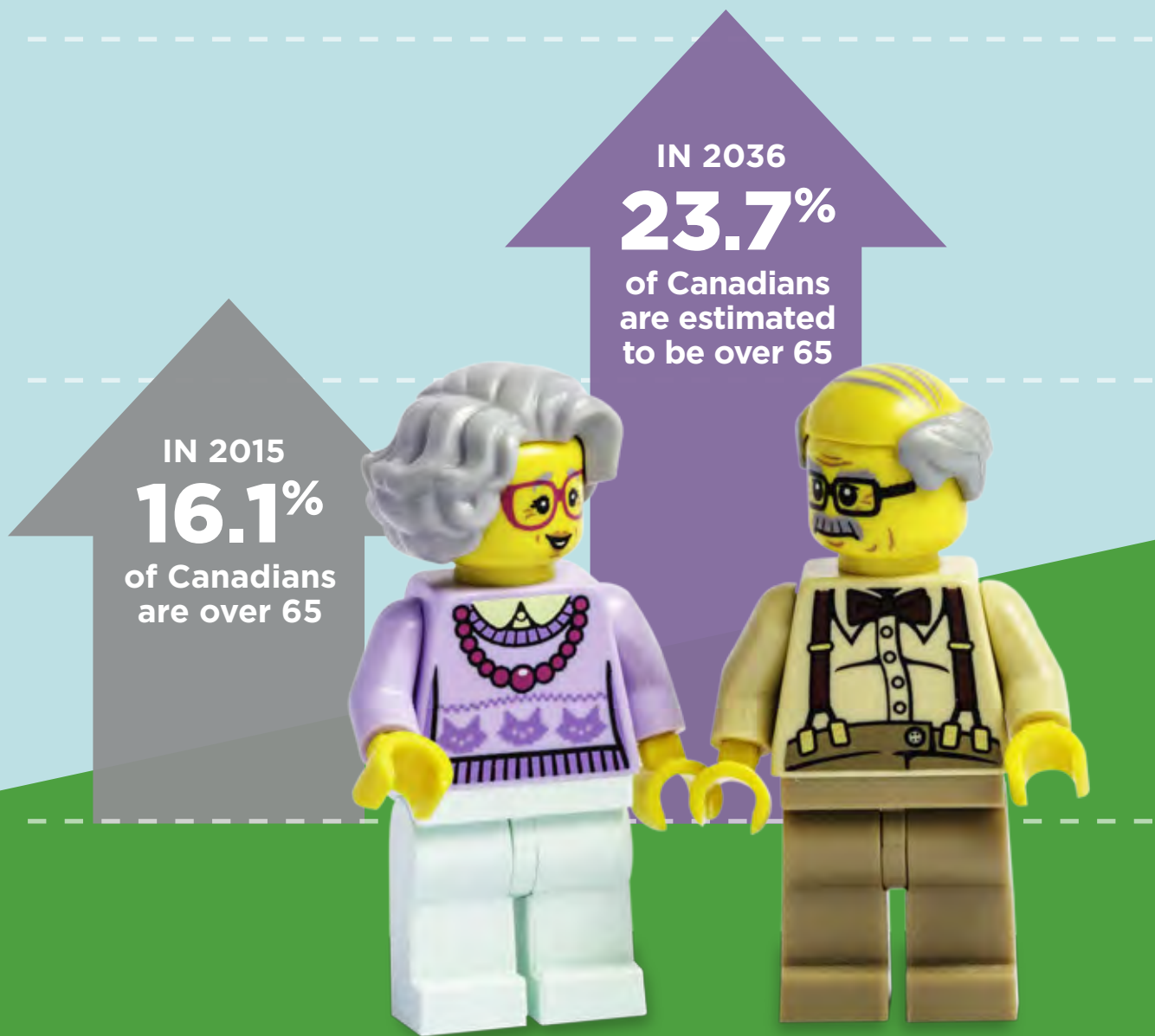


CANADA'S AGING POPULATION

HOW WILL IT AFFECT THE NEXT GENERATION'S TAXES?



**What's
Inside**

New Website
and Blog

An Adult Conversation
About the Oilsands

Canada's Outdated
Labour Relation Laws



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Our mission is to improve the quality of life for Canadians, their families and future generations by studying, measuring and broadly communicating the effects of government policies, entrepreneurship and choice on their well-being.

WELCOME!



