

Canadians Celebrate Tax Freedom Day on June 20



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Acknowledgements

The authors would like to thank Jason Clemens for his valuable comments. In addition, we would like to acknowledge the contributions of Joel Emes, Isabella Horry, Filip Palda, Michael Walker, and Sally Pipes on earlier editions of these calculations.

Main Conclusions

- **Tax Freedom Day is the day in the year the average Canadian family has earned enough money to pay the taxes imposed on it by the three levels of government: federal, provincial, and local.**
- **In 2007, Canadians will celebrate Tax Freedom Day on June 20. That is, Canadians have worked until June 19 to pay the total tax bill imposed on them by all levels of government.**
- **Tax Freedom Day in 2007 arrives four days earlier than in 2006, when it fell on June 24.**
- **The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 25; this is almost two months later than in 1961, the earliest year for which the calculation has been made. Tax Freedom Day decreased to June 17 in 2001 before steadily advancing to June 24 in 2005 and 2006.**
- **In 2007, the average Canadian family (with two or more individuals) earned \$83,775 in income and paid a total of \$38,992 in taxes (46.5 percent).**
- **Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden. The earliest 2007 provincial Tax Freedom Day fell on June 1 in Alberta.**
- **Most Canadian provinces experienced earlier Tax Freedom Days in 2007 than in 2006 with the Western provinces (Saskatchewan, Alberta and British Columbia) experiencing the largest improvements.**

Introduction

It is nearly impossible for an ordinary Canadian to have a clear idea how much tax they really pay. Most Canadians would have little difficulty determining how much income tax they pay; a quick look at their income tax return or pay stub would suffice. The same is true for Employment Insurance and Canadian Pension Plan premiums. However, a host of other taxes are not so obvious. First, while Canadians are painfully aware of sales taxes, calculating the total amount paid would require people to track all of their purchases over the course of a

year. Second, there exists a class of taxes of which Canadians are largely unaware and which are built into the price of goods and services. The most significant of the “hidden” taxes are import duties, excise taxes on tobacco and alcohol, amusement taxes, and gas taxes. Finally, most Canadians are unaware that they pay the employers’ portion of payroll taxes such as EI and CPP premiums and other taxes levied on businesses. In other words, although businesses pay these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.

The Fraser Institute annually calculates *Tax Freedom Day* in order to provide a comprehensive and easily understood indicator of the overall tax burden faced by the average Canadian family. This Alert presents preliminary *Tax Freedom Day* calculations for 2007.

Tax Freedom Day

Tax Freedom Day is the day in the year the average Canadian family has earned enough money to pay the taxes imposed on it by the three levels of government: federal, provincial, and local.

Table 1: Tax Freedom Days*

	1981	1985	1995 ^{re}	2000 ^{re}	2005 ^{re}	2006 ^{re}	2007 ^{pe}
Newfoundland and Labrador	May 18	May 9	May 20	June 5	June 24	June 25	July 1
Prince Edward Island	May 6	June 7	May 21	June 3	June 15	June 15	June 14
Nova Scotia	May 11	May 17	June 4	June 12	June 22	June 22	June 19
New Brunswick	May 6	June 2	June 5	June 8	June 13	June 14	June 14
Quebec	June 7	June 17	June 13	July 2	June 28	June 28	June 26
Ontario	May 29	May 26	June 12	June 20	June 20	June 21	June 19
Manitoba	May 17	May 5	June 12	June 21	June 19	June 18	June 16
Saskatchewan	May 24	May 17	June 17	July 1	July 2	June 30	June 22
Alberta	May 30	May 22	June 5	June 21	June 14	June 9	June 1
British Columbia	June 9	June 16	June 13	June 25	June 24	June 21	June 16
Canada	May 30	June 6	June 12	June 25	June 24	June 24	June 20
Without Natural Resources							
Newfoundland and Labrador	May 17	May 8	May 20	June 4	June 15	June 19	June 13
Saskatchewan	May 15	May 9	June 10	June 19	June 20	June 18	June 13
Alberta	May 6	May 3	May 27	May 28	May 23	May 24	May 19
British Columbia	June 6	June 12	June 8	June 17	June 16	June 14	June 10
Canada	May 27	June 4	June 10	June 20	June 20	June 20	June 18

re = revised estimate; pe = preliminary estimate

*Based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute’s Canadian Tax Simulator, 2007.

