News and information for supporters and friends of the Fraser Institute

FRASER INSTITUTE

THE Quarterly

WINTER 2017

HIGHER TAXES For Middle and Lower Income Canadian Families

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FRASER INSTITUTE

MESSAGE FROM THE INSTITUTE'S PRESIDENT

Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

As you know, part of our role is ensuring that Canadians have accurate information about the state of government policy in Canada. When governments make claims about the impact of their policies, we do our own analysis to ensure Canadians are getting the truth.

A great recent example is our analysis of the federal government's claim that it is reducing taxes on middle-income families. Since the new federal government was elected two years ago, it has consistently been talking about how it has cut taxes on middle class Canadians. For example, in its first budget it proclaimed, "the government cut taxes for middle class Canadians everywhere."

On page 2, you will find a great summary of our recent study, *Measuring the Impact of Federal Personal Income Tax Changes on Middle Income Canadian Families*, which found the exact opposite to the rhetoric from Ottawa. In fact, 81 percent of middle-class families in Canada are paying higher income taxes!

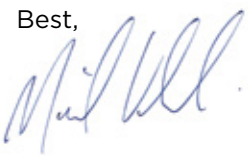
Other great example of how we educate Canadians about the impact of policy and hold governments to account is our study *Rising Electricity Costs and Declining Employment in Ontario's Manufacturing Sector*. It finds that the Ontario government's Green Energy Act has led to rising electricity prices—now the highest in Canada— which have cost the province 75,000 manufacturing jobs since 2008 (see page 12). As you can imagine, the study was widely covered across Ontario. This includes coverage in virtually every newspaper in the province, broad-based radio coverage (including six CBC radio stations across Ontario that interviewed senior fellow Ross McKitrick) and coverage on Global TV and CTV affiliates across Ontario.

Of course, governments and politicians are not the only group or people we hold accountable. I encourage you to read an important commentary by my colleagues Kenneth Green, Elmira Aliakbari, and Ashley Stedman (see page 26) in which they hold David Suzuki accountable for yet again misrepresenting Canada's environmental record.

When you are done reading about our work, I highly encourage you to pass this issue along to friends, family, and colleagues so they can learn about the impact of their government's policies. And they can get ongoing access to our work by signing up for 4 free issues of the *Quarterly*.

As always, thank you for your ongoing support.

Best,



Niels

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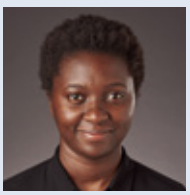

Staff Profile

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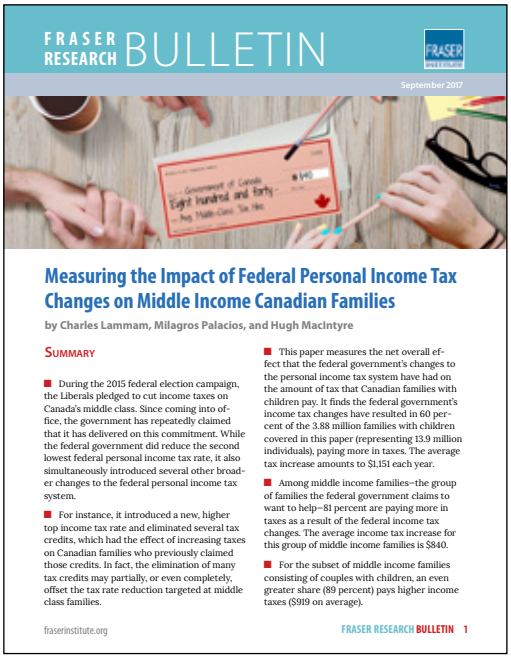
Federal Government **Has Raised Income Taxes** on 81% of Middle-Class Canadian Families

Charles Lammam and Hugh MacIntyre


FRASER RESEARCH BULLETIN

September 2017

Measuring the Impact of Federal Personal Income Tax Changes on Middle Income Canadian Families

by Charles Lammam, Milagros Palacios, and Hugh MacIntyre

SUMMARY

■ During the 2015 federal election campaign, the Liberals pledged to cut income taxes on Canada's middle class. Since coming into office, the government has repeatedly claimed that it has delivered on this commitment. While the federal government did reduce the second lowest federal personal income tax rate, it also simultaneously introduced several other broader changes to the federal personal income tax system.

■ For instance, it introduced a new, higher top income tax rate and eliminated several tax credits, which had the effect of increasing taxes on Canadian families who previously claimed those credits. In fact, the elimination of many tax credits may partially, or even completely, offset the tax rate reduction targeted at middle class families.

■ This paper measures the net overall effect that the federal government's changes to the personal income tax system have had on the amount of tax that Canadian families with children pay. It finds the federal government's income tax changes have resulted in 60 percent of the 3.88 million families with children covered in this paper (representing 13.9 million individuals), paying more in taxes. The average tax increase amounts to $1,151 each year.

■ Among middle income families—the group of families the federal government claims to want to help—81 percent are paying more in taxes as a result of the federal income tax changes. The average income tax increase for this group of middle income families is $840.

■ For the subset of middle income families consisting of couples with children, an even greater share (89 percent) pays higher income taxes ($919 on average).

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FRASER RESEARCH BULLETIN 1

On the campaign trail, Justin Trudeau promised to cut income taxes on middle-class Canadian families. Since becoming prime minister, he and his government have repeatedly claimed to have kept this promise.

For instance, the Trudeau government's first budget in 2016 proclaimed, "the government cut taxes for middle class Canadians everywhere." And recently, Prime Minister Trudeau made a similar statement to a global audience at the United Nations General Assembly.

But as is often the case, reality doesn't match political rhetoric. In fact, despite the repeated claims from Ottawa, the Trudeau government has increased the amount of personal income taxes paid by the vast majority of middle-class families.

Before getting into the details, it's important to note that cutting income taxes is a laudable goal. After all, the average Canadian family currently devotes approximately 43 percent of its income to its total tax bill to all levels of government. So many families would welcome tax relief.

What's causing the disconnect between the government's rhetoric and reality?

Immediately after coming to power, the Trudeau government reduced the second lowest personal income tax

rate from 22 to 20.5 percent. This lowered the personal income tax rate for income earned between $45,916 and $91,831 (but anyone with income above $45,916 benefitted from this specific tax change).

Eliminating the income-splitting tax credit effectively meant an average $949 tax increase on middle-class families.

However, the government also eliminated a number of tax credits—provisions in the tax code that reduce a person's income taxes if they qualify for the specific credit. For instance, one of the tax credits eliminated was for children's fitness. Previously, if a family spent money on their children's fitness in a qualifying organization, part of those costs would be offset by a reduction in their tax bill. The elimination of several tax credits means that for those who previously claimed such credits, their income taxes increased. The list of eliminated tax credits includes the children's fitness tax credit, as mentioned, as well as the education tax credit, the textbook tax credit, and the public transit tax credit.

But the largest source of the increase to the middle-class family's tax burden was the elimination of the income-splitting tax credit for couples with young children. Households with similar incomes can face very different income tax bills depending on who in the household earns the income. If a household has two earners at, say, $40,000 each, it would pay lower combined income taxes than a one-earner household with the same amount of income ($80,000). In principle, households with similar incomes should face similar tax burdens and this tax credit worked, in part, towards that goal.

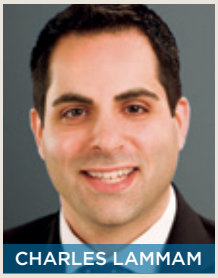
Eliminating the income-splitting tax credit effectively meant an average $949 tax increase on middle-class families—defined as families with incomes between $77,089 and $107,624. That same middle-class group only benefited $228 (on average) from the government's cut to the second lowest income tax rate. Simply put, eliminating just the income-splitting tax credit more than offset the benefit of the tax rate reduction.

When you add in the effect of eliminating the other tax credits, more than 8 in 10 (81 percent) of middle-class Canadian families will pay, on average, $840 more in personal income taxes this year because of the federal government's tax changes.

More than 81 percent of middle-class Canadian families will pay, on average, $840 more in personal income taxes this year because of the federal government's tax changes.

First on the campaign trail, and then repeatedly in office, the Trudeau government has vowed to cut income taxes for Canada's middle class, a goal with which we agree wholeheartedly.

The reality, though, is that its income tax changes, taken together, have had the opposite effect and have actually increased the amount of income taxes the vast majority of middle-class families pay. FI



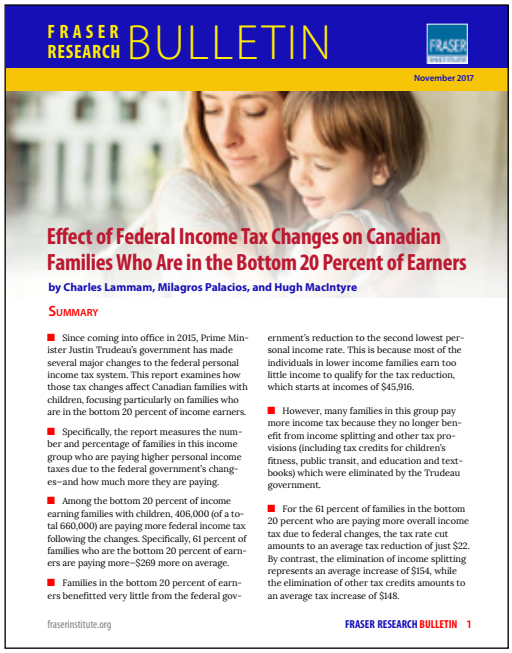
CHARLES LAMMAM

HUGH MACINTYRE

Charles Lammam is the director of fiscal studies and Hugh MacIntyre is a senior policy analyst at the Fraser Institute. They are co-authors of the study *Measuring the Impact of the Federal Personal Income Tax Changes on Middle Income Canadian Families.*

61 Percent of Households in the Bottom 20% Paying Higher Federal Income Taxes

Charles Lammam and Hugh MacIntyre


FRASER RESEARCH BULLETIN

November 2017

Effect of Federal Income Tax Changes on Canadian Families Who Are in the Bottom 20 Percent of Earners

by Charles Lammam, Milagros Palacios, and Hugh MacIntyre

SUMMARY

■ Since coming into office in 2015, Prime Minister Justin Trudeau's government has made several major changes to the federal personal income tax system. This report examines how those tax changes affect Canadian families with children, focusing particularly on families who are in the bottom 20 percent of income earners.

■ Specifically, the report measures the number and percentage of families in this income group who are paying higher personal income taxes due to the federal government's changes–and how much more they are paying.

■ Among the bottom 20 percent of income earning families with children, 406,000 (of a total 660,000) are paying more federal income tax following the changes. Specifically, 61 percent of families who are the bottom 20 percent of earners are paying more–$269 more on average.

■ Families in the bottom 20 percent of earners benefitted very little from the federal government's reduction to the second lowest personal income rate. This is because most of the individuals in lower income families earn too little income to qualify for the tax reduction, which starts at incomes of $45,916.

■ However, many families in this group pay more income tax because they no longer benefit from income splitting and other tax provisions (including tax credits for children's fitness, public transit, and education and textbooks) which were eliminated by the Trudeau government.

■ For the 61 percent of families in the bottom 20 percent who are paying more overall income tax due to federal changes, the tax rate cut amounts to an average tax reduction of just $22. By contrast, the elimination of income splitting represents an average increase of $154, while the elimination of other tax credits amounts to an average tax increase of $148.

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FRASER RESEARCH BULLETIN 1

Since being elected, the Trudeau government has repeated over and over again that it wants to help families "who are working hard to join the middle class." Which raises an important question: has the government actually lived up to this rhetoric on personal income taxes, a key policy area where it has been particularly active?

