1961, the first year for which we have calculations, the average family paid a much smaller portion of its household income in taxes (33.5 percent) while spending much more on the basic necessities (56.5 percent).

In fact, since 1961, the total tax bill increased by 1,939 percent, dwarfing increases in shelter costs (1,425 percent), clothing (746 percent), and food (645 percent). Even after accounting for inflation (the change in overall prices), the tax bill shot up 152.9 percent over the period. And now taxes eat up more income than any other single family expense.

While taxes help fund important government services, the issue is the amount of taxes governments take com-

TAXES HAVE GROWN MORE RAPIDLY THAN ANY OTHER SINGLE EXPENDITURE FOR THE AVERAGE CANADIAN FAMILY



pared to what we get in return. With more than 42 percent of income going to taxes, Canadians might wonder whether they're getting the best value for their tax dollars. That's up to you and your family to decide.

For 2015, we estimate that the average Canadian family (including single Canadians) earned \$80,593 in income and paid \$34,154 in total taxes.

But to make an informed assessment, you must have a complete understanding of all the taxes you pay. Unfortunately, unravelling what taxes are collected is not straightforward because the different levels of gov-

ernment levy a wide range of taxes, many of them buried in consumer prices. Therein lies the value of our calculations.

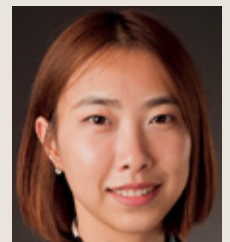
An informed citizenry can hold government more accountable for the money it spends and continue a public debate about the overall tax burden and whether we're getting our money's worth. [FI](#)



MILAGROS PALACIOS



CHARLES LAMMAM



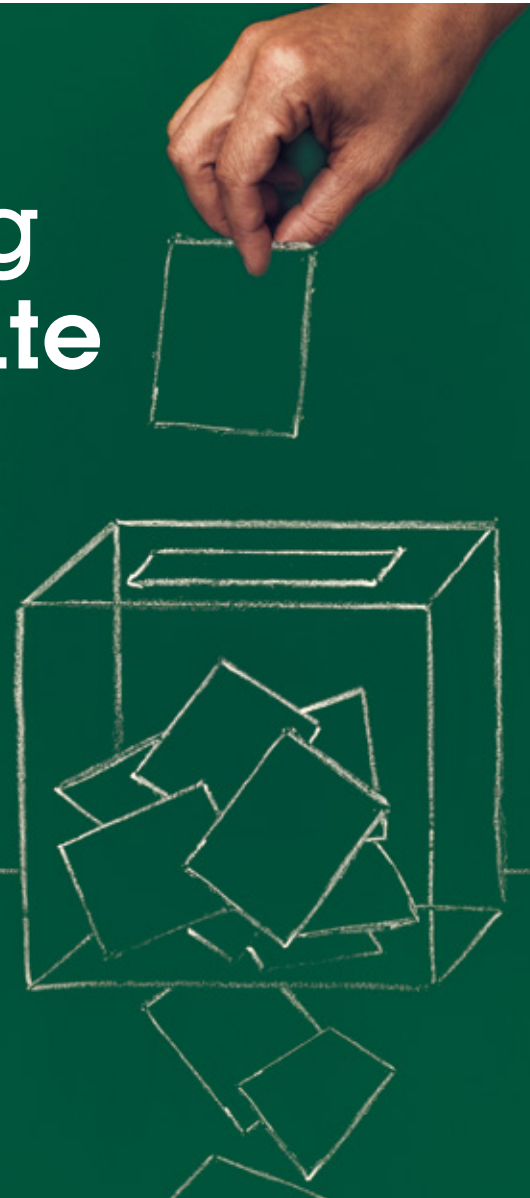
FEIXUE REN

Milagros Palacios is a senior research economist, Charles Lammam is the director of Tax & Fiscal Studies, and Feixue Ren is an economist at the Fraser Institute.



Changing Canada's Voting System Will Dilute Voter Power

John T. Pepall



The Liberal government is pushing ahead with its campaign commitment to ensure that “2015 will be the last federal election conducted under the first-past-the-post [FPTP] voting system.” It claims that FPTP, where the candidate with the most votes in any riding becomes the MP, is bad. But it doesn’t pretend to know what would be better. In pursuit of a promised “national engagement process,” a special committee of MPs is trying to find a better way of electing MPs.

They are doomed to failure. That’s because there’s no better way of electing MPs than the way we do it now.

Though all kinds of different ways of voting have been tried since the 19th century in Europe and elsewhere, most of the democratic world votes by FPTP. Voting is a procedure for making decisions. When people wanting to do something together have talked it over, someone will likely say, “Let’s put it to a vote.” By which they mean “Let’s decide.”

There’s no better way of electing MPs than the way we do it now.

When there are more than two options, there may not be a majority for one. We all accept majority rule. But many people are disturbed when an MP is elected with only 31 percent of the vote. Or when a party wins 54 percent of the seats in the House of Commons with only 39 percent of the popular vote, as the Liberals did last October.

We should not be disturbed by these things. Plurality rule is just as valid a basis of democratic decision-making as majority rule. Schemes to produce a majority where there is none, or give every theory or interest championed by a party a proportionate share in government, prevent voters from deciding and holding those they elect accountable.

Under proportional representation, voters provide a sample of their opinions and the parties decide who will govern on a basis that might only be explained by game theory. Even the parties don't know how to play the game. The voters lose control.

In a recent essay for the Fraser Institute, “First-Past-the-Post: Empowered Voters, Accountable Government,” I outlined the two broad categories of alternative electoral systems: preferential voting, where voters list their preferences amongst candidates; and proportional representation (PR), where parties present a list of candidates and get seats in proportion to their vote.

Preferential voting may seem simple to voters. You just mark the candidates 1, 2, 3, and so on. But while voting may be only slightly more complicated than it is now, what may happen to the votes is anything but simple. Candidates who lose might have won had they received fewer votes. And candidates who win might have lost had they received more votes.

Electoral reform can get very technical and complicated. Its advocates imagine this is all a matter of getting it right. But the fundamental flaws in preferential voting and other schemes are well-known but ignored by the advocates.

The PR scheme most talked about, mixed member proportional voting, looks like it offers the best of both worlds with most MPs still elected by plurality in ridings, and the rest taken from party lists. Voters get two votes—one for their MP and one for a party. What voters may not realize is that the party vote rules. Parties that can't elect an MP in a riding, or that elect fewer than their proportion of the party vote, get seats to ensure they're proportionately represented. If your riding vote elects an MP, your party vote may count for nothing.

Generally under PR, no party can form a government by itself. Coalitions rule. No party can do what it said it would do and be held accountable. Who governs is not decided by the election but in negotiations after the election, and is beyond voters' control. Some parties are permanently in power. Some are permanently excluded. Bums are never thrown out. In Germany what looks like a choice between the Christian Democrats and the Social Democrats ends with them both in a grand coalition.

Under PR, voters effectively provide a sample of their opinions and the parties decide who will govern on a basis that might only be explained by game theory. Even the parties don't know how to play the game. The voters lose control.