Dear Readers,

School is back in full swing and there are lots of educational opportunities for students in the fall edition of CSR. You can find the latest research and policy news on the Fraser Institute's new website (www.fraserinstitute.org) and blog (www.fraserforum.org). In this issue you will also find information about our line-up of free seminars across Canada, where students can listen to leading policy experts and discuss important issues (from LNG development to regulating new technologies to fixing the Canadian health care system), and our 2015 essay contest winners with a link to our 2016 essay contest topic with \$9000 in prizes.

There are also many interesting articles including our cover article that examines Canada's aging demographic and how policy reform is needed to reduce the tax burden for future generations. The article on unions looks at how Canada's high unionization rates can lead to lower job growth, and our Hot Topics section features two new research studies on public school enrollment and why energy and environmental targeting don't work. Also, don't forget to watch our featured video explaining how economic freedom can help countries out of poverty.

Enjoy!

Lindsay Mitchell

Editor, *Canadian Student Review*



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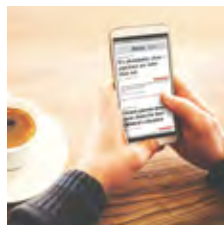
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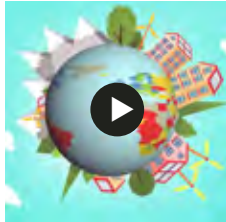
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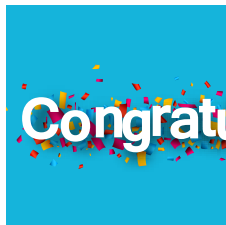


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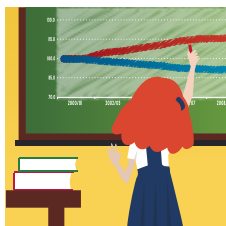
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DEMOGRAPHICS, TAXES AND THE FUTURE

by Brennan Sorge



In Canada today there are two very important political realities. First, the reduction in our national birth rate and population aging that has resulted (Employment and Social Development Canada, 2015a). Next, the high cost Canadians bear in taxation, and the negative economic effects that come as a result. Last, the link between these two trends, demographics and taxes, must be addressed.

As our population ages, Canadian services, especially medical and pension programs, will face an increase in demand, putting pressure on government finances.

Demographically, Canada continues to see birthrates hovering well below replacement level (the minimum number of children per woman required to sustain a population at its current number). Consequentially, the proportion of elderly individuals in Canada has risen. Employment and Social Development Canada has estimated that the proportion of Canadians over 65 will rise to become 23.7% of our population by 2036 (Employment and Social Development Canada, 2015b). This is a significant rise from its current level of 16.1% (Statistics Canada,

2015). There are profound economic implications associated with this trend. For instance, as our population ages, Canadian services, especially medical and pension programs, will face an increase in demand, putting pressure on government finances.

How will governments across Canada cope with the increasing expenses associated with providing public services to an aging population?