Over the last two years the Trudeau government has made a number of changes to federal personal income taxes including changing tax rates and eliminating several tax credits. And what been the overall effect of those tax changes? Higher income taxes for many families who can least afford to pay.

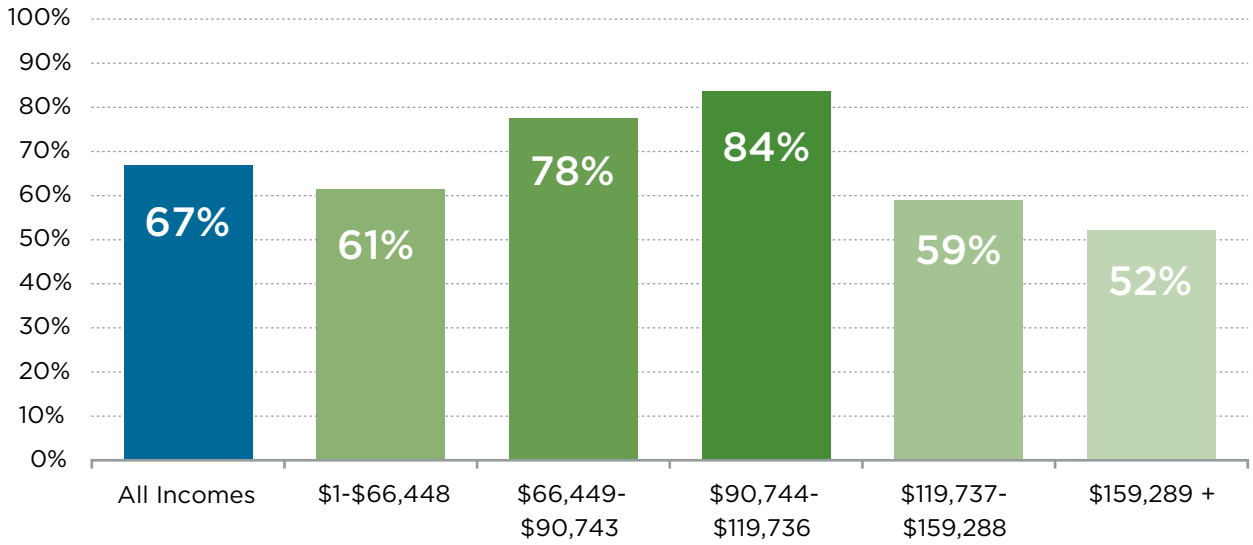
Consider taxpaying families with children in the bottom 20 per cent of income earners (defined as a family income below $66,448).

These families benefited little from the Trudeau government's signature tax policy that reduced the second lowest federal tax rate from 22 to 20.5 per cent. Why? Because this rate reduction only applies to individual incomes between $45,916 and $91,831, so few families in the bottom 20 per cent received a meaningful tax cut. In fact, in many cases, these families do not have members with income high enough to benefit from the tax rate cut at all.

However, many of these same families now pay higher income taxes because the Trudeau government eliminated a series of tax credits that previously allowed them to reduce their tax burden. This includes tax credits for income splitting for couples with children, children's fitness, public transit, education and textbooks.

Once all the major tax changes are accounted for, 61 per cent (or nearly two-thirds) of the bottom 20 per cent of

PERCENTAGE OF FAMILIES WITH CHILDREN PAYING HIGHER PERSONAL INCOME TAXES



taxpaying families with children now pay higher income taxes—$269 more, on average.

Encouraging hard-working Canadians to join the middle class is a vitally important policy goal. Unfortunately, the Trudeau government's tax policies run contrary to this aim.

The government will, of course, respond by saying it has delivered on its rhetoric of helping families working hard to join the middle class, citing increased transfers through the Canada Child Benefit (CCB). Indeed, the prime minister recently implied that increasing government transfers is equivalent to cutting taxes.

But in reality, there's a critical difference. A tax cut rewards families who work hard by allowing them to keep more of their money. In contrast, increased transfers make families more reliant on government.

Perversely, if families in the bottom 20 per cent earn more income, they will lose part of their CCB transfer because its value declines as family income rises. In other words, not only has the federal government increased taxes on the bottom 20 per cent of families with children, but it has also created circumstances where families who succeed and begin to progress get penalized through reduced CCB benefits. (The specific amount by which the transfer is reduced depends on a family's income and number of children.)

Simply put, raising taxes and increasing transfers will not encourage Canadian families in the bottom 20 per cent to join the middle class by working hard. Instead, history shows that it will lead to greater dependency on government. FI


CHARLES LAMMAM

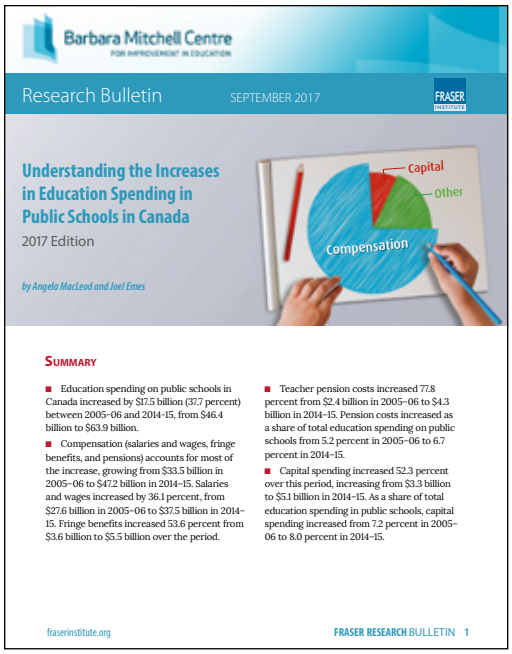

HUGH MACINTYRE

Charles Lammam and Hugh MacIntyre are co-authors of the Fraser Institute study *Effect of Federal Income Tax Changes on Canadian Families Who Are in the Bottom 20 Percent of Earners.*

Per-Student Spending Up in All Provinces, Despite Claims to the Contrary

Angela MacLeod and Joel Emes

Barbara Mitchell Centre
FOR IMPROVEMENT IN EDUCATION



Back-to-school is an expensive time of year for many families. Whether it is new shoes, school supplies, a bus pass, or a new computer, families often begin to take a closer look at their budgets to account for the extra spending. It is also a good time to take a closer look how much is being spent on public schools across the country.

Education is an area of provincial jurisdiction, and it is up to each province to determine how much they will spend on their public schools. There seems to be a general perception that education spending has been cut and public schools are forced to figure out how to do more with less.

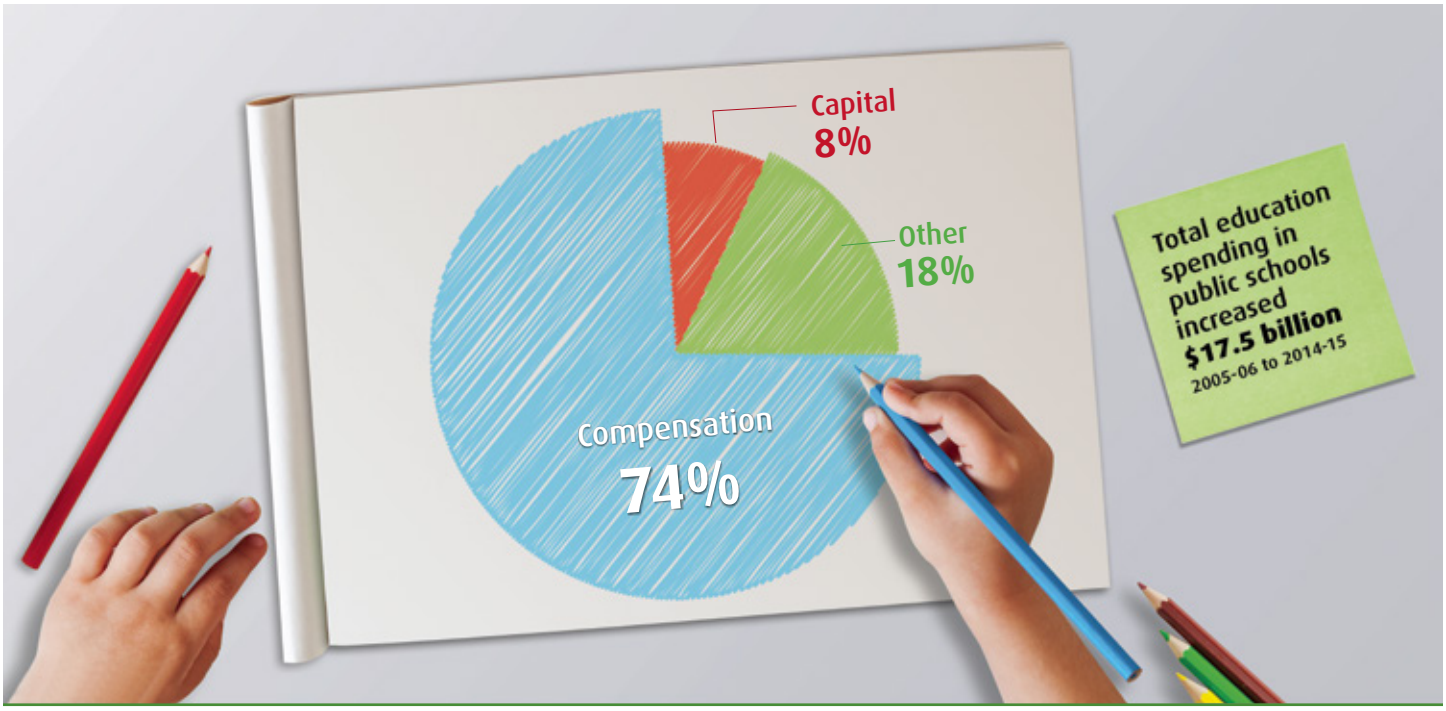
But how true is this impression? A recent Fraser Institute study, *Understanding the Increases in Education Spending in Public Schools in Canada 2017 Edition*, looks at the levels of education spending by province, and how it has changed over time. It may be surprising to some that spending on public schools has increased, in every province, over the last decade.

In Canada as a whole, spending on public schools increased from $46.4 billion in 2005/06 to $63.9 billion in 2014/15 (the last year for which data is available), an increase of 37.7 percent. At the provincial level, British Columbia had the smallest increase (12.6 percent), while Saskatchewan had the largest (65.0 percent).

But an examination of nominal spending increases only tells part of the story. If total spending was to remain completely flat while enrolment was shrinking, this would actually constitute an increase in per-student spending. So we must look at enrolment changes as well.

And the trend, in nearly every Canadian province, has indeed been towards lower enrolment. In Canada as

BREAKDOWN OF EDUCATION SPENDING IN PUBLIC SCHOOLS 2014/15

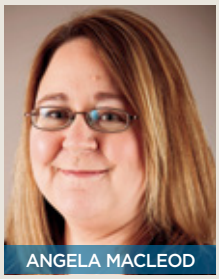


a whole, the number of K-12 students attending public schools saw a decline of 3.0 percent between 2005/06 and 2014/15. Only two provinces saw public school enrolment increase—Saskatchewan, with a small increase of 0.3 percent, and Alberta, with a much more substantial increase of 14.1 percent. The number of public school students in all other provinces decreased—ranging from a decline of 1.4 percent in Manitoba to a 16.1 percent drop in Nova Scotia.

Similarly, we must also account for the fact that price levels (inflation) also change over time. In order to get the most accurate picture of spending on education, spending is adjusted for both price changes and enrolment changes. For Canada overall, average per-student spending went from $10,339 in 2005/06 (using 2015 dollars) to $12,646 in 2014/15, an increase of 22.3 percent. Every province increased per-student spending, ranging from a 14.0 percent increase in British Columbia to a whopping 41.8 percent increase in Prince Edward Island (again, adjusting for inflation).