**Table 2: Taxes of the Average Family (with two or more individuals), 2007,
Preliminary Estimates (\$ Cdn)**

	Cash Income	Income tax	Sales taxes	Liquor, tobacco, amuse- ment, & other excise taxes	Auto, fuel, & motor vehicle licence taxes	Social security, pension, medical, & hospital taxes	Property taxes	Import duties	Profits tax	Natural resource levies	Other taxes	Total tax bill
NL	64,693	9,610	5,210	2,203	1,102	4,968	1,404	205	3,157	3,082	1,026	31,967
PE	65,823	9,152	5,722	1,903	1,302	5,657	2,121	215	2,701	9	622	29,405
NS	70,031	11,224	5,491	2,232	1,039	5,508	2,032	264	3,505	595	382	32,271
NB	67,872	10,253	5,447	2,013	1,047	5,790	2,413	241	2,376	236	512	30,329
QC	72,214	11,435	5,766	1,895	863	8,035	2,510	268	3,496	-8	429	34,688
ON	90,018	14,522	6,811	2,144	968	8,842	3,321	351	3,730	24	780	41,494
MB	77,604	12,239	5,684	2,563	834	5,794	2,669	278	3,253	178	1,718	35,210
SK	75,807	11,259	4,783	2,318	1,493	5,276	3,248	268	4,077	2,008	989	35,720
AB	109,052	19,029	3,304	3,740	913	7,897	1,806	394	2,563	3,770	1,464	44,881
BC	81,239	11,949	5,752	2,559	897	7,294	2,595	300	2,858	1,376	1,340	36,919
CDA	83,775	13,513	6,069	2,321	975	8,045	2,801	317	3,440	658	853	38,992

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

Taxes used to compute Tax Freedom Day include income taxes, property taxes, sales taxes, profit taxes, health, social security and employment taxes, import duties, license fees, taxes on the consumption of alcohol and tobacco, natural resource fees, fuel taxes, hospital taxes and a host of other levies.

In 2007, Canadians will start working for themselves on June 20 (table 1). That is, Canadians worked until June 19 to pay the total tax bill imposed on them by all levels of government. From June 20 to the end of the year, taxpayers can

keep all the income they earn. This represents a four day improvement over 2006 when Tax Freedom Day fell on June 24.

It is important to note that Tax Freedom Day is not intended to

measure the benefits Canadians receive from governments in return for their taxes. Rather, it looks at the price that is paid for a product—government. It is not a reflection of the quality of the product, how much of it each of us receives, or whether we get our money's worth. These are questions only each of us can answer for ourselves.

Canadians can calculate their personal Tax Freedom Day using The Fraser Institute's Personal Tax Freedom Day Calculator at www.fraserinstitute.ca.

Trends in Tax Freedom Day

The latest Tax Freedom Day in Canadian history was in 2000,

*Canadians can calculate
their personal Tax Freedom
Day using The Fraser
Institute's Personal Tax
Freedom Day Calculator at
www.fraserinstitute.ca.*