If 2015 is the last election when we vote as we have since before Confederation, it may also be the last in which voters decide who governs them. [FI](#)



JOHN T. PEPALL

John T. Pepall is a writer on politics, law and the history of Canada. He is a contributor to a recently released Fraser Institute book: *Counting Votes: Essays on Electoral Reform*.



Changing Election Rules Changes More than Just Who We Elect

Jason Clemens and Taylor Jackson



The federal government has been clear that it wants to reform Canada's electoral system, with a committee now investigating the various options. But so far, few have acknowledged that changing the way we elect our political representatives could have profound consequences on real policy.

Two of the five parties on the committee (the NDP and the Green Party) explicitly support elections based on proportional representation. (The Liberals, at least according to their campaign platform, are open to the idea.)

Proportional representation (PR) is an electoral system that elects members based on the proportion of votes each party receives. While no PR system is exactly proportional, the link between the vote share and number of seats won is much closer than under our current system.

This means that smaller, sometimes even single-issue and regional parties, are more likely to be elected under a PR system. The proliferation of both the number of parties, and more importantly, the number of parties with seats in Parliament, makes it very difficult for a single party to achieve a governing majority.

This means that coalitions—not majority governments, which is the norm in Canada—are much more likely to govern countries that use a PR electoral system. Research bears this out. Between 2000 and 2015, only 17 percent of elections in countries with PR resulted in a single-party majority, while single-party majorities occurred 85 percent of the time in countries with election systems like Canada, which are referred to as majoritarian/plurality systems.

Countries with PR election rules tend to not only spend more than other countries, but also tend to borrow more to finance such spending.

To form a governing coalition, the single large party must negotiate with smaller parties and often capitulate on key policy issues. Therefore, smaller parties can exert disproportionate power in government in countries with PR election systems.

This is a critical insight because it counters those who argue that PR provides everyone with an equal vote. It doesn't. It disproportionately empowers those voting for small, or even fringe parties, at the expense of the majority of voters who tend to vote for one of a few main parties.

One result of these policy capitulations is that government spending in countries with PR elections is markedly higher than in other countries. In a recent study, we examined the average level of central government spending over a 15-year period, between the years 2000 and 2014, in advanced industrialized countries. We found that countries with PR electoral systems had average central government spending of 29.2 percent of the economy (GDP) compared to 23.5 percent for countries with majoritarian/plurality election rules.

In other words, as a share of the economy, central governments in countries with PR systems were almost

one-quarter larger than those with majoritarian/plurality electoral systems.

A number of other academic studies have reached similar conclusions. For example, in their seminal book, *The Economic Effects of Constitutions*, noted economists Torsten Persson and Guido Tabellini examined the impact of electoral rules on government spending in 85 countries. Their research found that spending was lower by almost six percent of GDP in countries with majoritarian/plurality systems than in countries with PR election rules.

Interestingly, the higher government spending in countries with PR electoral systems is financed to a greater extent with deficits (borrowing) than is spending in other countries. Put differently, countries with PR election rules tend to not only spend more than other countries, but also tend to borrow more to finance such spending.

Reforming the way Canadians elect their political representatives is a serious matter and all costs and benefits must be weighed. Any analysis of potential electoral reform in Canada should note how public policies will be affected. The tendency of PR electoral systems to elect coalition governments drives up government spending and deficits—not because voters necessarily want such policies, but because the power structure of the Parliament has been realigned by changing the way politicians are elected.

At a time when spending and deficits are already on the rise across Canada, the fiscal consequences of electoral reform should not be taken lightly. [FI](#)



JASON CLEMENS



TAYLOR JACKSON

Jason Clemens is executive vice-president and Taylor Jackson is senior policy analyst at the Fraser Institute. They are coauthors of the essay, Electoral Rules and Fiscal Policy Outcomes, which will appear in the forthcoming book: *Counting Votes: Essays on Electoral Reform*.



Convention Demands a Referendum Before Federal Electoral Reform Can Proceed in Canada

Patrice Dutil



The Trudeau government wants to change the way Canadians elect their federal government, apparently without first specifically consulting Canadians via referendum. Yet with less than 40 percent of the vote last election, it has no mandate to transform the oldest practice of Canada's democracy. Any attempt to do so without consent from the electorate may be unconstitutional because it would not follow the conventional practice.

Precedents and conventions matter. The “Jennings Test” (named after Sir Ivor Jennings, an English constitutional scholar) prescribes three conditions that must be met before a practice becomes a convention: Were there precedents? Did the key actors in the precedents feel bound by a rule? Would there be a constitutional reason for the rule?

In 1981, the federal government wanted to unilaterally reform the constitution. A majority of the Supreme Court said no; based on the Jennings Test, convention

dictated that the government had to first obtain agreement from the provinces.

Over the past decade, four provincial governments have pushed for electoral reform—Prince Edward Island (2005), British Columbia (2005 and 2009), and Ontario (2007). All have put the question to the people for approval. New Brunswick planned a referendum but then the government was defeated. PEI may have another one this year. This is a solid record of precedents.

The Canadian electoral system functions on law, but also on a system of conventions... a recognition that strong public support clearly expressed in referenda is essential before any changes are made.

To answer the second Jennings question: In all cases, government leaders felt bound by convention. In PEI, then-House Speaker Gregory Deighan eloquently stated that Islanders “should have a strong voice in determining how these electoral systems work because they do have significant bearing on the final results of an election.”

In BC, then-Premier Gordon Campbell said electoral reform was a “significant change” that required approval from “a great majority” in the province.

And former Ontario premier Dalton McGuinty said that “electoral reform is so fundamental, so basic” that the government must ask the “people of Ontario for their judgment in this matter.”

In all four cases, incidentally, the people said no.

The convention of going to the people on electoral reform also exists in other parliamentary democracies such as the United Kingdom, Australia, and New Zealand. Most recently, following the 2010 general election

in the United Kingdom, the coalition government committed to holding a referendum on the question of electoral reform. Liberal Democratic Party leader Nick Clegg said “the final decision should be made not by us, but by the British people,” while Prime Minister David Cameron called the referendum, which was held in 2011 (with the reforms rejected), a “democratic step.”

As for the third Jennings question—whether there’s a constitutional reason for the rule—the answer is yes. Canada adopted a Westminster-style system of Parliament that created a balance of power between the Crown, the two Houses of Parliament, and the Courts. The electoral system was a fundamental part of that bargain, based on conventions. It follows that any change to that balance—including electoral reform—would have to be ratified by those most affected. In this case, that would be the people.

The Canadian electoral system functions on law, but also on a system of conventions—understandings based on precedents, a recognition that strong public support clearly expressed in referenda is essential before any changes are made, and an obvious understanding of how a Westminster-style parliamentary system works to deliver effective government. To change that, past governments have agreed that the question must be put to a referendum.

Why should it be different for the government led by Mr. Trudeau? **FI**



Patrice Dutil is a professor in the Department of Politics and Public Administration at Ryerson University in Toronto and author of “The Imperative of a Referendum,” an essay on electoral reform that will appear in a forthcoming Fraser Institute book, *Counting Votes: Essays on Electoral Reform*.