In short, even after adjusting for inflation, all provinces are spending substantially more money per student today in our schools than was the case a decade ago. This flies in the face of the narrative that education funding has been slashed or that our schools are starved for resources.

Just as back-to-school can take up a large portion of a family's budget, so too spending on public schools takes up a large portion of provincial budgets. When considering what is spent on public schools it is important to measure what is actually being spent, and not simply go along with perceptions. FI


ANGELA MACLEOD


JOEL EMES

Angela MacLeod is a senior policy analyst and Joel Emes is a senior fellow at the Fraser Institute. They are co-authors of the studies *Education Spending and Public Student Enrolment in Canada 2017 Edition* and *Understanding the Increases in Education Spending in Public Schools in Canada 2017 Edition.*

Canada No Longer Among Top Ten Most Economically Free Countries

Fred McMahon

In a global ranking of 159 countries and territories, Canada has fallen from the top 10 countries in economic freedom for the first time ever—and things are getting worse.

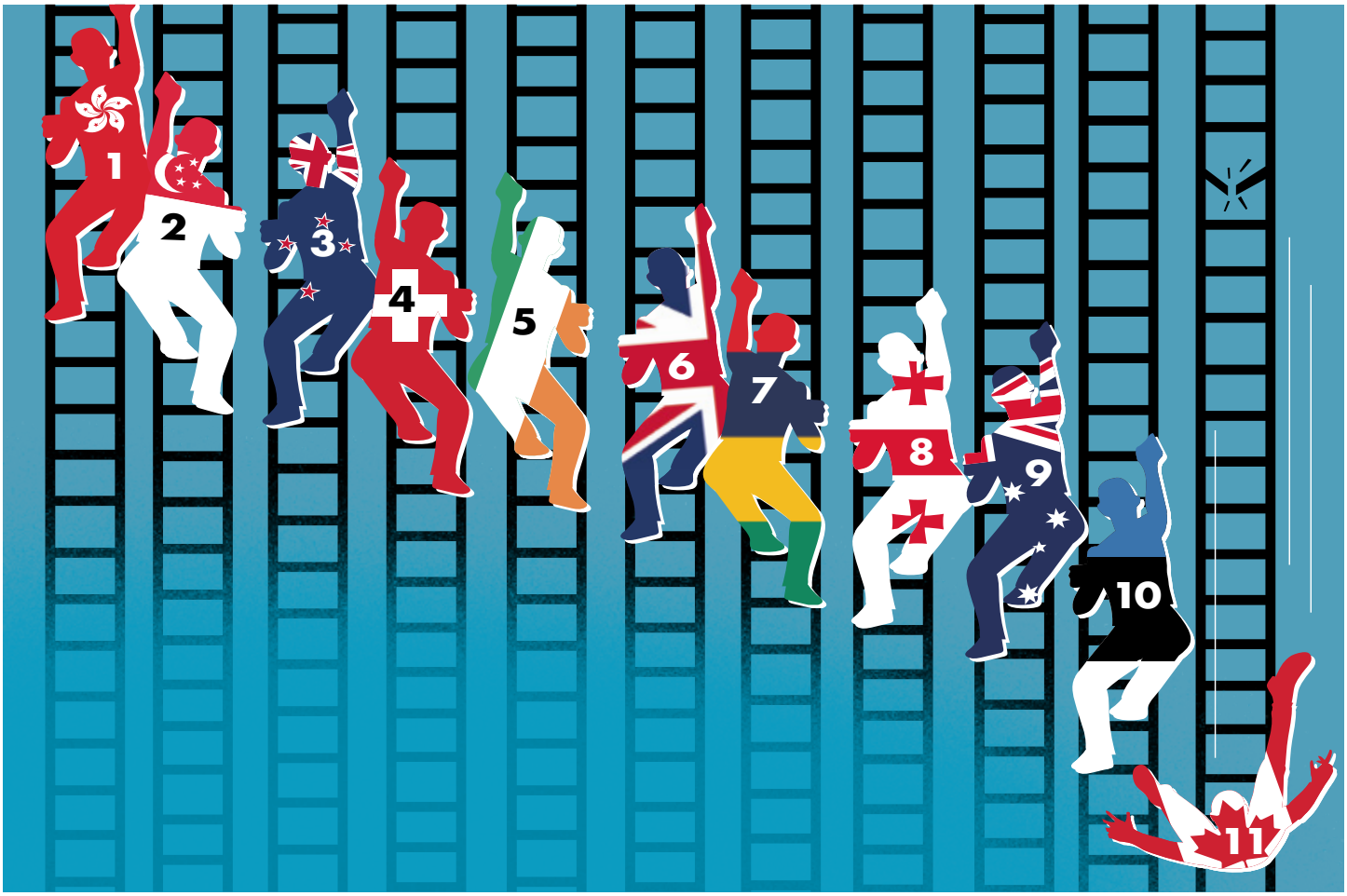
Economic freedom is the ability of individuals and families to make their own economic decisions free of government interference—what to buy, whether to start a business, where to work, whom to hire, and so on. Research from around the world has demonstrated that more economic freedom spurs economic growth and prosperity, along with a number of other positive outcomes such as women's progress, democracy and peace.

Some quick history. Pierre Trudeau became prime minister in 1968. And the first measurement of economic freedom took place in 1970—Canada was third in the world (with a score of 8.0 out of 10 on the economic freedom index). During the Trudeau years, economic freedom in Canada declined, then rose in the 1980s and was above 8.0 most years from 1990 onward, particularly after the "Chrétien Consensus"—the effort by Ottawa and several provinces to get spending, deficits, and debt under control and introduce more competitive economic policies.

Subsequently, Canada surpassed the United States in economic freedom in 2009 and remained ahead until now when, according to the Fraser Institute's *Economic Freedom of the World: 2017 Annual Report*, we're tied with the United States at 11th (with a score of 7.9 out of 10).

Crucially, the latest rankings are based on 2015 data (the earliest available global data), collected before the Canadian policy landscape changed dramatically. We now see deficit spending by Prime Minister Justin Trudeau's government—in fact, federal spending has grown from just over $5,500 per Canadian (in 2017 dollars) in the mid-1990s to more than $8,300 in the 2017 budget. Federal debt has reached 53 percent of GDP and is growing (up from 39 percent in 2007). And higher federal taxes include a "carbon floor" that essentially forces provinces to enact costly carbon-pricing schemes.

CANADA FALLS FROM 5TH TO 11TH IN ECONOMIC FREEDOM

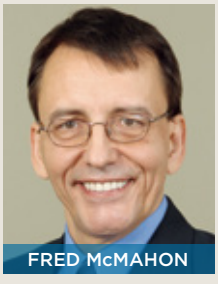


Among the provinces, Ontario is deeply in debt. Alberta has increased taxes and is running budget deficits. British Columbia is raising taxes. The top marginal personal income tax rate is now above 50 percent in half the provinces. And unless governments across Canada control spending, more and more tax dollars will pay for government debt interest, which raises the spectre of more tax hikes.

The increased taxes and spending across Canada since 2015 have reduced the space for free exchange and thus reduced economic freedom. In future years, Canada's level of economic freedom will likely fall further.

Given the link between economic freedom and prosperity that has been clearly established by economic research, a drop in economic freedom will have negative long-term effects on the living standards and economic opportunities for Canadians and their families.

Canada sat near the top of global economic freedom rankings for years. But according to the latest data on economic freedom, Canada has fallen from the top 10 for the first time in our history. Again, developments in Ottawa and across the country since 2015 suggest even deeper declines in the years ahead, which will reduce the freedom and prosperity of Canadians and damage our economy. FI


FRED McMAHON

Fred McMahon is a Fraser Institute resident fellow and holder of the Dr. Michael A. Walker Research Chair in Economic Freedom.

Canada's Aging Population Will Strain Government Coffers

Taylor Jackson and Jason Clemens

The mid-October fall fiscal update signaled the federal government's continued preference for running budget deficits, regardless of the state of the economy. The story is similar across Canada's provinces where eight of 10 are currently running budget deficits in 2016/17.

The lack of fiscal prudence from coast to coast raises serious concerns about the ability of Canadian governments to deal with future fiscal head winds, including pressures on government finances from Canada's aging population.

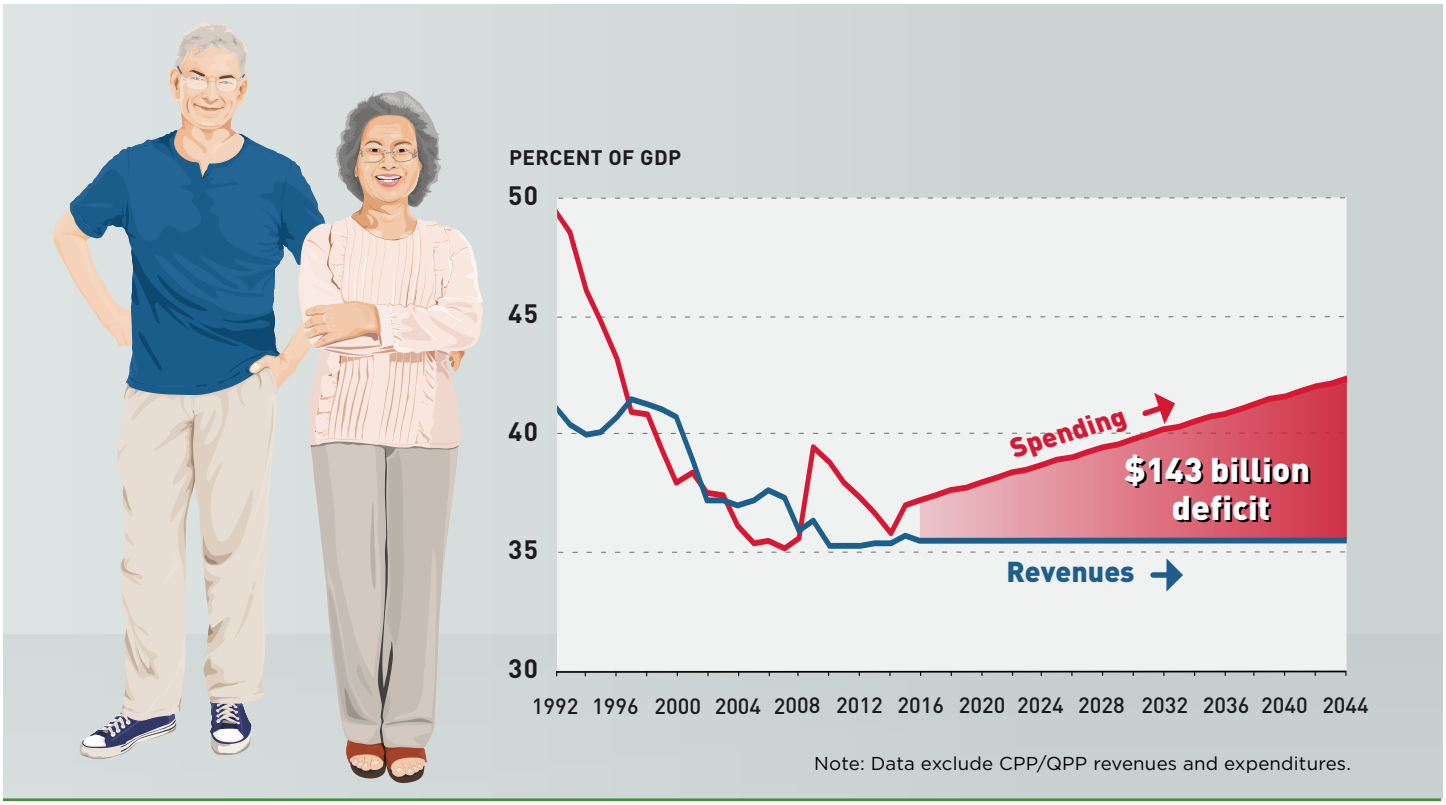
According to Statistics Canada, from 2010 to 2063, the share of Canada's population who are seniors will increase from a little under 15 percent to more than 25 percent. This means the share of Canadians working compared to those in retirement will decrease significantly.