**Table 3: Taxes of the Average Family (with two or more individuals), 2006,
Revised Estimates (\$ Cdn)**

	Cash Income	Income tax	Sales taxes	Liquor, tobacco, amuse- ment, & other excise taxes	Auto, fuel, & motor vehicle licence taxes	Social security, pension, medical, & hospital taxes	Property taxes	Import duties	Profits tax	Natural resource levies	Other taxes	Total tax bill
NL	62,388	9,960	5,182	2,214	1,097	4,837	1,243	198	2,941	1,116	1,057	29,844
PE	64,308	9,143	5,641	1,860	1,296	5,549	1,996	211	2,555	8	668	28,929
NS	67,517	11,108	5,523	2,216	1,032	5,411	1,929	257	3,347	398	441	31,662
NB	65,588	9,948	5,344	1,946	1,144	5,650	2,186	234	2,178	147	560	29,338
QC	70,022	11,496	5,777	1,924	860	7,833	2,254	262	3,232	13	486	34,138
ON	87,673	14,452	6,836	2,184	956	8,752	3,027	345	3,441	25	859	40,877
MB	75,325	12,114	5,586	2,545	858	5,693	2,547	272	3,173	123	1,739	34,651
SK	72,130	10,999	5,284	2,362	1,484	5,236	2,742	261	3,751	2,284	1,031	35,435
AB	103,021	18,652	3,394	3,677	906	7,866	1,463	387	2,291	4,521	1,482	44,639
BC	78,304	12,031	5,755	2,605	887	7,293	2,309	295	2,604	1,317	1,393	36,490
CDA	81,016	13,461	6,088	2,349	972	7,927	2,522	311	3,184	683	916	38,412

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

when it fell on June 25; this is almost two months later than in 1961, the earliest year for which the calculation has been made. Tax Freedom Day decreased to June 17 in 2001 before steadily advancing to June 24 in 2005 and 2006. This year, Tax Freedom Day arrives four days earlier than in 2006.

There are many reasons for the reduction in Tax Freedom Day. First, tax relief announced in the 2007 federal budget, while limited, contributed to the decline; examples include the introduction of a new child tax credit and an increase in the spousal/dependant deduction. In addition, taxpayers benefited from the lower Goods and Services Tax (GST) for the entire year—the

reduction from 7 percent to 6 percent took effect in July 2006.

In addition, many provincial governments also reduced taxes in 2007. For example, British Columbia enacted large-scale personal income tax relief; Saskatchewan reduced its corporate income and capital taxes, and reduced its provincial sales tax; Manitoba cut its middle personal income tax rate and small business income tax rate; and Newfoundland reduced personal income tax rates and eliminated the surtax on personal income tax.¹

However, part of the decline in Tax Freedom Day may be generated by from conservative revenue projections by Canadian governments. Federal and provincial budget

forecasts estimating the amount of revenue each will collect are one key component of the Tax Freedom Day calculations for the current year. Conservative tax revenue projections, especially relative to projected increases in personal incomes, can result in an earlier Tax Freedom Day. For instance, among other decreases, some provincial budgets have projected a substantial decrease in total provincial natural resource levies for 2007 and a decrease in total provincial corporate income tax revenue. In addition, provincial projections for personal income tax revenue were below the expected increase in personal incomes for 2007, which contributed to the decrease in Tax Freedom Day.

When final revenue numbers become available at the end of each fiscal year and personal income data are updated by Statistics Canada, we revise our Tax Freedom Day calculations for previous years.² If federal and provincial revenue does end up higher than currently projected, the drop in Tax Freedom Day could be reduced or even eliminated once the 2007 preliminary Tax Freedom Day estimates are revised.

Income and total tax bill of the average family

Table 2 reveals the taxes and income of the average family in Canada and each of the provinces. In 2007, the average Canadian family (with two or more individuals) earned \$83,775 in

income and paid a total of \$38,992 in taxes. In other words, the total tax bill of the average Canadian family in 2007 amounted to 46.5 percent of cash income (table 7).

The cash income of the average Canadian family increased by 3.4 percent (\$2,760) between 2006 and 2007 (tables 2, 3, 4). This compares to a much smaller increase of 1.5 percent (\$580) in the total tax bill. The largest increase among the myriad taxes came in the form of property taxes, up \$279 for the average Canadian family (table 4). Other notable increases came in the form of profit taxes (\$256) and social security taxes (\$118). Liquor taxes and natural resource levies paid by the average Canadian family experienced the

largest decrease from 2006 to 2007 (table 4).

Tax Freedom Day by province

While all Canadians face more or less the same federal tax bill, Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden (table 1). This year, the earliest provincial Tax Freedom Day fell in Alberta on June 1, while the latest date fell on July 1 in Newfoundland and Labrador.