The Alternative Vote— Not a Great Option for Canadians or Democracy

Lydia Miljan and Taylor Jackson



Time is ticking for the Special Committee on Electoral Reform—the parliamentary group tasked with delivering a report by Dec. 1 on how to reform Canada’s electoral system.

Prime Minister Trudeau’s seeming preference is an alternative vote (AV) system—the system Canadians likely understand the least.

Under an AV electoral system, voters rank the candidates running in their riding. If a candidate receives a majority of “first preference” votes, he or she is elected to the seat in their constituency. If no candidate receives a majority of first preference picks, then the candidate with the fewest votes is dropped and those votes are redistributed based on the second or subsequent choices of voters. This process is repeated until one candidate achieves a majority.

What would happen if Canada adopted an AV voting system?

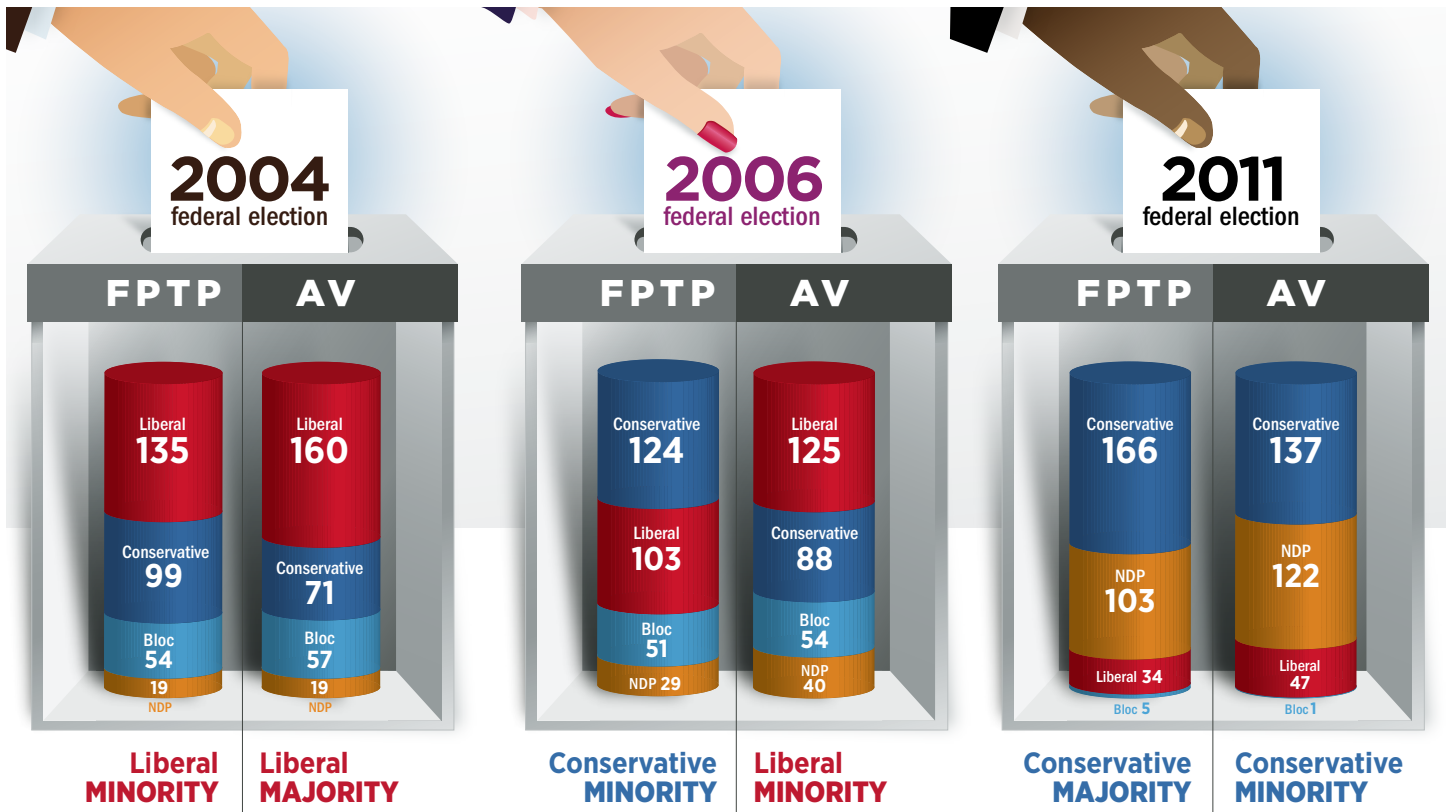
To begin, it’s unclear how switching to AV fulfills any of the guiding principles set out by the government for the electoral reform committee.

This first principle states that electoral reform should increase the legitimacy and effectiveness of the system, and reduce distorted outcomes. Rather than reduce distortions between voter intention and the final result, AV could actually amplify those distortions by manufacturing a majority where none existed previously.

The second principle aims to increase voter participation. Again, it remains unclear how switching to AV would encourage greater engagement and participation. Past research analyzing the outcomes of provincial elections conducted under AV rules found that the switch to AV didn’t produce a large change in voter turnout.

It also isn’t clear that adopting an AV electoral system would address the other three guiding principles: avoiding undue complexity in the voting process, safeguarding the integrity of the voting process, and ensuring the accountability of the local representative.

Moreover, in a recently released book, our chapter re-estimated the results of the seven previous federal elections dating back to 1997 to better understand how a move to AV could affect the outcomes of elections. The results were illuminating.



The only party to benefit in all seven elections was the Liberals, who gained an average of 19 seats. To a lesser extent the NDP increased their seat totals in the more recent elections. Only the Conservatives lost seats in every election.

More dramatically, according to our estimates, changing the voting system to AV would have resulted in different governments, and in other cases, different Official Opposition parties. For example, had AV been in place for the 2006 election, the result would have been a Liberal minority government instead of a Conservative minority.

No doubt, as others have observed, changing the electoral system will also change the strategies of parties and the calculations of voters. However, it appears the Liberals will have the easier path to power under an AV system.

This raises a number of issues, although the problem is not which parties win or lose, but rather the diminished competitiveness of Canadian elections. Based on our estimates, no party, other than the Liberals, would have achieved a majority government during the period analyzed. This indicates that elections may become less competitive under AV. Competitive elections are an essential feature of a healthy democracy, as they help fos-

ter debate about which ideas and policies governments should implement.

Although we can't be certain about the exact outcomes of switching to an AV electoral system, some things are clear about the prime minister's preferred system. It will do little to address the guiding principles of the electoral reform committee. And it could result in less competitive elections. [FI](#)



LYDIA MILJAN



TAYLOR JACKSON

Lydia Miljan is a professor of political science at the University of Windsor and a Fraser Institute senior fellow. Taylor Jackson is a senior policy analyst at the Fraser Institute. They are the co-authors of "The Consequences of the Alternative Vote" in the book *Counting Votes: Essays on Electoral Reform*.

Essay Contest

Since 2008 the Fraser Institute has been hosting a yearly student essay contest. The contest encourages students to combine their interests with public policy solutions to real world problems. We accept entries in three categories: high school, undergraduate, and graduate, from students in all disciplines worldwide. Winners enjoy cash prizes. This year, we received 340 entries.