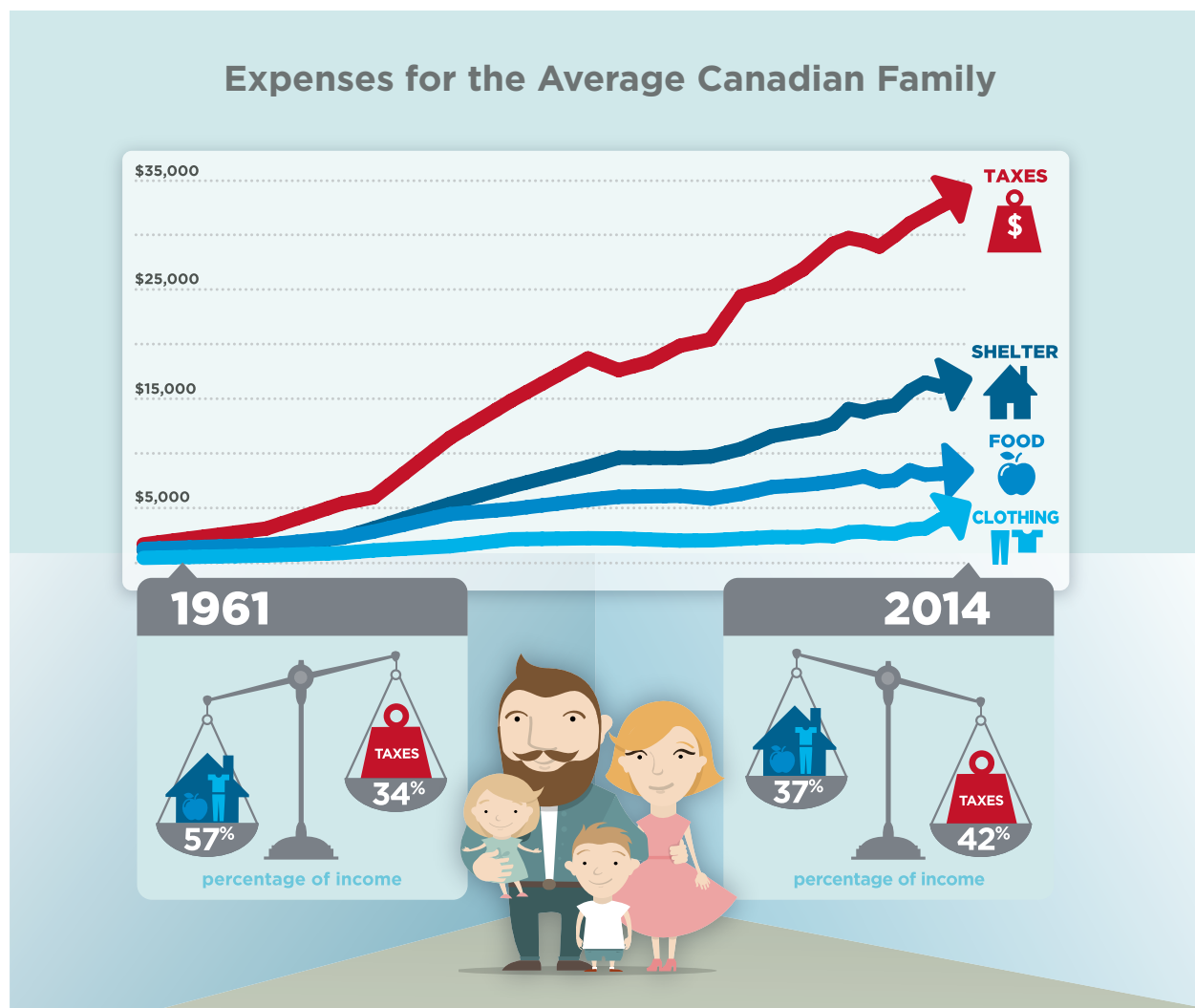
In the past, government has looked to raise extra revenue through increased taxation, which falls primarily on the shoulders of those in the workforce. However, the tax burden faced by Canadian families is already high.

Canadians already pay an average of 42.1% of their income in taxes.

Since Canadians already pay an average of 42.1% of their income in taxes, it seems unlikely that

this approach can be indefinitely extended (Palacios, Lammam, and Ren, 2015). Also, it is important to recognize that an increase in economic growth would increase revenue. This would help to counter the cost of our aging population.

With this in mind, I want to explore what a future shaped by high taxes and an aging population might look like in the absence of policy reform. In this future, our government would be required to spend substantially more money to sustain services. Yet, it would likely face fierce




opposition to raising taxes due to the already heavy tax burden Canadian families face.

A likely outcome of increased spending would therefore be sustained deficit spending and growth in government debt over time. Such action would also reduce economic growth, which would further deprive our services of needed tax revenue. It would also cause public funding to be diverted to debt servicing rather than to the more useful functions of government. This kind of low growth economy would make finding employment a real struggle for many Canadians, especially for young people just entering the workforce. In such a future, Canadians would eventually realize that many of our programs, in their current forms,

We must ensure that economic growth is sufficient to make up for the costs related to our changing demographics.

may become untenable. This is the future Canadians will potentially face if our institutions are left without significant reform.

These problems are not without solutions. Instead, it is more a question of whether or not Canadians are willing to support the necessary reforms needed to address them. With our aging population, we must be prepared to examine our pension system, and to find a model more appropriate for our economy and demography.

We must also recognize the flaws in our health system, and find solutions among the many innovative models employed around the world. The problems of demography and slow growth are far from insurmountable, but they will require the commitment of Canadians to reforming the outdated and inefficient systems in our government. We must ensure that economic growth is sufficient to make up for the costs related to our changing demographics. It is pivotal that Canadians support a policy framework that encourages our economy to be strong and dynamic, and able to cope with the many challenges we face today and in the future. 