All Canadian provinces, except Newfoundland and Labrador and New Brunswick, experienced a decrease in their Tax Freedom Day between 2006 and 2007, meaning that most citizens

Table 4: Difference in the Average Family's Tax Bill between 2007 and 2006 (\$ Cdn)

	Cash Income	Income tax	Sales taxes	Liquor, tobacco, amusement, & other excise taxes	Auto, fuel, & motor vehicle licence taxes	Social security, pension, medical, & hospital taxes	Property taxes	Import duties	Profits tax	Natural resource levies	Other taxes	Total tax bill
NL	2,305	(350)	27	(10)	5	132	161	7	216	1,966	(31)	2,123
PE	1,515	10	81	42	6	108	125	5	145	1	(47)	476
NS	2,514	116	(32)	16	6	97	103	7	158	198	(59)	610
NB	2,284	305	103	68	(97)	140	226	7	198	89	(48)	991
QC	2,192	(62)	(11)	(29)	4	202	255	6	263	(21)	(56)	550
ON	2,345	70	(25)	(40)	13	90	295	6	289	(1)	(79)	617
MB	2,279	125	98	18	(24)	101	122	7	79	55	(21)	560
SK	3,677	260	(501)	(44)	9	40	506	7	327	(277)	(42)	285
AB	6,031	377	(90)	64	8	30	343	7	273	(751)	(18)	242
BC	2,935	(82)	(4)	(46)	10	1	285	5	254	59	(53)	429
CDA	2,760	51	(18)	(28)	3	118	279	6	256	(25)	(63)	580

Note: numbers may not add due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

**Table 5: Average Income and Tax for Three Different Types of Family, 2007,
preliminary estimates (\$ Cdn)**

1. Families and unattached individuals

	NF	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	54,490	53,974	55,531	54,764	57,296	73,279	60,004	58,812	85,451	62,544	66,496
Total Tax	25,587	22,744	25,275	23,501	26,907	33,712	25,514	26,600	35,514	28,647	30,213
Tax Rate	47.0%	42.1%	45.5%	42.9%	47.0%	46.0%	42.5%	45.2%	41.6%	45.8%	45.4%
Tax Rate (excluding natural resources)	42.4%	42.1%	44.7%	42.6%	47.0%	46.0%	42.3%	42.7%	38.0%	44.1%	44.6%

2. Families with two or more individuals

	NF	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	64,693	65,823	70,031	67,872	72,214	90,018	77,604	75,807	109,052	81,239	83,775
Total Tax	31,967	29,405	32,271	30,329	34,688	41,494	35,210	35,720	44,881	36,919	38,992
Tax Rate	49.4%	44.7%	46.1%	44.7%	48.0%	46.1%	45.4%	47.1%	41.2%	45.4%	46.5%
Tax Rate (excluding natural resources)	44.7%	44.7%	45.2%	44.3%	48.0%	46.1%	45.1%	44.5%	37.7%	43.8%	45.8%

3. Families of four (parents and two children under 18)

	NF	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	84,889	75,820	83,426	85,953	88,610	110,195	95,238	93,637	114,661	96,788	102,676
Total Tax	46,114	31,244	37,993	37,256	41,295	47,778	41,474	41,782	47,791	41,489	45,382
Tax Rate	54.3%	41.2%	45.5%	43.3%	46.6%	43.4%	43.5%	44.6%	41.7%	42.9%	44.2%
Tax Rate (excluding natural resources)	48.6%	41.2%	44.5%	43.0%	46.6%	43.3%	43.3%	41.7%	37.4%	41.0%	43.2%