Canada's aging population will affect government finances in two major ways. First, most economists expect slower rates of economic growth and thus slower growth in government revenue. This isn't surprising given the expectation for a larger share of the population to be of retirement age. Simply put, fewer people working will reduce rates of economic growth.

Second, marked pressure will be placed on programs sensitive to demographics such as health care and income support programs for seniors, including Old Age Security (OAS). In fact, the cost of income transfer programs for seniors is expected to increase by 47 percent by 2045. Again, this shouldn't surprise anyone as more seniors (as a share of the population) means more benefits supplied by government.

Health care spending will similarly face stress as seniors comprise a larger share of the population. At the individual level, health care spending is heavily skewed towards a person's first year of life (birth and related) and their retirement years (post-65). For example, in 2014, average per-person health care spending for Canadians age 65 and over was almost four-and-a-half times

GOVERNMENT DEFICITS AND DEBT INCREASE AS CANADA'S POPULATION AGES

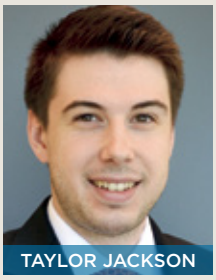


greater than for Canadians aged 15 to 64. Subsequently, health care costs are expected to increase by 57 percent by 2045, again, in part due to our aging population.

To put these spending increases into perspective, when they are combined, the higher projected government spending related to health care and income support programs for seniors (OAS, etc.) would be equivalent to spending an additional $107 billion on these same programs over and above what governments in Canada spent in 2016.

In response to this dramatic demographic shift and the resulting higher spending and slower revenue growth, governments across Canada will face stark choices. They will have to reform spending programs, enact policies to improve economic growth, run deficits and accumulate debt, and/or raise tax rates. If governments—including the federal government—continue to choose deficits and debt, Canada's net debt-to-GDP ratio (a metric economists use to measure the sustainability of government debt by comparing it to the size of the economy) could increase to between 167 to 252 percent by 2045.

But there's good news. This dire fiscal situation is not inevitable. Proactive steps can and should be taken to reform government program spending and encourage stronger economic growth across the country. Such steps would mitigate the adverse effects of Canada's aging population. FI

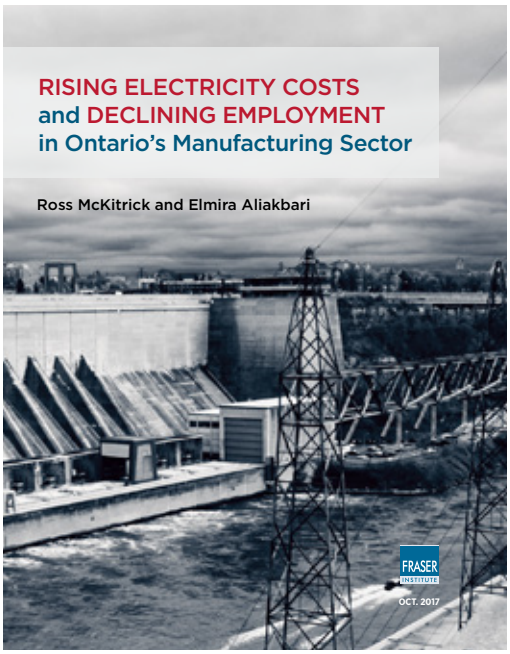

TAYLOR JACKSON


JASON CLEMENS

Taylor Jackson is a contract researcher and former senior policy analyst, and Jason Clemens is executive vice-president of the Fraser Institute. They are co-authors of the study *Canada's Aging Population and Implications for Government Borrowing.*

Rising Electricity Costs Wipe Out 75,000 Manufacturing Jobs in Ontario

Ross McKitrick and Elmira Aliakbari



In the 1990s and into the 2000s, Ontario was a low-electricity-cost jurisdiction. This was a competitive advantage for the province, helping attract business and foster economic growth. Of course, in recent years, due largely to the Green Energy Act and its inefficiencies, Ontario electricity prices have soared, hurting industrial competitiveness, especially in the manufacturing sector where electricity is a major cost.

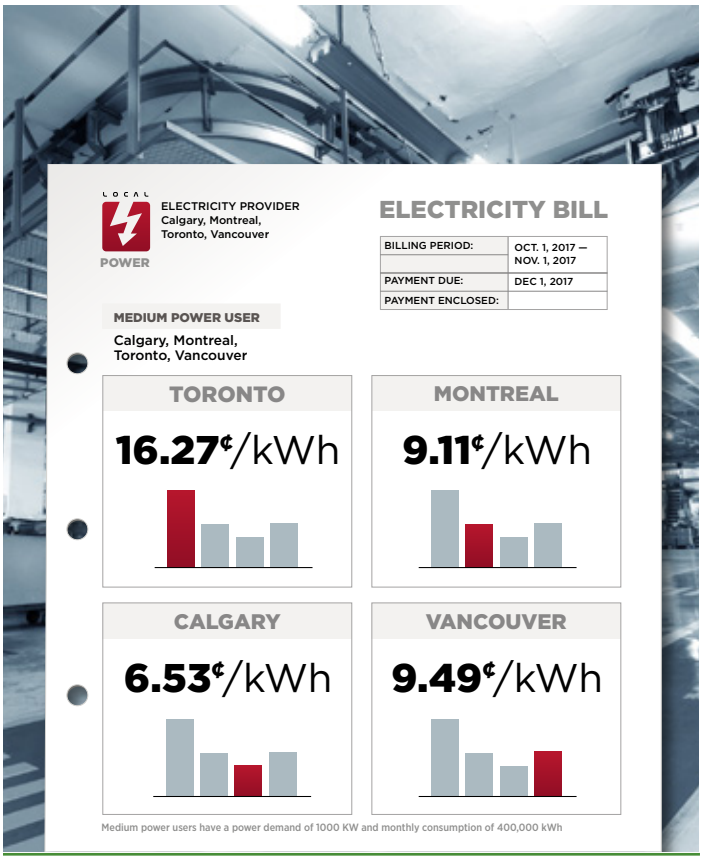
The results have been devastating. Between 2005 and 2015, Ontario's manufacturing output fell by 18 percent and manufacturing employment fell by 28 percent. More specifically, from 2008 to 2015, Ontario's manufacturing job levels fell from 805,170 to 688,735. Crucially, in our recent study published by the Fraser Institute, *Rising Electricity Costs and Declining Employment in Ontario's Manufacturing Sector*, we estimate that the province's high electricity prices are responsible for roughly 64 percent of the losses—that's a staggering 75,000 manufacturing jobs.

Government officials are quick to tout job-creation in renewable energy (wind, solar, etc.). But even when those job-creation estimates are taken at face value, we estimate that Ontario may have lost at least 1.8 permanent manufacturing jobs for every new job created under the province's green energy initiatives since 2008. And this is a conservative estimate since many of the green energy jobs were temporary.

So how did we get here? Why has manufacturing fled the province in recent years? Ontario's manufacturing sector accounts for almost 40 percent of Canada's exports, so its decline is a matter of national concern.

Ontario now has the highest electricity costs among all Canadian provinces and some of the highest costs in North America. In 2016, large industrial consumers (with a power demand of five megawatts and monthly consumption of 3,060 megawatt hours) in Toronto and Ottawa paid almost three times more than consumers in Montreal and Calgary and almost twice as much as con-

MANUFACTURERS IN TORONTO PAY ALMOST 2X MORE THAN OTHER MEDIUM POWER USERS IN CANADA



sumers in Vancouver. Even some select large industrial consumers (Class A) in Ontario, which were granted rate reductions, still paid higher rates compared to large electricity users in Quebec, Alberta, and British Columbia.

Ontario electricity costs are also among the fastest-growing. Between 2010 and 2016, electricity costs for small industrial consumers (with a power demand of one megawatt and monthly consumption of 400 megawatt hours) increased by 50 percent in Ottawa and 48 percent in Toronto compared to 15 percent (on average) in the rest of Canada. Increases for large Ontario industrial consumers were also far above those in other provinces.

Notably, the paper manufacturing and iron and steel sectors—the two most electricity-intensive sectors in Ontario prior to the big price increases—shrank the most (32 percent for paper, 25 percent for iron and steel). Moreover, while manufacturing in all provinces fell during the 2008 recession, only Ontario failed to recover to pre-recession levels.

In fact, compared to multiple American and Canadian jurisdictions, Ontario has seen the most substantial decline in manufacturing over the past decade. Between 2005 and 2016, while some nearby US states such as Michigan boosted their manufacturing sector's share of GDP, Ontario's declined by five percentage points. Similarly, between 2005 and 2015, the manufacturing share of employment in Ontario fell by six percentage points compared to only 1.7 points in the United States.

The relative success of other competing jurisdictions proves that global factors such as world demand, exchange rates, and technological change cannot explain Ontario's poor manufacturing performance. Clearly, Ontario electricity prices, which have likely placed too large a financial burden on Ontario's manufacturing sector, are to blame.

Finally, it's worth emphasizing that rising electricity costs are a made-in-Ontario problem directly tied to provincial government policies, which include the aggressive promotion of renewable energy sources, poorly structured long-term contracts, and the phasing-out of coal. The dramatic job losses in Ontario's manufacturing sector and the overall stagnant employment and economic growth rates in the province should concern policymakers across Canada. We urge the Ontario government to pursue meaningful reforms aimed at significantly lowering electricity costs in the province. FI

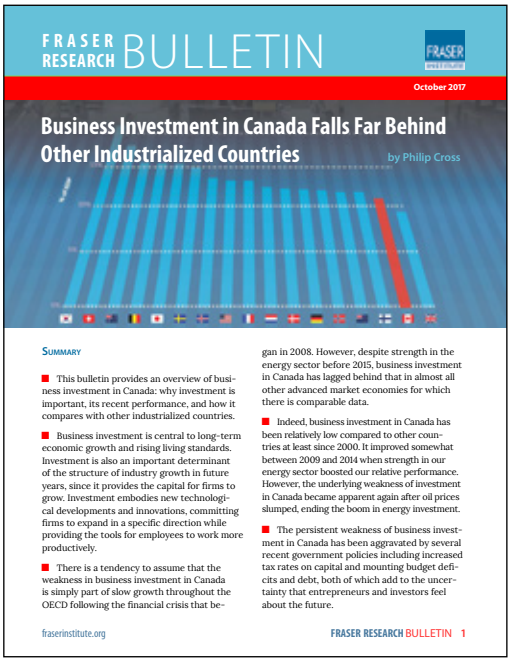

ROSS McKITRICK


ELMIRA ALIAKBARI

Ross McKitrick is a professor of economics at the University of Guelph and a Fraser Institute senior fellow and Elmira Aliakbari is a senior economist at the Fraser Institute. They are the authors of *Rising Electricity Costs and Declining Employment in Ontario's Manufacturing Sector.*

Governments Across Canada Hurting Business Investment

Philip Cross


FRASER RESEARCH BULLETIN

October 2017

Business Investment in Canada Falls Far Behind Other Industrialized Countries

by Philip Cross

SUMMARY

■ This bulletin provides an overview of business investment in Canada: why investment is important, its recent performance, and how it compares with other industrialized countries.

■ Business investment is central to long-term economic growth and rising living standards. Investment is also an important determinant of the structure of industry growth in future years, since it provides the capital for firms to grow. Investment embodies new technological developments and innovations, committing firms to expand in a specific direction while providing the tools for employees to work more productively.