The topic for the 2016 Student Essay Contest was: *Small Change, Big Impact: Improving Quality of Life One Policy Change at a Time*. We asked students to identify a single, specific, practical policy change that would have a big impact on the quality of life (the social and/or economic well-being) for citizens.

We are pleased to announce the 2016 Student Essay Contest Winners:

GRADUATE CATEGORY

1st Prize (\$1,500)

The Price of Cheese in Canada: How “Supply Management” Eats Up Your Grocery Bill

By Giuseppe Burtini

University of British Columbia—Okanagan,
MSc, Interdisciplinary Studies, 2016
Kelowna, BC, Canada

2nd Prize (\$1,000)

Housing Policy Reform in Toronto, Ontario, Canada: The Policy Options for a Supply Side Problem

By Kristine Ramsbottom

John Hopkins University,
MSc, Economics 2017
New York, NY, United States

3rd Prize (\$500)

Estonian Corporate Tax System in North Carolina
By Nino Kokashvili and Irakli Barbakadze

University of Tartu,
MA, Economics 2016
Tartu, Estonia

UNDERGRADUATE CATEGORY

1st Prize (\$1,500)

Innovating Education for the Future: Incentive Pay for Teachers

By Mark Ren

Ivey Business School at
Western University,
HBA B.A.H., Economics, 2019
London, ON, Canada

2nd Prize (\$1,000)

The Beer Store Monopoly and Taxes: A Hidden Relationship between Competition and Government Revenue in Ontario

By Casey Pender

Carleton University,
B.A., Philosophy, 2017
Ottawa, ON, Canada

3rd Prize (\$500)

The Harms of Sex Work Criminalization: Reconsidering the Nordic Model

By Molly Ratsin

University of Windsor,
B.A., Music, 2016
Belmont, ON, Canada

HIGH SCHOOL CATEGORY

1st Prize (\$1,500)

Repealing the Indian Act
By William Dunstan

Grade 10, St. Matthews
Catholic School
Ottawa, ON, Canada

2nd Prize (\$1,000)

Proposed Policy Change for Maintaining Wetlands on the Landscape

By Amanda Zimmerling

Grade 12, Ardrossan Junior
Senior High School
Ardrossan, AB, Canada

3rd Prize (\$500)

The Carbon Tax: Is Increased Taxation a Poison or Panacea?
By Aditya Rao

Grade 11, Phillipsburg High School
Phillipsburg, NJ, United States



We send our economics "edukits" to teachers across Canada upon request. The kits provide all the materials necessary for educators to teach students key economic concepts in a fun and informative way.

ECONOMICS EDUKITS

Various organizations have created education kits (often referred to as "edukits") for teachers to use in the classroom. These kits contain lesson plans, teachers' guides, activities, materials, props, and tools that bring the curriculum to life. Currently, the Fraser Institute is the only organization in Canada offering kits for economics.

In 2014, thanks to a generous grant from the Lotte and John Hecht Memorial Foundation, the Fraser Institute created a pilot program to offer economics education kits to teachers, particularly those in outlying areas who could not easily travel to our student seminars or

teacher workshops. Since the pilot launched, the demand for these education kits has been very strong. So far, the Institute has delivered 120 kits to teachers across Canada, and we have requests for over 200 more. We estimate that in the three-year period, the education kits have resulted in improved economics education for 3,600 students.

Teachers seeking economics resources, particularly those new to the profession, have expressed their gratitude for the kits and the quality of their contents. One teacher from Ontario recently noted, "I received the Economics Edukit and, truthfully, in all of my 34 years of teaching I have never seen such a wonderful and useful resource." **FI**

Are Living Standards in Canada Becoming More Unequal?

Christopher A. Sarlo



Much has been written in recent years about income inequality and the (apparently) growing gap between the rich and the poor. The focus on income is understandable. It's a measure that resonates with the general public. It's fairly easy to determine because everyone files an annual income tax return. For the researcher, income is attractive because it's the most accessible indicator of well-being and is available in most of Statistics Canada's surveys.

But is income the best way to measure people's actual living standards?

It's fair to say that it is not, and a growing number of academics find consumption to be a preferred indicator. The reason is simple. Some people can consume substantially more than their income by borrowing or by receiving gifts. Others consume much less than their income if they save a significant portion or if they pay down debt.

To illustrate, consider a young family that earns \$50,000 in 2016 but spends \$60,000 for themselves and their young children by borrowing and with some financial gifts from parents. Which of those two numbers is a better reflection of their actual living standard in 2016? It's easy to make the case that the \$60,000 consumption amount captures the family's economic well-being better than their income.

If consumption is a better reflection of a household's standard of living, what can we say about the degree of inequality of those living standards over time? A new Fraser Institute study, *Consumption Inequality in Canada: Is the Gap Growing?* examines the inequality of consumption in Canada from 1969 to 2009, the last year of available data. After adjusting for household size, which has changed quite dramatically over the past four decades, the study finds that consumption inequality has barely changed since 1969. Using a popular measure, inequality of consumption is up only three percent in 40 years.

After adjusting for household size, which has changed quite dramatically over the past four decades, the study finds that consumption inequality has barely changed since 1969.

This result flies in the face of studies and reports telling us that Canada is quickly becoming a more unequal and polarized society. There have been scores of media stories in the *Toronto Star*, *Globe and Mail*, CBC, CTV, etc., about the alarming rise in inequality in Canada. While these stories are based on reports of income inequality, usually from left-wing think tanks such as the CCPA, the Broadbent Institute, and the Conference Board, they create the clear impression that the gap between the rich and the poor is widening and we are becoming a much more polarized society. And with these studies, of

course, come renewed demands for the government to “fix” the problem with more redistributive actions.

Quite a number of these studies, however, continue to use pre-tax income, which serves to exaggerate the degree of inequality. But people don't get to spend pre-tax income. They can only make spending (or saving) decisions on their after-tax income. So, it's common by now for credible academic studies to use after-tax income in measuring income inequality.

Further, many of these reports also fail to adjust for household size despite the decline in the size of an average household over the years. More income is now shared among fewer people and, once we account for this, there's less inequality. Failing to adjust for something as basic as household size is a significant concern and only serves to further exaggerate the degree of inequality.

There has been much change in Canadian society since the 1960s. There has also been a massive growth of the state, which has involved itself in almost every aspect of our lives and is more actively redistributing income than ever before. Yet, almost surprisingly, there has been no substantive change in the inequality of how we actually live.