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

are working less for the government and more for themselves and their families this year (table 1). The Western provinces experienced the largest decreases in Tax Freedom Days. Specifically, taxpayers in Alberta and Saskatchewan celebrate Tax Freedom Day 8 days earlier than in 2006, while taxpayers in British Columbia celebrate 5 days earlier. Taxpayers

in Nova Scotia experienced the smallest decrease, with their Tax Freedom Day arriving one day earlier than in 2006. Tax Freedom Day in Canada's most populous provinces, Ontario and Quebec, comes two days earlier in 2007 than in 2006. Taxpayers in Newfoundland and Labrador will celebrate Tax Freedom Day

six days later than in 2006. It is important to note that the increase in Tax Freedom Day in Newfoundland and Labrador is being driven entirely by a significant increase in natural resource revenues.³ When natural resources revenues are excluded, Tax Freedom Day arrives on June 13 in 2007, six days earlier than in 2006 (table 1). Tax Freedom Day (excluding

Table 6: Breakdown of the Average Family's* Tax Bill by Level of Government, 2007, Preliminary Estimate (\$ Cdn)

	Federal government	Provincial government**	Municipal government	Tax bill**
Newfoundland and Labrador	15,340	12,110	1,435	28,886
Prince Edward Island	16,052	12,399	944	29,396
Nova Scotia	18,226	11,378	2,071	31,676
New Brunswick	16,831	11,850	1,412	30,093
Quebec	17,365	14,805	2,527	34,696
Ontario	24,333	13,871	3,266	41,470
Manitoba	19,107	13,221	2,704	35,032
Saskatchewan	17,760	12,443	3,509	33,712
Alberta	26,881	12,801	1,429	41,111
British Columbia	21,092	12,927	1,525	35,543
Canada	21,665	14,083	2,586	38,334

*The average family with two or more individuals.

**Excludes natural resource levies.

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

natural resources) arrives earlier as a result of important personal income tax relief enacted in that province in 2007. Specifically, the average family in Newfoundland and Labrador will pay \$350 less in personal income tax this year (table 4).

There is an unsolved debate as to whether natural resource royalties are actually a tax or simply the conversion of a balance sheet asset ("public asset") into an income stream. This debate is not one we attempt to resolve for our annual calculations. For this reason, we provide two sets of Tax Freedom Days for provinces with significant natural resources, one including and one excluding resource royalties. If natural resource revenues are excluded, Tax Freedom Day is 18 days earlier in Newfoundland and Labrador, 13 days earlier in Alberta, 9 days earlier in Saskatchewan and 6 days

earlier in British Columbia. (table 1). Interestingly, taxpayers in Newfoundland and Labrador, Alberta, British Columbia, and Saskatchewan experienced the largest decreases in Tax Freedom Days after the removal of natural resource levies.

The Atlantic provinces historically have had some of the country's earliest Tax Freedom Days due, in part, to the large share of their total revenue that is transferred from other provinces through the federal government (table 9). Tax Freedom Days in those provinces, as well as in Manitoba, Saskatchewan, and Quebec come earlier than would be the case without these transfers. On the other hand, Tax Freedom Days in the traditional "have" provinces of Ontario, Alberta, and British Columbia come later than would be the case without these transfers.

Fairness in the tax system

In addition to the size of the average family's tax bill, there are concerns about the fairness of the Canadian tax system. The top 30 percent of income earners pay 65.9 percent of all taxes and earn 59.0 percent of all income, while the bottom 30 percent of all income earners pay 4.8 percent of all taxes and earn 9.4 percent of all income (table 8). The overall distribution shows that Canada's tax system is effectively progressive and does extract proportionately more money from those on the higher end of the income scale.

Conclusion

The Canadian tax system is complex and there is no single number that can give us a complete idea of who pays how much. That said, Tax

Table 7: Tax Rates* (percent)