■ There is a tendency to assume that the weakness in business investment in Canada is simply part of slow growth throughout the OECD following the financial crisis that began in 2008. However, despite strength in the energy sector before 2015, business investment in Canada has lagged behind that in almost all other advanced market economies for which there is comparable data.

■ Indeed, business investment in Canada has been relatively low compared to other countries at least since 2000. It improved somewhat between 2009 and 2014 when strength in our energy sector boosted our relative performance. However, the underlying weakness of investment in Canada became apparent again after oil prices slumped, ending the boom in energy investment.

■ The persistent weakness of business investment in Canada has been aggravated by several recent government policies including increased tax rates on capital and mounting budget deficits and debt, both of which add to the uncertainty that entrepreneurs and investors feel about the future.

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FRASER RESEARCH BULLETIN 1

The importance of business investment to economic growth is widely acknowledged. Investment boosts productive capacity and embodies new technologies that raise productivity and living standards over the long term. In the short term, business investment plays an out-sized role in fluctuations in economic growth. Persistently weak investment is a major reason why Canada's growth has lagged in recent years.

However, despite the lip service paid to its importance, Canada seems complacent or uninformed about business investment.

Perhaps Canadians assume that investment has faltered in all the major industrialized countries and that our energy megaprojects would sustain capital spending. However, even before the energy sector collapsed in 2015, Canada had one of the lowest levels of investment in the major industrial nations.

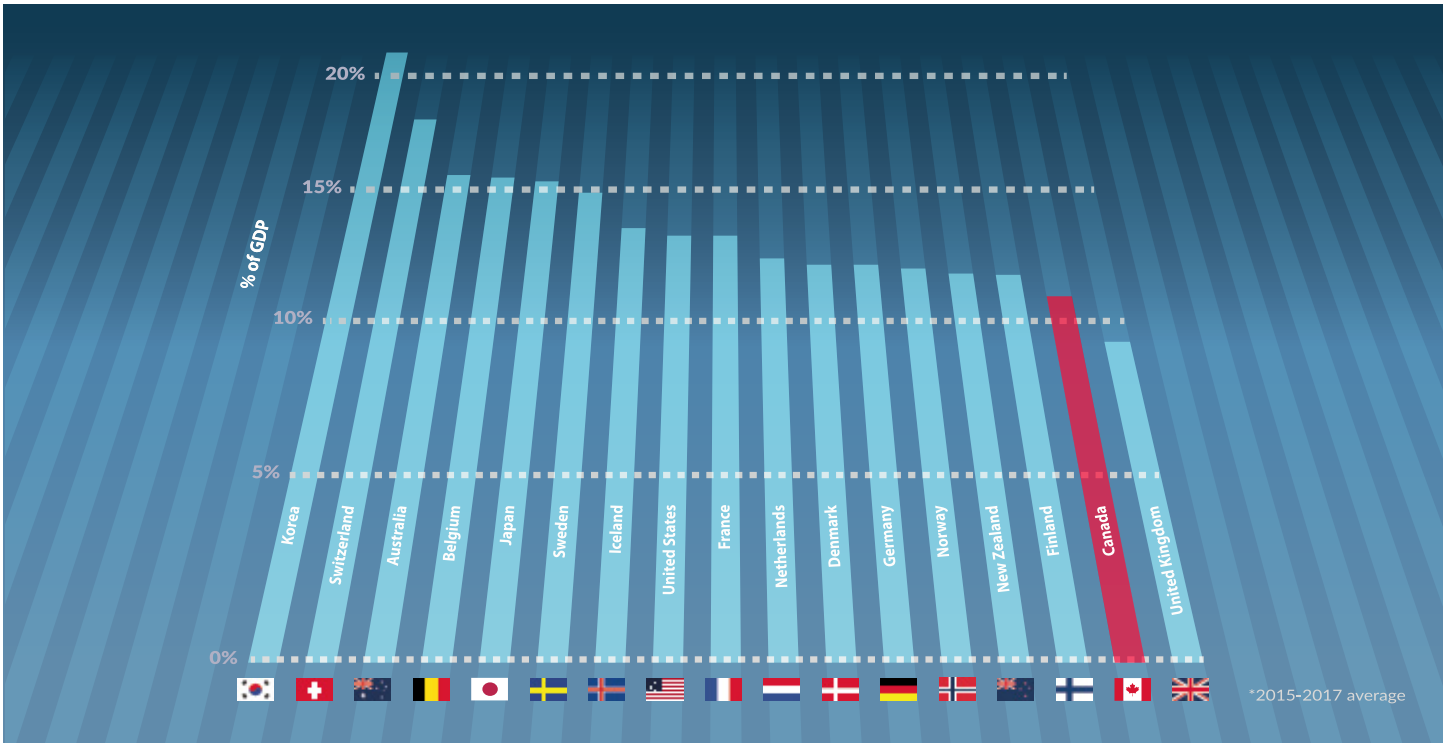
As a share of GDP, business investment in Canada stands around 11 percent, second last among the 17 OECD countries for which there are comparable data. This is almost half as much as investment as in South Korea, and less than the 12 to 15 percent prevailing in most major European countries and the United States.

The amount of capital investment each employee in Canada has to work with is less than US$10,000, the third lowest in the major industrial countries, ahead of only New Zealand and the United Kingdom. Americans, by comparison, have 60 percent more capital to work with.

Nor is this a new development. Even with the boom in energy investment over the past decade, investment in Canada has been low by international standards, especially in manufacturing and services where spending on machinery and equipment has been particularly weak (trailing even Greece). In turn, low demand for machinery and equipment inhibits the growth of our own technology sector, a major supplier of machinery and equipment.

The reasons for Canada's low investment are complex. But governments (federal and provincial) have not helped in recent years as they have failed to encourage a positive business climate. Several factors should encourage more investment, such as low interest rates, high capacity use in manufacturing, and an aging labour

CANADA'S BUSINESS INVESTMENT RANKS SECOND LOWEST, INHIBITING ECONOMIC GROWTH



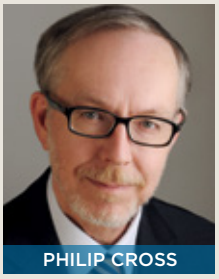
force. Nevertheless, investment lags across Canada. Governments have raised the effective tax rate on new investment since 2012, after reductions at the turn of the century. Large budget deficits and increasing debt promise more tax increases in the future. The weakness in manufacturing investment has been especially pronounced in Ontario, which has adopted several policies that increase the cost of doing business.

It's a national disgrace that Canada provides less capital investment to its employees (on average) than almost every other OECD country. Every federal-provincial conference and government and summits of business leaders should focus on this problem with the sense of urgency it deserves. Instead, our governments seem to do everything possible to discourage investment—hiking marginal tax rates, raising EI premiums next year, increasing CPP contributions, boosting minimum wages markedly (Ontario and Alberta—British Columbia is likely to follow), introducing a new carbon tax and costly new labour regulations, and raising corporate income taxes (in BC and Alberta).

Meanwhile, the Trudeau government is considering tax reforms that further alienate the business community and tax small business savings. Even our once buoyant energy sector has fallen out of favour; the Energy East pipeline has been cancelled by TransCanada after innumerable delays and changes to the review procedure; foreign oil companies en masse have fled the oilsands; large investments in BC's LNG sector have languished after years of waiting for approval.

It's no wonder business confidence among small and large businesses is plummeting. The Business Council of Canada found that 64 percent of the CEOs of large firms say the investment climate in Canada has worsened over the last five years, specifically the growing tax and regulatory burden. Meanwhile, the Canadian Federation of Independent Businesses reports confidence among small businesses fell for the fourth consecutive month, with the fastest rate of decline since the 2008-2009 recession.

Simply put, any chance of an incipient recovery of business investment seems to have been smothered by recent government initiatives. By depressing investment, we dampen productivity growth, inhibit wage increases and reduce our competitiveness in global markets. FI


PHILIP CROSS

Philip Cross was formerly the chief economic analyst at Statistics Canada and is the author of *Business Investment in Canada is Among the Weakest in the OECD.*

Métis Self-Government in Canada is a Non-starter

Tom Flanagan

The Liberal electoral strategy in the 2015 campaign included striking promises designed to attract the aboriginal vote. Thus Justin Trudeau pledged to negotiate self-government and land-claims with the "Métis Nation." Early in 2017, the start of negotiations was announced between the federal government and the Alberta, Manitoba, and Ontario provincial affiliates of the Métis National Council. Politicians are generally applauded for keeping promises, but this one has great potential for mischief.

Métis self-government in any large-scale, meaningful sense is a non-starter. Self-government requires territorial concentration of the sort that allows First Nations governments to exist on Indian reserves. But the Métis live all over Canada and are not likely to leave Edmonton, Saskatoon, and Winnipeg to set up remote self-governing enclaves.

Métis land claims are another fiction, for which there is no principled constitutional basis. Canadian courts have never found anything fundamentally wrong with the distribution of land and scrip to the Métis that occurred

in the nineteenth century. In *Manitoba Métis Federation v. Canada* (disclosure: I was an expert witness for the Crown), the Supreme Court of Canada criticized the distribution of land in the original postage-stamp province of Manitoba for being too slow and laden with mistakes. But it did not order remedial action, nor proclaim a Métis aboriginal title to land, nor discover a federal fiduciary duty for Métis lands. In the absence of a jurisprudential justification, a settlement of contemporary Métis land claims would be merely a give-away to build the Liberals' political coalition.

The biggest of all the problems is demography. The Métis National Council and its provincial affiliates claim to represent the descendants of the historic Métis of the fur trade. These were mixed-race people who worked for the Hudson's Bay Company in what is now northern Ontario, the three Prairie provinces, and the Northwest Territories. They have many descendants today, but they have also continued to intermarry with other races and ethnic groups. Marriages since fur trade days have given rise to new generations of partly indigenous ancestry. Striking a deal limited to the descendants of the fur trade Métis will prove to be impossible.

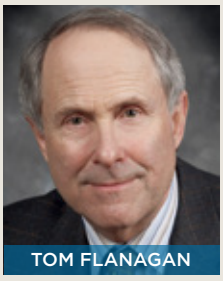
Métis land claims are a fiction, for which there is no principled constitutional basis.

The self-identified Métis are one of the fastest growing groups in Canada, according to the census. They increased from 179,000 in 1996 to 418,000 in 2011. The explosive growth is due to what demographers call "ethnic mobility," i.e., people changing the labels they give themselves. And behind the Métis are more than 200,000 self-identified non-status Indians who could plausibly claim to be Métis if they saw some financial incentive in it. There is, in other words, a pool of hundreds of thousands of people who may be drawn to seek official Métis status if these negotiations create a financial payoff to do so. "Build it, and they will come," as the saying goes.

If the government negotiates an agreement with Métis associations conferring tangible benefits upon Métis people, it will then have to confront the question of who is eligible for those benefits. There will probably have to be something like a Métis Registry, similar in principle to the Indian Registry, which is an endless source of litigation. Métis associations already maintain so-called "citizenship" registries, but the government will have to be involved if public money is to be distributed. Do we really want government maintaining more of these quasi-racial lists?

In the absence of a jurisprudential justification, a settlement of contemporary Métis land claims would be merely a give-away to build the Liberals' political coalition.