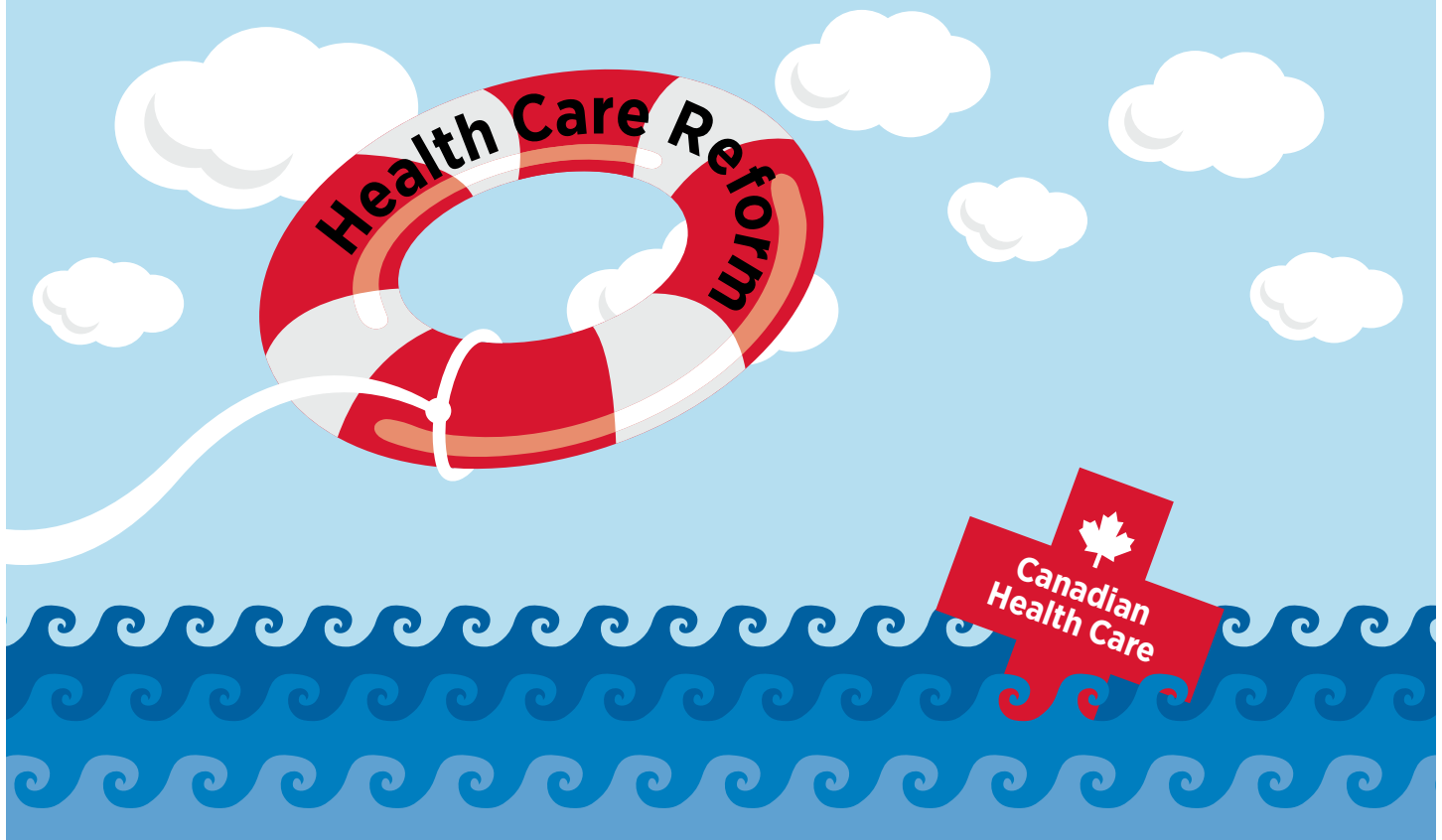
When we look at our best proxy for Canadian living standards, household consumption properly adjusted for size, we find there has been very little change in the “gap” over the past four decades. [FI](#)



Christopher A. Sarlo is a senior fellow with the Fraser Institute and associate professor of economics at Nipissing University. He is the author of *Consumption Inequality in Canada: Is the Gap Growing?*

Misinformation Fuels Opposition to Health Care Reform in Canada

Bacchus Barua and Jason Clemens



For almost two decades, fear of a US-style system has fuelled opposition to genuine reform of Canadian health care. Many of those same opposition voices are now protesting the constitutional challenge to Canada's health regulations by the former head of the Canadian Medical Association, Dr. Brian Day.

In reality, our health-care system is expensive, delivers poor-to-modest results, and fails to achieve

many of its laudable aspirations. The solution to fixing and maintaining our universal health care system is to recognize the successful approaches used in other countries with universal health care systems, including the use of for-profit companies to deliver health care services.

The Dr. Day case, which will likely end up in the Supreme Court of Canada, focuses on two aspects of British Columbia's health regulations: 1) the prohibition against doctors working in both the public and private

health care systems, and 2) the disallowance of purchasing private insurance for core medical services.

Legal arguments aside, the context of the case is worth noting. On both a per-person basis and as a share of the economy, Canada is one of the highest spenders on health care among industrialized countries that provide universal health coverage. Yet Canadians endure some of the longest wait times for medically necessary procedures. For example, as *Waiting Your Turn: Wait Times for Health Care in Canada* shows, in 2015 Canadians waited 18.3 weeks between referral by a GP and actual treatment. Canadian patients also suffer from comparatively poor access to doctors and medical technologies such as MRIs.

But if the voices of opposition at the Dr. Day trial are to be believed, there's an incompatibility between medical care delivered by private, for-profit companies and universal health care.

The reality, however, doesn't match this rhetoric. A recent Fraser Institute study, *For-Profit Hospitals and Insurers in Universal Health Care Countries*, looked at for-profit insurers and hospitals in six industrialized countries (Australia, France, Germany, the Netherlands, Sweden, and Switzerland) that all maintain universal health care.

For-profit hospitals are found in all six countries. In Germany, France, and Switzerland, for instance, universally accessible hospital care is delivered by both non-profit and for-profit hospitals. In Australia and Sweden, governments contract with for-profit hospitals for universally accessible services.

For-profit health insurers are also found in all six countries. Notably, for-profit companies compete to offer primary health care insurance in the Netherlands, offer a private substitute for public health care insurance in Germany, and offer a private option alongside the public system for patients in Australia and Sweden.

Remember, all six of these countries maintain universal health care.

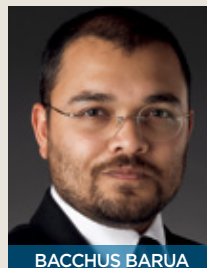
But Canadians need not look beyond our own borders to see the benefits of private, for-profit provision of health services. Saskatchewan's Surgical Initiative (SSI)

was introduced in 2010 with the express goal of reducing what were the country's longest wait times for medical treatment.

Under the SSI, select day surgeries were contracted out to private, for-profit clinics. A recent study, *Learning from the Saskatchewan Surgical Initiative to Improve Wait Times in Canada* by the former NDP finance minister of Saskatchewan, Prof. Janice MacKinnon, provided evidence that on average, private clinics delivered procedures at 26 percent lower costs than public sector equivalents. For example, in 2012, Regina Surgical Centres Inc. provided cataract surgeries at \$618 per procedure compared to \$1,273 in public hospitals in the Regina Qu'Appelle regional health authority.

The results in Saskatchewan have been stunning. The province has gone from having some of the longest wait times, on average, for medical treatment to having the shortest. The government's own wait time data indicate a decline of 75 percent in the number of patients waiting three months or longer for surgery.