	1981	1985	1995 ^{re}	2000 ^{re}	2005 ^{re}	2006 ^{re}	2007 ^{pe}
Newfoundland and Labrador	37.4	34.9	37.9	42.6	47.5	47.8	49.4
Prince Edward Island	34.2	42.8	38.1	41.8	45.2	45.0	44.7
Nova Scotia	35.5	37.0	42.1	44.5	47.1	46.9	46.1
New Brunswick	34.2	41.6	42.3	43.3	44.6	44.7	44.7
Quebec	42.9	45.6	44.5	50.0	48.6	48.8	48.0
Ontario	40.3	39.5	44.4	46.5	46.5	46.6	46.1
Manitoba	37.2	33.8	44.3	46.9	46.2	46.0	45.4
Saskatchewan	39.0	37.1	45.6	49.6	49.8	49.1	47.1
Alberta	40.6	38.5	42.4	46.9	44.9	43.3	41.2
British Columbia	43.4	45.2	44.5	47.9	47.4	46.6	45.4
Canada	40.8	42.7	44.4	47.8	47.6	47.4	46.5
Without Natural Resources							
Newfoundland and Labrador	37.2	34.6	37.8	42.3	45.2	46.0	44.7
Saskatchewan	36.5	34.8	43.7	46.4	46.3	46.0	44.5
Alberta	34.2	33.3	40.0	40.4	38.9	38.9	37.7
British Columbia	42.6	44.3	43.2	45.6	45.4	44.9	43.8
Canada	39.9	42.1	43.8	46.7	46.5	46.6	45.8

re = revised estimate; pe = preliminary estimate.

*Based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

Table 8: The Distribution of Cash Income and Tax Across Deciles*, and the Average Tax Rate by Decile, 2007, Preliminary Estimate

Decile	1	2	3	4	5	6	7	8	9	10
Distribution across deciles										
Tax	0.5%	1.5%	2.8%	4.5%	6.4%	8.2%	10.2%	12.8%	16.4%	36.7%
Income	1.6%	3.3%	4.5%	5.6%	7.0%	8.6%	10.4%	12.8%	16.0%	30.2%
Average Tax Rate										
	14.7%	20.8%	29.8%	38.1%	43.5%	44.8%	46.1%	47.2%	48.2%	57.1%

*Deciles group families from lowest to highest incomes with each group containing ten percent of all families. The first decile, for example, represents the ten percent of families with the lowest incomes.

Note: Deciles may not sum to 100% due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

Table 9: 2007 Tax Freedom Days and Federal Transfers as a Percent of Total Provincial Revenue

Tax Freedom Day*		Federal Transfers as a Percent of Total Provincial Revenue	
Alberta	June 1	Prince Edward Island	40.8%
Prince Edward Island	June 14	Manitoba	36.6%
New Brunswick	June 14	New Brunswick	35.6%
Manitoba	June 16	Nova Scotia	31.5%
British Columbia	June 16	Newfoundland and Labrador	28.0%
Nova Scotia	June 19	Quebec	21.6%
Ontario	June 19	Ontario	17.6%
Saskatchewan	June 22	Saskatchewan	16.2%
Quebec	June 26	British Columbia	14.8%
Newfoundland and Labrador	July 1	Alberta	10.5%

*Based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute's Canadian Tax Simulator, 2007; 2007 provincial budgets.

Freedom Day is the most comprehensive and easily understood indicator of the overall tax bill of the average Canadian family. In 2007, Canadians celebrate Tax Freedom Day on June 20, four days earlier than in 2006.

Notes

- 1 A complete delineation of tax changes is available in the 2007 provincial budgets.
- 2 For example in our 2006 Tax Freedom Day report (Veldhuis and Palacios, 2006) we preliminarily estimated a June 19 Tax Freedom Day for 2006. This year we recalculated Tax Freedom Day for 2006 using updated

provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations reveal that Tax Freedom Day in 2006 fell on June 24 (table 1).

3 Natural resources and mining revenues are forecasted at \$1.27 billion in 2007/08, a 187 percent increase from 2006/07.

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Tax Freedom Days are calculated on The Fraser Institute's Canadian Tax Simulator (CANTASIM). Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) is an important part of this model for the 1992 through 2007 Tax Freedom Days. The assumptions and calculations underlying the SPSPD/M simulation results were prepared by The Fraser Institute, and the responsibility for the use and interpretation of these data is entirely that of the authors.

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ISSN 1714-6720

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Editing, design, and production

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