When the federal government recognized the landless Qalipu Mi'kmaq First Nation in Newfoundland & Labrador, it expected about 10,000 applications for membership. In the event, there were over 100,000 applications, about 20 percent of the province's population. The biggest financial draw was undoubtedly the Non-Insured Health Benefits plan available to everyone on the Indian Registry. Now more than 80,000 applicants have been rejected, and more litigation is expected. Métis negotiations could produce a rerun on a much bigger scale. FI



TOM FLANAGAN

Tom Flanagan is a Fraser Institute senior fellow and professor emeritus of political science at the University of Calgary. He is the author of *The Debate about Métis Aboriginal Rights: Demography, Geography, and History.*

Canada Should Learn from Countries That Do Universal Health Care Differently—and Better

Bacchus Barua

As patients, caregivers, and taxpayers, all Canadians care deeply about our health care system. It's important to us that the system has the necessary medical resources, is accessible, and delivers high-quality treatment at an affordable and sustainable cost.

Unfortunately, it's increasingly clear that we have a high-cost system that delivers mediocre, and sometimes remarkably poor, performance—especially compared to other countries that share the same goal of universal access, regardless of ability to pay.

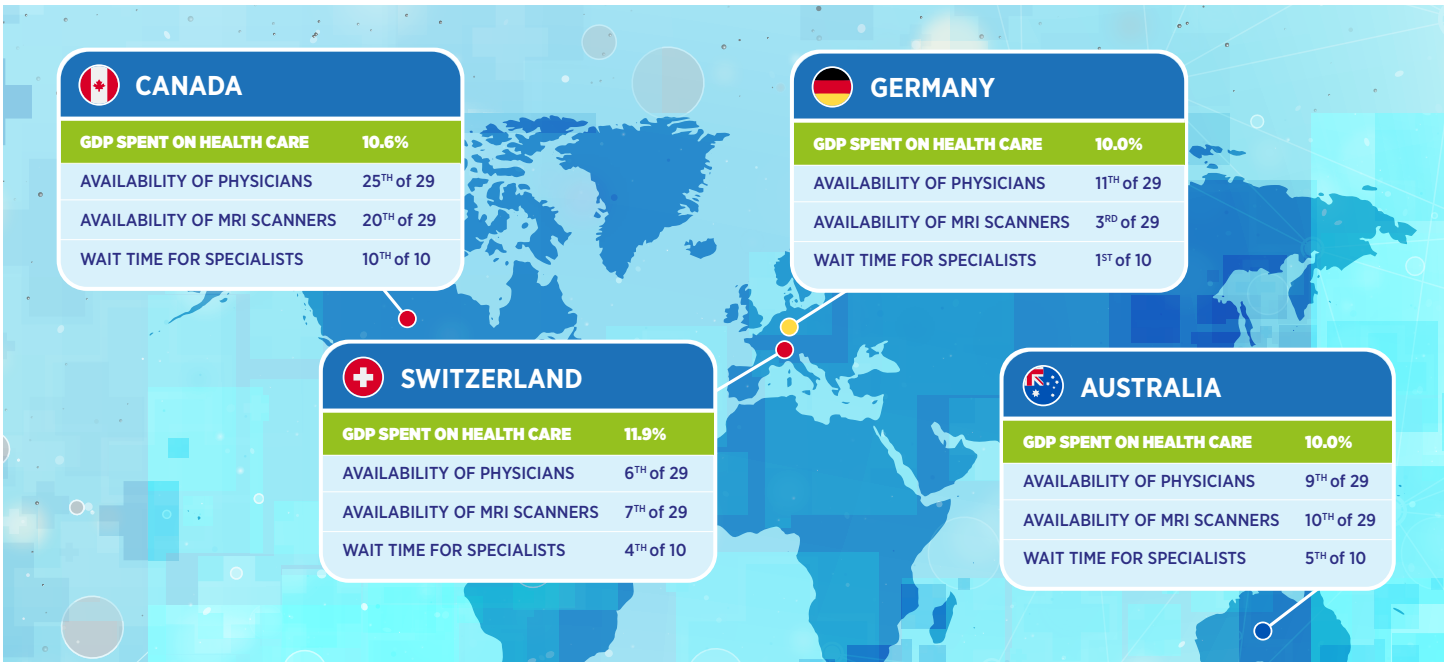
Gone are the days when such underperformance could be swept under the rug and the American health care system could be dangled as the only alternative—the boogeyman scaring us into believing that the status quo was necessary to preserve the universal nature of Canadian health care. Rather, we are now far more aware that Canada's is but one way of delivering universal health care. And the consequences of our policy choices are increasingly obvious.

The Fraser Institute's annual checkup, *Comparing Performance of Universal Health Care Countries, 2017,* compares Canada's health care spending and performance to 28 other universal health care systems on an age-adjusted basis. We rank amongst the highest spenders—3rd in fact, as a percentage of our economy, and 11th on a per-person basis.

However, we have remarkably few medical resources to show for that spending. We rank near the bottom of the pack for the number of physicians available (25th out of 29), and dead last for acute care beds. It's no wonder we hear so many stories about families in need of physicians, long wait times for treatment, and overcrowded hospitals.

In fact, Canadians have come a long way towards understanding the deteriorating state of wait times in our country. For example, while some may quibble over

CANADA IS RANKED 3RD HIGHEST IN SPENDING AMONGST 29 DEVELOPED COUNTRIES WITH UNIVERSAL ACCESS, BUT PERFORMS POORLY IN COMPARISON



methodological differences, most accept the overall conclusion of the Fraser Institute's annual survey, *Waiting Your Turn*, that patients in Canada are waiting longer than ever, and that physicians consider such wait times longer than medically reasonable.

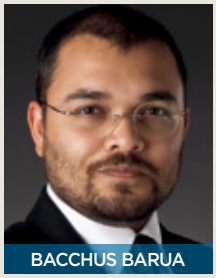
Data from other organizations such as the Commonwealth Fund defuse the notion that such wait times are a natural consequence of universal health care. For example, 30 percent of Canadian patients reported waiting for two months or longer for an appointment with a specialist, compared with only 3 percent in Germany, 4 percent in France and 7 percent in the Netherlands. Similarly, 18 percent of patients in Canada reported waiting four months or longer for elective surgery compared to no patients—zero—in top-performing Germany.

To be fair, there are some areas where we do reasonably well. For example, our system delivers more consultations with family doctors, cataract surgeries, and knee replacements than the average universal health care system. We also have fewer patients dying after a heart attack, and a stellar record on breast and colorectal cancer survival.

On the flip side, we have higher than usual mortality after ischemic strokes, average survival rates for cervical cancer, and the worst record for obstetric trauma (injury to the mother while giving birth). Canada also reports the lowest amount of hospital activity (as measured by discharge rates). On this measure, an optimistic view would be that our system is good at keeping patients healthy and out of the hospital. However, a more sober analysis suggests there is a bottleneck of patients waiting to be admitted—a view evidenced by the hundreds of thousands of Canadians waiting for treatment. And of course, there remains the question of why our system costs so much if it delivers fewer expensive in-hospital treatments to patients.

While the tireless defenders of the status quo will undoubtedly continue to selectively focus on the few bright spots, the wealth of evidence suggests we have a lot of work to do. Crucially, simply pumping more money into an already expensive system is clearly not the answer.

Let's take this opportunity to eat some humble pie, identify countries that do better than us on any of the 42 performance metrics identified in the Fraser Institute's report, and learn about what they do differently so we can improve our system for patients who need it most. FI


BACCHUS BARUA

Bacchus Barua is associate director of health policy studies at the Fraser Institute. He is the co-author, with Sazid Hasan and Ingrid Timmermans, of *Comparing Performance of Universal Health Care Countries, 2017*.

Prime Minister Trudeau Must Think Canadians Achieve Better Lives Through Government Dependence

Charles Lammam and Hugh MacIntyre

It's hard to argue with the Trudeau government's rhetoric about how Canadians can achieve a better life. One of the first sentences in the 2017 federal budget reads, "At the centre of the Canadian story is the middle class and the promise of progress: that with optimism and hard work, a better life is possible for everyone."

While the government is right to tout the importance of hard work as key to a better life, its actions do not match this lofty rhetoric. In reality, the Trudeau government has implemented policies that encourage dependence on government—not hard work and independence. Policies that reward hard work allow Canadians to keep more of the money they earn. Policies based on cash transfers from government encourage dependency.

To support its rhetoric about hard work and progress, the Trudeau government often claims that it has cut tax-

es for middle-class Canadian families. After all, a tax cut would reward hard work and encourage independence. But that's not actually what the Trudeau government has done for the vast majority of middle-class families.

While it did reduce the second lowest federal income tax rate (from 22 to 20.5 percent), it also eliminated a number of tax credits (provisions in the tax code that reduce a person's income taxes if they qualify), thereby increasing income taxes for Canadians who previously claimed such credits.

Eighty-one percent of middle-class Canadian families with children are paying more in personal income taxes—$840 more per year, on average.

As the recent study, *Measuring the Impact of Federal Personal Income Tax Changes on Middle Income Canadian Families* found, when the Trudeau government's tax changes are broadly considered (including both the tax rate reduction and the elimination of these tax credits), 81 percent of middle-class Canadian families with children are paying more in personal income taxes—$840 more per year, on average.

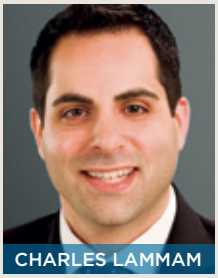
When confronted with this reality on the floor of the House of Commons, Prime Minister Trudeau did not deny it. He simply responded by pointing to the increased government transfers his government has provided to qualifying Canadian families—specifically, the Canada Child Benefit (CCB), a new transfer to qualifying parents with young children that combined several previous programs and increased the cash benefit.

To be clear, the CCB is a transfer program that fosters dependence on government; it's not a policy that rewards hard work by allowing Canadians to keep more of what they earn. Essentially, the prime minister is saying the government will take more away from what you earn and give some of it back to certain families. This hardly fits with the government's rhetoric on hard work and building a better life.

The Trudeau government has implemented policies that encourage dependence on government.

But it's even more perverse than that. If Canadian families who receive CCB transfers do achieve success and earn a higher income, their cash transfers will be reduced—a disincentive to hard work and independence. (The specific amount the transfer is reduced depends on a family's income level and number of children.)

If the Trudeau government is genuinely interested in rewarding hard work and helping Canadians build a better life, then it should look for ways to actually reduce taxes on middle-class families—not foster dependency through government transfers. FI