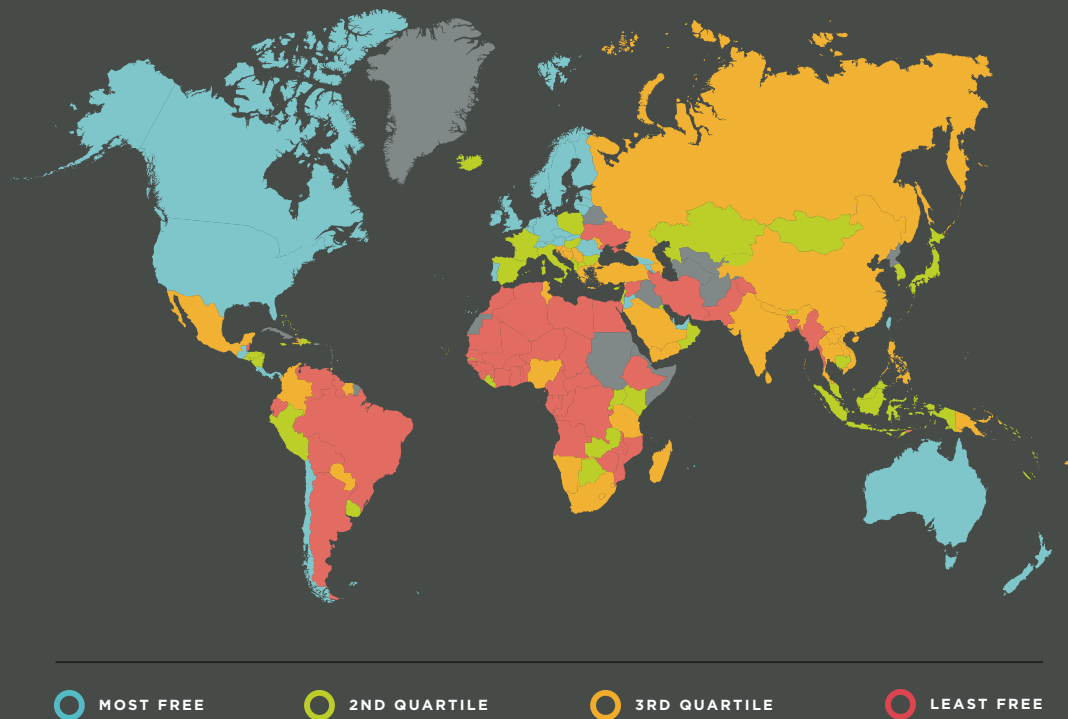
The reality is that for-profit provision of health care services is commonplace among industrialized countries with universal health care. Canada is actually the odd one out in limiting—and in some cases, actually prohibiting—such activities. Hopefully the Dr. Day case, if nothing else, will bring these important reform lessons to light for Canadians. [FI](#)



Bacchus Barua is a senior economist at the Fraser Institute and co-author of *For-Profit Hospitals and Insurers in Universal Health Care Countries*. Jason Clemens is the executive vice-president of the Fraser Institute.

Government Policies Threaten Economic Freedom in Canada

Fred McMahon and Ben Eisen



Canada ranks a remarkable fifth in the world in economic freedom, just behind Hong Kong, Singapore, New Zealand, and Switzerland, according to the Fraser Institute's recently released *Economic Freedom of the World: 2016 Annual Report*.

The “land of the maple leaf” is far ahead of our southern neighbour, supposedly the “land of the free.” In data from 2014, the most up-to-date available and recently released by the Fraser Institute, the United States ranks 16th out of the 159 countries and territories mea-

sured. Economic freedom is a core “Canadian value.” Canada has been in the top 10 since 1970, when the first measurements became possible. Canada’s success is deeply non-partisan and engrained in our character. We remained in the top 10 under Pierre Trudeau. The level of economic freedom increased under Prime Ministers Brian Mulroney and Jean Chrétien. It declined slightly under Stephen Harper, but never enough to threaten Canada’s position in the top 10.

Economic freedom is simply the ability of individuals and families to make their own economic decisions free of interference from overly ambitious government or

crony capitalists—it’s arguably the best measure of the extent to which markets shape the economy.

Hundreds of fact-based research articles have used the Fraser Institute measure to explore the effects of economic freedom. It has been found to promote growth and prosperity and other positive outcomes such as higher levels of tolerance and democracy—try to think of a prosperous economy (not based on oil wealth) or a stable democracy in a country without free markets.

Economic freedom remains a key ingredient to Canada’s long-term prosperity and success, and helped us rise quickly out of the financial crisis of 2008.

Typically countries with high levels of economic freedom either suffered relatively little from the crisis, like Canada, or have made a strong recovery, like Ireland. Countries troubled by low levels of economic freedom such as Greece, Italy, and Spain, suffered deep recessions and struggle to recover.

The mechanics of economic freedom are easy to understand. Any transaction freely entered into must benefit all parties; transactions that do not benefit all parties are rejected by the party that believes it will come up short. This has consequences throughout the economy.

Consumers who are free to choose will only be attracted by superior quality and price. Producers must constantly improve price and quality to meet customer demands. Many billions of mutually beneficial transactions occur around the world every day, powering the dynamic that spurs increased growth, productivity, and prosperity.

However, recent policy developments at the federal level, as well as in Ontario and Alberta, likely threaten Canada’s high level of economic freedom.

The federal government’s March budget projected that federal spending will be growing quickly. In fact, between 2014/15 and 2017/18, spending is projected to increase by approximately 20 percent. That’s much faster than the expected rate of economic growth. It means that more economic decisions will be made by politicians and public servants, and fewer freely made by consumers and businesses in private transactions.

Government spending has also been on the rise in Ontario for some time, with implications for economic freedom in that province. From 2003/04 to 2015/16, provin-

cial program spending grew at an average annual rate of 4.7 percent. Compare that to the average annual rate of economic growth—3.2 percent.

Economic freedom has been found to promote growth and prosperity and other positive outcomes such as higher levels of tolerance and democracy.

Economic freedom is retreating most rapidly in Alberta. In addition to spending increases implemented by successive provincial governments, Alberta has dramatically increased the tax burden on residents and businesses over the past 18 months, taking money and economic decision-making power out of the private economy. The general corporate tax rate has increased by 20 percent, and the top personal marginal income tax rate has gone up by 50 percent. These increases come on top of a suite of other tax hikes (including excise taxes) and the planned increase to the province’s carbon tax.