Brennan Sorge is a grade 11 student at the Discovery Centre for Balanced Education in Sun Peaks. Having taken an interest in politics and economic policy, he hopes to earn a degree in economics as well as law, and then continue into the political arena.

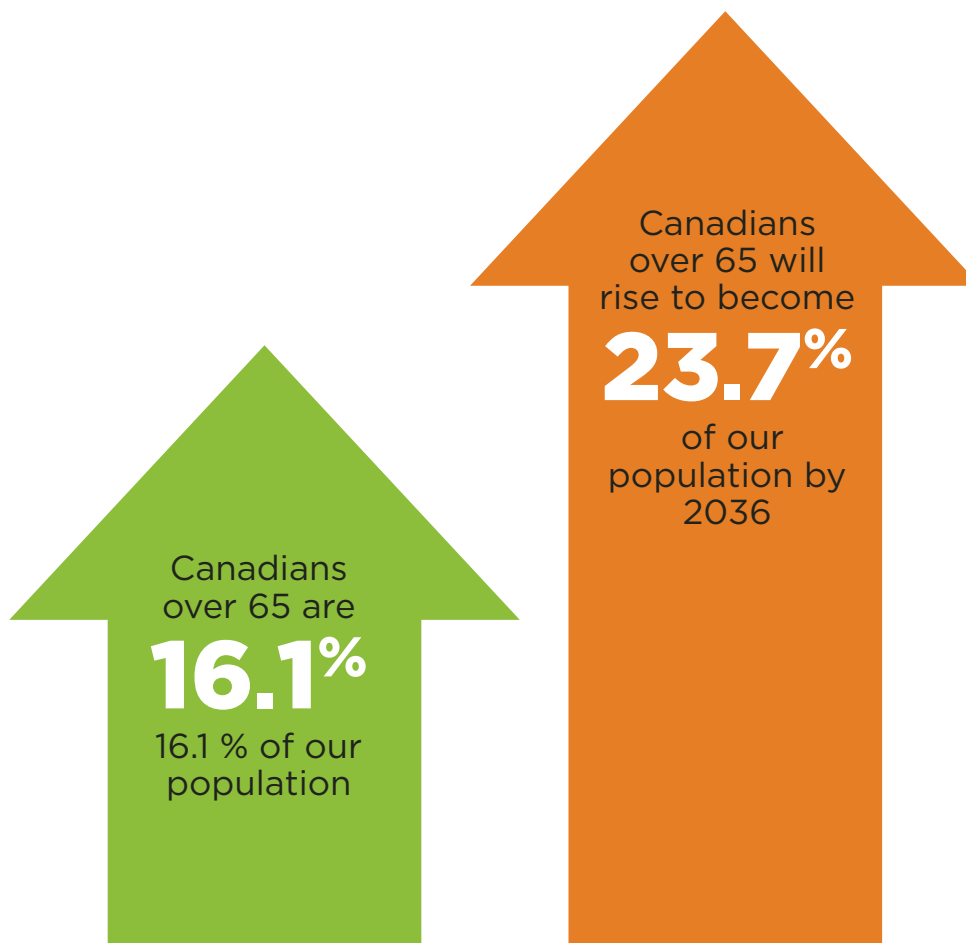
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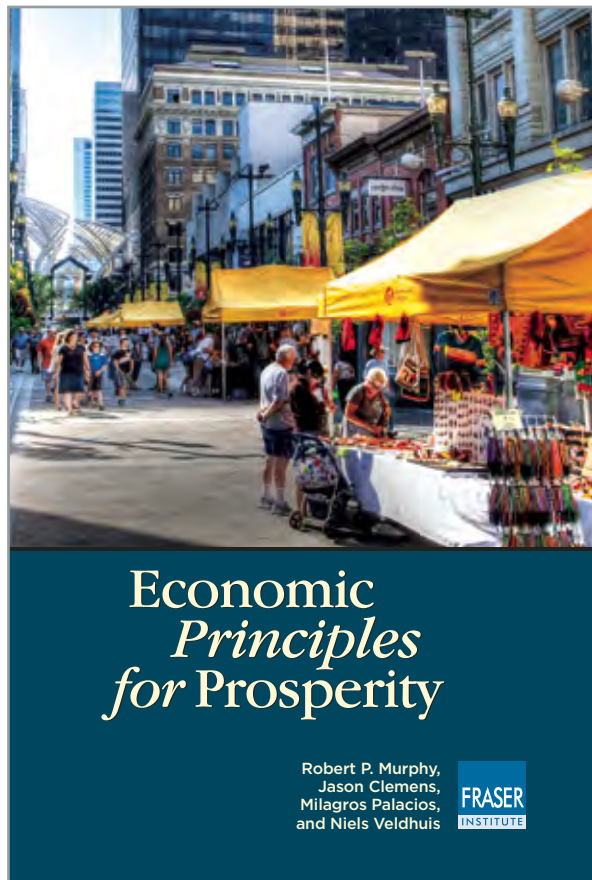
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ECONOMIC PRINCIPLES FOR PROSPERITY