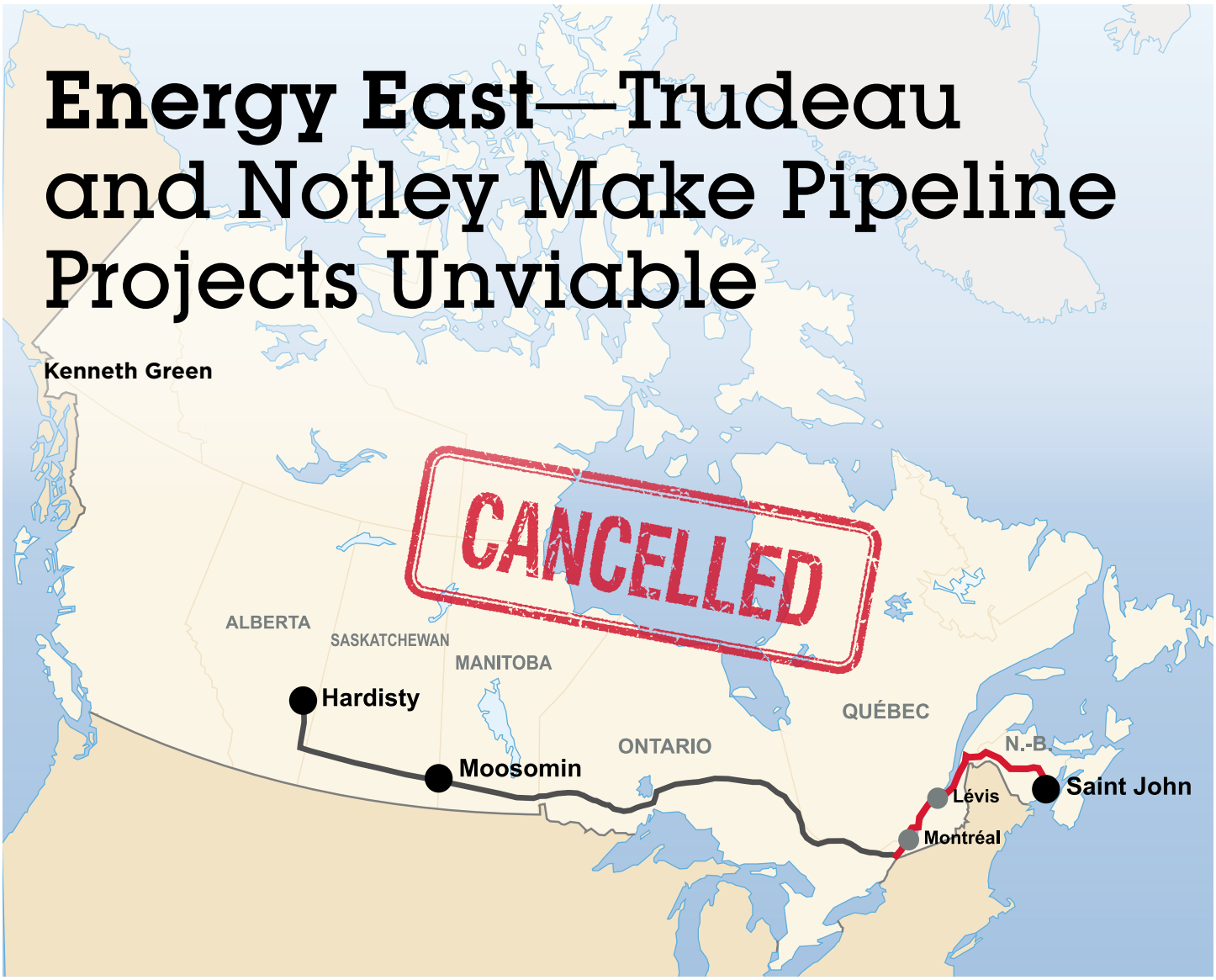
CHARLES LAMMAM

HUGH MACINTYRE

Charles Lammam is the director of fiscal studies and Hugh MacIntyre is a senior policy analyst at the Fraser Institute. They are the co-authors of *Measuring the Impact of the Federal Personal Income Tax Changes on Middle Income Canadian Families.*

Energy East—Trudeau and Notley Make Pipeline Projects Unviable

Kenneth Green



TransCanada's withdrawal of its proposal to build the Energy East and Eastern Mainline oil pipelines is a huge loss to Canada and Canadian workers—a $16 billion project regulated to death.

Let's get the red herring out of the way up front. Yes, the low world oil price was surely part of this decision, but it's certainly not all of it. The United States is getting its pipelines built despite the world oil glut.

Rather, a series of events killed these two pipelines. First, while Energy East waited for approval, other pipelines were approved. Keystone XL, the Trans Mountain expansion, and Line 3 (assuming it proceeds) are estimated to have capacity to meet export needs out to 2040. Secondly, a cascade of provincial activities including the Alberta carbon tax, the Alberta Climate Action Plan, and the oilsands emission cap have hammered investor confidence in Alberta in recent years.

Moreover, a huge investment opportunity opened in the US oil and natural gas sector. Not only is President Donald Trump not making it harder to develop oil and gas resources in the states, he's making it easier, opening additional lands, suspending a bunch of onerous regulations, dropping international greenhouse gas obligations, allowing oil exportation and, perhaps, cutting taxes on business.

But the straw that likely broke the camel's back was the National Energy Board (NEB) announcing it would add

an "upstream/downstream" emission test to its project reviews. As I wrote elsewhere, the upstream/downstream test could seriously reduce the profitability of pipeline projects that would have to, in some way, internalize the costs of the greenhouse emissions resulting from the production and consumption of the oil they transport, not simply those caused by the act of transporting the oil.

The NEB's upstream/downstream test could seriously reduce the profitability of pipeline projects that would have to, in some way, internalize the costs of the greenhouse emissions resulting from the production and consumption of the oil they transport, not simply those caused by the act of transporting the oil.

These cancelled pipeline projects, to supply eastern Canadians with domestic—rather than imported—oil (while also weakening the US monopoly on Canadian imports), should have been an absolute win-win project for Canada. Eastern Canada imports more than 750,000 barrels per day from the US and OPEC countries. The Energy East pipeline would have carried 1.1 million barrels per day of Canadian oil eastward to Canadians at lower cost while increasing self-reliance. Even if much of the pipeline's oil was exported, it would still be an economic benefit for Canada with foreign market access that would allow for greater diversity of Canada's customer base for its oil.

Instead, the death of the Energy East/Eastern Mainline pipeline casts further doubt on whether Canada is still capable, as a country, of building important national infrastructure of any kind.

And here's something you likely won't hear on the evening news. Alberta Premier Rachel Notley and Prime Minister Justin Trudeau deployed a strategy, from the beginning of their terms, to say "yes" to pipeline and oilsands development while governing like they said "no."

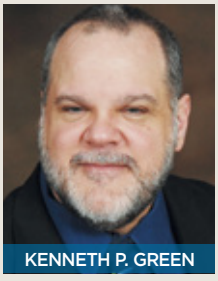
What they actually said "yes" to is a federal price on carbon unmatched by our largest trading partner south of the border.

They've said "yes" to a provincial cap on greenhouse gases from the oilsands, casting a huge shadow over investing in new developments that might slam into the cap—again, a restriction unmatched by our global competitors.

Provincially, Canada's premiers have said "yes" to climate action plans in the major provinces that are little more than tax grabs from energy producers and consumers. And a grab-bag of spending programs that have failed virtually everywhere they've been tried.

Is it any wonder that investor confidence in Alberta's oil and gas sector has plummeted in the last few years? If you were looking to invest your marginal dollar in the energy sector, where would you put it? Canada? Or Texas and North Dakota?

While telling people that they understand the importance of the oilsands, Notley and Trudeau, with assistance from Quebec Premier Philippe Couillard and environmental activists, piled regulatory brick upon regulatory brick on the back of an industry already weakened by a soft world oil price. Watch for crocodile tears over the death of these pipeline projects by the regulators and politicians who made them economically unviable. FI



KENNETH P. GREEN

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

With a $15 Minimum Wage, Ontario Enters Dangerous and Uncharted Waters

Ben Eisen and Charles Lammam

Premier Wynne's government plans to increase Ontario's minimum wage to $15 per hour by 2019—a remarkable 32 percent increase in just 18 months.

Unfortunately, this policy will make it harder for Ontario's young and less-skilled (the primary demographic of minimum wage earners) to find work as many will be priced out of the labour market. If a person's labour can't produce $15 worth of value for an employer, it will be increasingly difficult for that person to find work.

Just how serious a problem will these negative employment effects in Ontario be? It's difficult to say for certain because there are so few recent historical examples of comparably rapid minimum wage hikes to analyze. However, job losses may be substantial.

Here's why. When the minimum wage is low relative to the median wage (the mid-point in the hourly wage where half of workers earn above this point and half below), there's only a small effect on job loss. That's because any changes to the minimum wage will affect very few workers. But as the minimum wage increases relative

to the median wage, it affects more and more workers and the negative economic effects grow more severe.

In Canada's four largest provinces (Quebec, Ontario, Alberta, and British Columbia), the minimum wage is almost exactly half the median wage.

But with a $15 minimum wage, Ontario is set to skyrocket beyond the prevailing norms. In 2019, we estimate that a $15 minimum wage will be equal to 64 percent of the province's median wage, generating the risk of substantial job losses.

While Alberta is also heading toward a $15 minimum wage that same year, Alberta has a much higher median wage. Its minimum wage will be equal to 58 percent of its median, which is above current Canadian norms, but nowhere near as high as Ontario's.

In fact, in 2019 Ontario will have, by far, the highest minimum wage in Canada relative to its median.

As the minimum wage increases relative to the median wage, it affects more and more workers and the negative economic effects grow more severe.

A $15 minimum wage will also make Ontario an outlier relative to key US states with which it competes for investment. Pennsylvania, Indiana, Illinois, New York, Ohio, and Michigan all have state-wide minimum wages that are either close or well below 50 percent of their median wage levels. Crucially, Ontario's uniquely high minimum wage will put our province at a competitive disadvantage in the region when trying to attract investment from industries that employ large numbers of young and less-skilled workers.

In short, the Wynne government's planned minimum wage hikes run the risk of increasing the wage floor beyond what the market can reasonably bear. This will create stronger incentives for firms to either automate more jobs, hire fewer staff, or in the worst case, close up shop entirely if they cannot be profitable under the new regulation.

A $15 minimum wage will make Ontario an outlier relative to key US states with which it competes for investment.

The Canadian evidence is clear—higher minimum wages tend to reduce employment opportunities for younger and less-skilled workers. Those risks become more severe as the minimum wage rises higher relative to the median wage in the economy, which should be a big concern to Ontarians as the province enters uncharted waters with its rapid rise to a $15 minimum wage. FI


BEN EISEN


CHARLES LAMMAM

Ben Eisen is director of the Ontario Prosperity Initiative and Charles Lammam is director of fiscal studies at the Fraser Institute. They are co-authors, with David Watson, of *Ontario Enters Uncharted Waters with a $15 Minimum Wage*.

Canada's Environmental Record—Suzuki Gets It Wrong

Kenneth Green, Elmira Aliakbari, and Ashley Stedman

Once again, David Suzuki is misrepresenting Canada's environmental record. In a recent op-ed, Suzuki, the longtime broadcaster and environmental activist, tells Canadians that Canada is a world laggard in environmental protection.

Specifically, he said that "Canada ranks 25th among rich countries on children's well-being, in part because of our failure to improve air quality." This is a false claim, as any empirical evaluation would show that Canada's air quality has substantially improved over the past few decades.

Here are some facts. Canada's air quality conforms to the strictest standards in the world. A recent Fraser Institute study, *Canada's Air Quality Since 1970: An Environmental Success Story*, used a massive archive of data from Environment Canada to examine the evolution of air quality from the 1970s onward, spotlighting emissions and ambient concentrations (the amount of pollutants in the air) of five major air pollutants—ground level ozone, fine particulate matter, sulphur dioxide, nitrogen dioxide, and carbon monoxide. The results show Canada's air pollution has substantially declined and complies with the world's strictest air quality standards.

Let's look more closely at the data. Ambient levels of ground-level ozone, an air pollutant caused by emissions, decreased 27 percent from 1979 to 2015. In fact, in the late 1970s, more than 70 percent of air quality monitoring stations across Canada reported ozone concentrations above the air quality standard, but by 2015 this number had fallen to 16 percent. With respect to fine particulate matter (smoke, aerosols, etc.), from 2000 to 2015 its concentrations consistently remained below the most stringent air quality standard.

Canada has dramatically reduced air pollution since the 1970s and complies with the tightest air quality standards anywhere.

It is the same story for Canada's ambient levels of sulphur dioxide, a pollutant largely associated with the combustion of oil and coal, which plummeted by 92 percent from 1974 to 2015.

And in the last four decades Canada experienced substantial reductions in nitrogen dioxide and carbon monoxide—two pollutants largely associated with automobiles—with national levels decreasing by 74 percent and 90 percent respectively from 1974 to 2015. Again, in the mid-1970s, 54 percent of monitoring stations across Canada reported readings out of compliance with the annual air-quality standard for nitrogen dioxide—in 2015 that percentage was zero.