Over the long-term, these developments may threaten a true Canadian value—the economic freedom of Canadian citizens. **FI**



FRED McMAHON

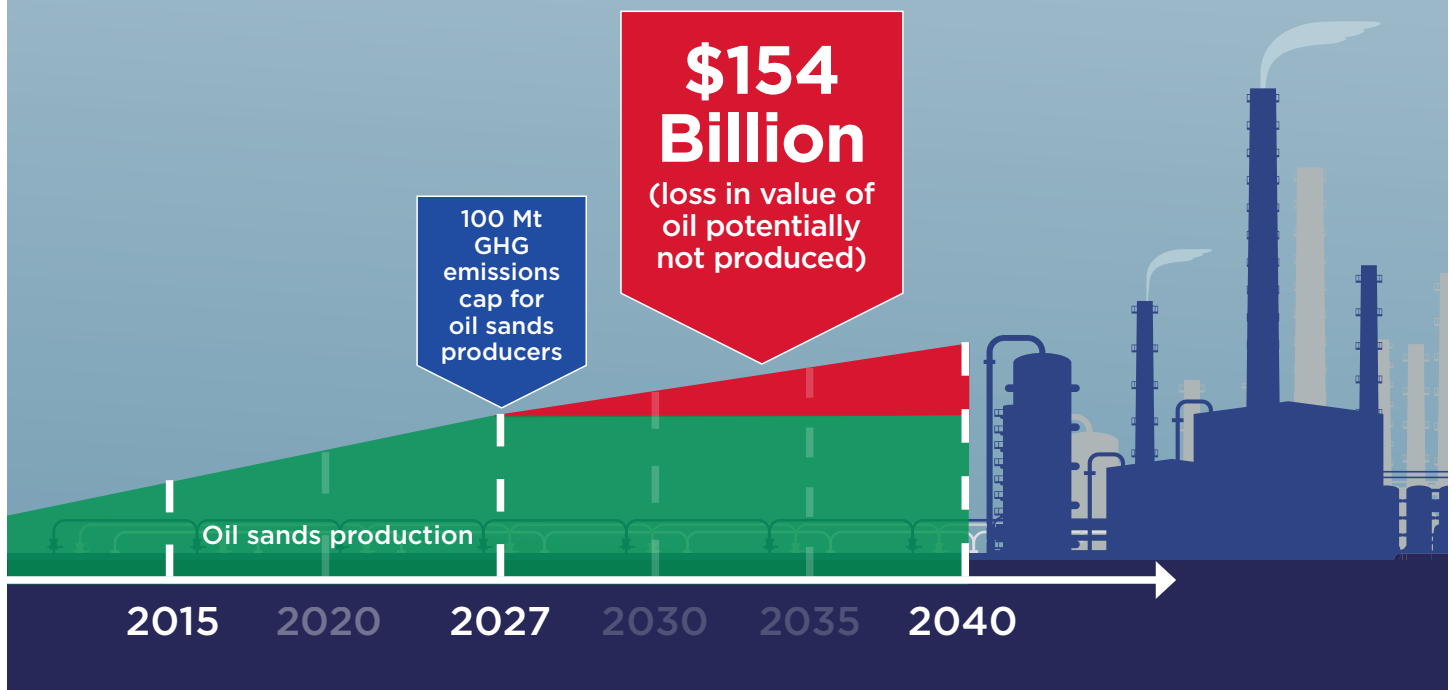


BEN EISEN

Fred McMahon is the Dr. Michael A. Walker research chair in economic freedom and Ben Eisen is director, provincial prosperity studies, at the Fraser Institute.

Alberta's Cap on Oil Sands Emissions Could Cost Billions

Kenneth P. Green and Taylor Jackson



Alberta's energy industry has been hit hard by the decline in oil prices, but the province is still home to the world's third largest oil reserves, and despite a temporary glut, oil will still largely power the world for the foreseeable future.

However, just how much oil Alberta will produce in the future remains uncertain, not just because of low prices and unstable global oil markets, but also because of policies from the Alberta government, including

the 100 megatonne (Mt) annual cap on greenhouse gas (GHG) emissions.

Before understanding the potential impacts of the cap, we need to understand how oil sands production might grow in the future. The National Energy Board (NEB) recently forecasted that oil sands production could more than double, from 2.30 million barrels per day in 2014 to 4.76 million barrels per day in 2040. This additional production could provide Albertans and Canadians with

immense economic benefits, including higher royalty revenues for governments.

But an emissions cap may jeopardize some of this potential future oil sands production.

A recent Fraser Institute study, *How Alberta's Carbon Emission Cap Will Reduce Oil Sands Growth*, estimated future emissions levels from oil sands production using the NEB's estimates of potential production to 2040.

For example, if producers reduce the emissions intensity of oil sands production by a modest amount, cumulative production losses may total two billion barrels of oil between 2027 and 2040. If producers aren't able to reduce their emissions intensity levels, the cap could have a larger effect and more oil would be left in the ground.

The amount of oil left in the ground would also come at a high cost. Based on projections of future oil prices, and accounting for things such as the cost of preparing oil for transportation, the cumulative value of lost production from 2027 to 2040 could total CA\$150 billion (in 2015 dollars).

The high cost of reducing emissions will come with very little environmental benefit. This is not surprising given that over the last few years GHG emissions from the oil sands have comprised less than 0.15 percent of global emissions.

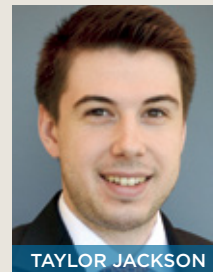
To make matters worse, this high cost will come with very little environmental benefit. This is not surprising given that over the last few years GHG emissions from the oil sands have comprised less than 0.15 percent of global emissions. Based on estimates of how much oil could be left in the ground if oil sands producers improve the emissions intensity of production, emissions

from the oil sands could be only 15 megatonnes (Mt) lower in 2040 compared to a no-cap scenario.

To put this into perspective, in 2012, global GHG emissions were estimated at just under 45,000 Mt, making the reductions from Alberta's emissions cap a drop in the bucket. And global emissions are expected to grow in the future, unless countries take unexpected dramatic actions.

The emissions reductions from the cap will also come at a high cost of more than \$1,000 per tonne of GHG reduced. By comparison, in 2018 when Alberta's revised carbon tax is fully phased in, emissions will be priced at only \$30 per tonne. In addition, the United States Environmental Protection Agency puts its highest estimate of the social cost of carbon emissions at only US\$183 in 2040. Put differently, the cost of reducing emissions with the emissions cap may be roughly five times greater than the upper estimate of the social cost of carbon and more than 30 times larger than the fully phased-in carbon tax.

Reducing greenhouse gas emissions is a reasonable policy objective. But it must be done in a cost-effective manner. The 100 Mt cap on GHG emissions could place large costs on Albertans and Canadians by potentially constraining future growth in oil sands development, while providing little environmental benefit. [FI](#)