Other studies have found similar results. For example, a recent study by Yale University compared Canada with other countries on several environmental indicators including air quality. The study included four indicators measuring average exposure, health risks to key air pollutants, and the percentage of the population burning solid fuel indoors. Canada ranked 36th among 180 countries and 6th out of 16 high-income countries.

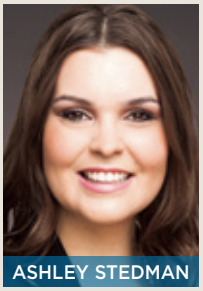
Environmental activists such as David Suzuki falsely accuse Canada of having poor air quality and reflexively call for "stronger air-quality standards," yet they never discuss the data. Canada has dramatically reduced air pollution since the 1970s and complies with the tightest air quality standards anywhere. Imposing tighter regulations and tougher emission policies will come with high economic costs, without generating significant environmental benefits.

Environmental activists such as David Suzuki falsely accuse Canada of having poor air quality and reflexively call for "stronger air-quality standards," yet they never discuss the data.

Canadians have nothing to hang their heads about when it comes to environmental protection and air quality. In fact, Canada's environmental record is an achievement we should be proud of and celebrate. FI


KENNETH P. GREEN


ELMIRA ALIAKBARI


ASHLEY STEDMAN

Kenneth Green is senior director of the Centre for Natural Resource Studies, Elmira Aliakbari is a senior economist, and Ashley Stedman is a policy analyst at the Fraser Institute.

Americans Have Made Hurricane Destruction Worse (But Not With Carbon Emissions)

Ross McKitrick

Amidst the epic devastation of this season's hurricanes, many commentators have demanded a renewed discussion of the hazards of climate change. There was an unseemly opportunism in doing this while the damage was still being cleaned up, but we can't let the sloganeering go unanswered.

The actual event we need to understand is an 11-year absence of landfalling, major hurricanes (Category 3 or higher) followed by a season that is harsh but inside the historical norm. And the human element needing to be discussed is not merely the elusive role greenhouse gas (GHG) emissions might play in hurricane formation, but the conspicuous desire of people to live in the path of the storms.

The formation of an Atlantic cyclone is a weather event, not a climate event. Hurricanes existed long before humans emitted GHGs. A "climate event" would be a multi-decadal change in their major characteristics. But this has not been observed. According to the US National Hurricane Center, from 1851 to 1960 the US experienced between 15 and 24 landfalling hurricanes per decade, of which between one and 10 were major. From 1960 to 2010 (the period when human GHGs increased sharply) it was 12 to 19 per decade, of which four to seven were major: well within the historical range. It's same story if we divide the data at 1970.

One recent change is an apparent tendency for fewer landfalling hurricanes. Since 2010 there have only been three, two of which were major. If this season's

numbers repeat through 2019, the decade may end up just inside the normal range. While people are understandably horrified at the 2017 hurricanes, there is a temptation to extrapolate conclusions from the few that formed while ignoring the many that didn't. Looking at the big picture, the role of GHGs, if any, is currently too subtle to identify.

If people expect the government to bail them out they will under-insure and over-build in hazard-prone areas.

But there is one pattern in the data impossible to miss, even though it rarely gets discussed. Postwar US migration patterns show that people seem to prefer the kind of weather that includes hurricane risk.

An American can choose just about any climate in which to live, from the Arctic to the tropics, from a rainforest to the desert, and anything in between. We can infer something about peoples' climatic preferences by looking at where Americans have moved.

From 1950 to 2015 the US population grew at an average rate of 1.2 percent per year, from 152 million to 321 million. In 1950, the South Atlantic and Gulf states of Texas, Louisiana, Florida, Georgia, and South Carolina—the hurricane targets—comprised 12.3 percent of the US population. For comparison, consider a northern slice covering Massachusetts, Minnesota, Michigan, Wisconsin, and Nebraska: states with four seasons and virtually no hurricane risk. This group also comprised 12.3 percent of the US population in 1950.

Now fast forward to 2015. The Gulf and South Atlantic states grew 2 percent per year, almost double the national average, reaching 21 percent of the US population. The northern slice, by comparison, grew by only 0.7 percent per year and fell to 9.3 percent of the population. Taking the rough with the smooth, a large part of the US population decided it prefers a warmer, wetter, and more hazardous climate. In other words, Americans paid money to expose themselves to the worst-case warming scenario.

This raises the separate, and thorny, economic issue of disaster relief: If people expect the government to bail them out they will under-insure and over-build in hazard-prone areas. That problem requires addressing, but it is not specifically related to climate change.

US migration patterns show that we cannot single out hurricane damages, call it the "costs of not acting on climate change" and demand new policies. First of all, the storms would likely have happened even without man made GHGs. Second, many of the people who were in the path arrived there after the risk was known, and accepted it as part of a package that also included the benefits of warm weather. They apparently prefer that package to the colder but less hazardous option up north, and would not appreciate costly (not to mention futile) efforts to reverse their choice through new energy taxes and regulations.

Climate data has a way of upending the simplistic slogans that litter the issue. Historical hurricane records do not reveal a new pattern attributable to GHGs. And market data show that the so-called social damages of climate change are part of a package of weather conditions perceived as a net benefit by many people experiencing it. FI


ROSS McKITRICK

Ross McKitrick is a professor of economics at the University of Guelph and a Fraser Institute senior fellow.

EDUCATION PROGRAMS

With the start of the new school year comes a semester full of learning opportunities for teachers and students alike.

HIGH SCHOOL STUDENT SEMINARS

Over 1,000 students from 36 schools attended five high school seminars in October in BC and Ontario. *Economics is Everywhere! Applying Basics Concepts to Everyday Life* is a seminar offered to students in grades 7-9. This exciting program is similar in format to our senior student program, but introduces economic concepts at a more basic level suitable for younger students.

Students are surveyed to illustrate the impact of taxes on private income.

Junior High School Students learn about the importance of property rights by playing a fishing game.

"This was my first time attending this event and I was very impressed. Speakers were great also!"

HIGH SCHOOL ECONOMICS TEACHER

Why Do People Behave the Way They Do? An Introduction to Economic Reasoning is offered to students in grades 10-12. Students in Vancouver and Toronto were encouraged to apply economic thinking to everyday scenarios. From pop culture phenomena to hitting the "snooze" button on an alarm clock, from balancing a budget to saving for college, students learn how every decision made is an economic choice.

Students learn about different types of economic systems by taking part in a hat-making activity.

At our Post-Secondary Seminars, students are able to engage in small group discussions after each presentation has concluded.

POST-SECONDARY STUDENT SEMINARS

Two seminars were held for university and college students in Saskatoon and Vancouver. Over 240 students spent their Saturday learning about current public policy issues, asking questions of experts, and exchanging ideas with other students interested in or simply curious about the benefits of markets. Among the students in attendance in Vancouver were 54 who participated in our travel bursary program which provides students from outside the lower mainland with travel and accommodation in order that they can attend the seminar at no cost.

"There were three different topics yet they had intertwining themes. Excellent! The length of the lectures, number of lectures, and the way the discussion groups and lunch were run contributed to my ability to take in and process all the new and renewed ideas!"

STUDENT AT SASKATOON SEMINAR

The Saskatoon seminar featured senior fellow Nadeem Esmail discussing the Canada Health Act's role in shaping provincial health care policy. Students also had the opportunity to hear from Josef Filipowicz, senior policy analyst at the Fraser Institute, explaining the economics of the rapidly rising housing costs in Canada's most desirable cities. Lastly, Malcolm Lavoie of the University of Alberta explored Friedrich Hayek's ideas and their relevance to contemporary disputes over Aboriginal rights.

A student at our Saskatoon Seminar poses a question to Malcolm Lavoie.

At our Vancouver seminar Bacchus Barua, associate director of Health Policy Studies at the Fraser Institute, addressed the question, "Does Canada have the best health care system in the world?" Also presenting was Colin Carter from the University of California, Davis, Lauren Heller from Berry College, Rosemarie Fike from Texas Christian University, and Charles Lammam, the Fraser Institute's director of fiscal studies. FI

Ryan Hill

What's your role at the Institute?

I am the Manager of Education Programs with the Peter Munk Centre for Free Enterprise Education at the institute. Apart from working as the editor of the *Canadian Student Review*, my work is focused on expanding and executing our education programming initiatives in Ontario..

How did you arrive at the Institute?

After completing an internship in Washington DC in 2015, I was elated to see an opportunity to work with the education programs team as a coordinator in Vancouver.

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

Both Mirabelle and I are currently working on our upcoming Explore Public Policy Issues student seminars in Ontario and Quebec, and are looking forward to bringing the first ever teacher workshop to Ottawa in 2018.

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

In my spare time you can usually find me running outside or trying out a new recipe.

Mirabelle Arodi

What is your role at the Institute?

I am an Education Programs Coordinator with the Peter Munk Centre for Free Enterprise Education. I primarily focus on planning Teacher Workshops in Ontario.

How did you arrive at the Institute?

I came to learn about the Fraser Institute from a university friend who works at the Institute. I was very interested in its unique educational initiatives and given my background in planning events in educational settings, I was excited when an opportunity to work with the Institute opened up.

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

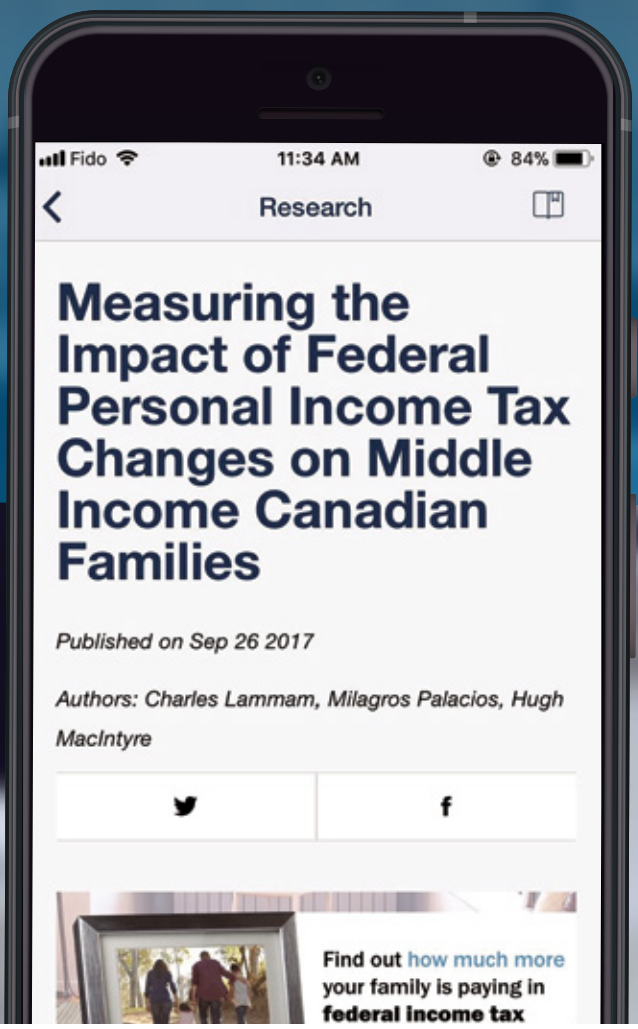
As well as working on the Explore Public Policy Issues student seminars in Ontario and Quebec, I am excited about the teacher workshops we're holding in Toronto. I am looking forward to interacting with our speakers and staff, and building collaborative relationships that will continue to establish the Fraser Institute's educational programs in Ontario.

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

Photography has always been an interest of mine. I spend quite a bit of my free time reading photography books and magazines. I'm always looking for interesting ways to visually represent moments and places.

Download the Fraser Institute Mobile App

EXPERT ANALYSIS OF ISSUES THAT MATTER MOST



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