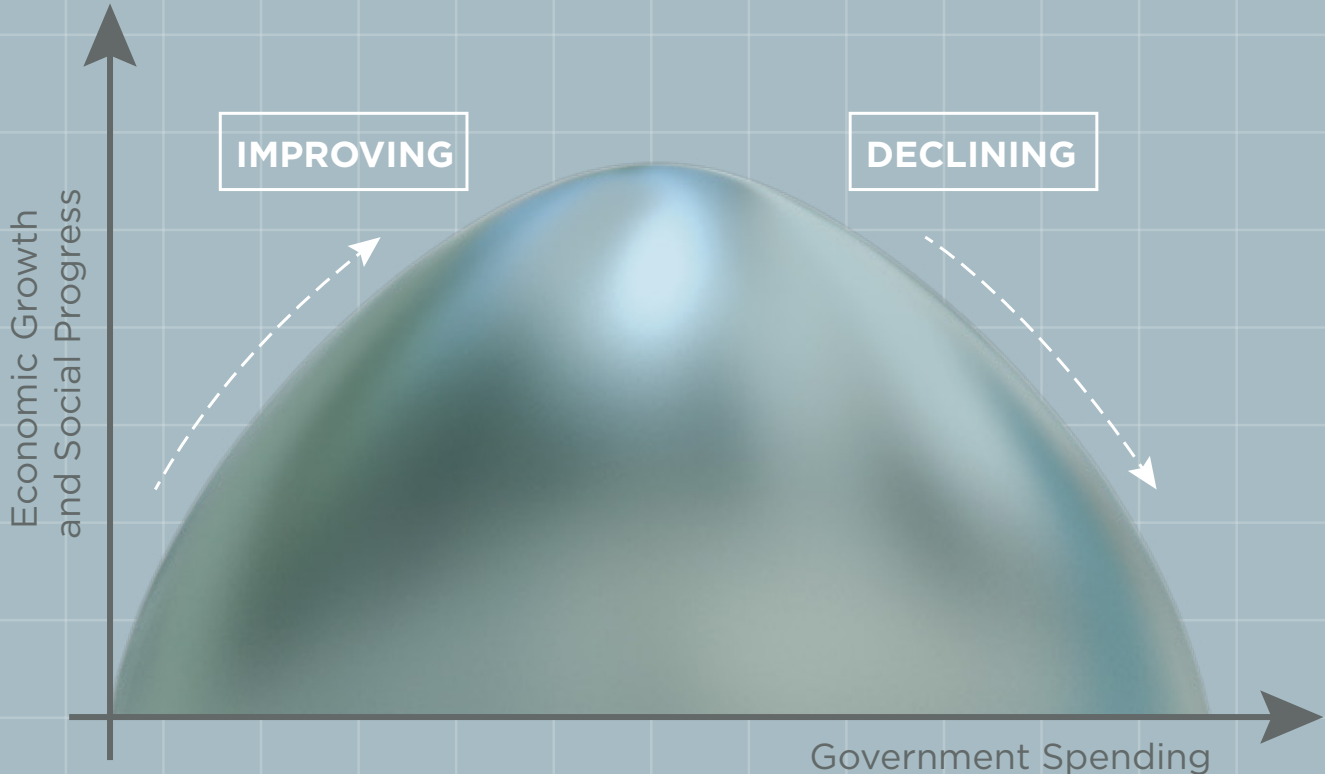


Kenneth P. Green is senior director and Taylor Jackson is a senior policy analyst in Natural Resource Studies at the Fraser Institute.

“Anti-tax” Accusation is Simply Wrong

Charles Lammam

GOVERNMENT SPENDING AND ITS EFFECT ON GROWTH AND SOCIAL PROGRESS



A recent column by the *Toronto Star* editorial board had some choice words about a Fraser Institute study, *Taxes versus the Necessities of Life: The Canadian Consumer Tax Index*, which found that the total amount of taxes paid by the average Canadian family now consumes over 42 per-

cent of income. That is more than the 38 percent spent on food, clothing, and housing combined.

Unfortunately, the *Star* labelled the Fraser Institute “anti-tax crusaders” who help drive the narrative that “any tax is a bad tax.” This could not be further from the truth.

We need taxes to fund important government services, critical both to a well-functioning economy and, more generally, civilization. But there comes a point when a larger, more interventionist government, combined with a heavier tax burden, can stunt economic growth and social outcomes (better health, improved education, lower crime, etc.), or achieve those outcomes only at great additional cost.

For instance, government spending becomes unproductive for the average Canadian when it goes to special subsidies to businesses, otherwise known as “corporate welfare.”

An informed citizenry that understands that taxes consume 42 percent of household income can hold government more accountable for the money it spends and continue a public debate about the overall tax burden—and whether we’re getting our money’s worth.

As Canadians, the questions we should ask are: what is the right size of government and mix of taxes to fund it, and are we getting the best value for what we currently pay in taxes?

Beginning with the right size of government, research shows that economic growth and social outcomes generally improve as government spending increases to between 26 percent and 30 percent of gross domestic product (GDP). Once spending surpasses 30 percent of GDP, economic growth declines.

In Canada, total government spending is now approximately 40 percent—much higher than what the empirical evidence shows to be optimal.

But it’s not just the level of taxes that matters; the mix is important, too, since some taxes (such as personal and

corporate income taxes) impose much greater economic damage than others (such as taxes on consumption).

Consider the now infamous debate about the GST rate cut back in 2006. At the time, Fraser Institute researchers argued strongly *against* cutting the GST. Indeed, despite popular support for the cut, the economic evidence clearly showed that the GST was the wrong tax to cut. A much better course, and one that would have encouraged greater economic prosperity for Canadians, would have been to cut personal and corporate taxes—a policy move, incidentally, that past federal Liberal governments have supported.

This brings us to the final question: given the current tax burden, are Canadians getting the best value for their money? This is an issue the *Star* recognizes when it rightly notes that “we ought to consider what we get in return [for taxes] before deciding whether or not it’s a bad thing.”

Ironically, that’s the entire point of our study.

But to make an informed assessment, you must have a complete understanding of all taxes you pay. Unfortunately it’s not so straightforward because the different levels of government levy such a wide range of taxes, some of which are visible, and some of which—including corporate taxes—are hidden.

Therein lies the value of our calculations. An informed citizenry that understands that taxes consume 42 percent of household income can hold government more accountable for the money it spends and continue a public debate about the overall tax burden—and whether we’re getting our money’s worth. **FI**



Charles Lammam is director of fiscal studies at the Fraser Institute. He is co-author of the study, *Taxes versus the Necessities of Life: The Canadian Consumer Tax Index*, 2016 edition.



**Rhogene
Dadashzadeh**

What's your role at the Institute?

I am the associate director of development events. Our team supports the development and stewardship efforts of the institute by creating and delivering innovative public and private experiential programs including our annual Founders' Award tribute dinners, board retreat, conferences, and special events.

How did you arrive at the Institute?

I came to the Institute from the corporate world where, as a member of the strategic initiatives team, I led a number of sponsorship, experiential, and marketing portfolios with partners such as Hockey Canada, Big White, and Whistler Blackcomb.

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

We've just completed our four annual Founders' Award tribute dinners in Vancouver, Calgary, Toronto, and Montreal. This means it's time to start planning for 2017!

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

I am a passionate volunteer, serving as the vice-chair of the MS Society of Canada's Lower Mainland Chapter board of directors and as a the event co-lead on the Big Sisters of the BC Lower Mainland Soiree Committee. I love travelling and I am an avid sports fan.



Laura Chan

What is your role at the Institute?

I am the senior coordinator of development events. I assist Rhogene with the execution of our tribute dinners and board retreat, and I lead the execution of our annual general meeting, the Dr. Harold Siebens Lecture and luncheon, regional private dinners, and public outreach events (policy briefings).

How did you arrive at the Institute?

Throughout university and afterwards I worked for a crown corporation in community investment. I was at a crossroad because I wanted to work in the not-for-profit sector; the Fraser Institute was the perfect fit for me.

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

Outside of planning the tribute dinners I am working on securing some exciting speakers for our private dinners and outreach events.

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

As a born-and-raised Vancouverite, it isn't unusual to see me in the woods hiking the trails and boasting about how beautiful it is. If it's raining (which is most of the time) you can find me at a Beyoncé dance class.

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