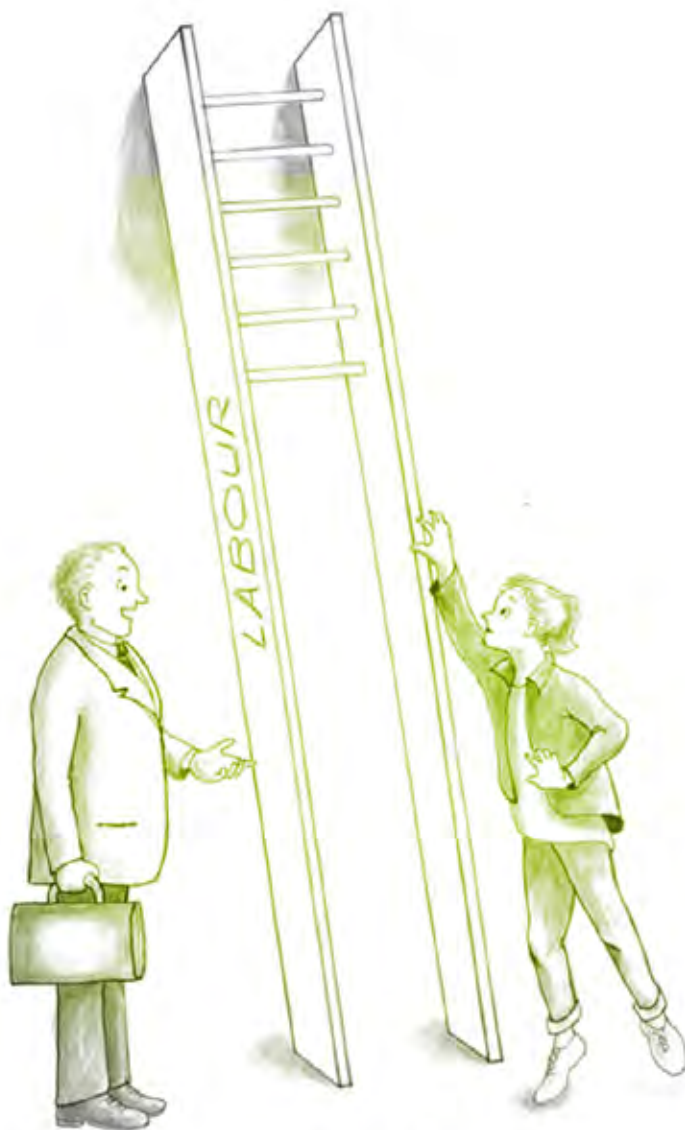
Often when people talk of prosperity, they are thinking just about money. Money is a one aspect of prosperity, but only one. Prosperity also includes a robust job market where employment is available and opportunities for advancement abound, an employment environment where upward mobility is based on hard work and on the acquisition of formal and informal education and training, and where invention is encouraged. In a prosperous economy, individuals

are able to innovate, creating new and better products, services, and ways of doing things. In short, a prosperous society is one that affords opportunities to everyone for personal and professional fulfilment. This book is about how best to achieve those goals.

This book equips everyone with the intellectual tools needed to achieve a more prosperous Canada.

The first section gives readers ten basic economic principles that we believe are essential for economic prosperity. Better understanding these

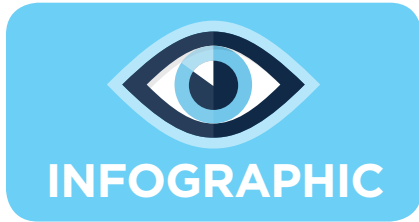
**Economic Myth #5:
The minimum wage helps
underpaid, underskilled workers**



*You're welcome. We raised the
minimum wage to help you out.*

principles can lead to a better understanding of the general principles that should guide government policy. The book's second section describes seven institutions that are prerequisites for societies to advance and progress. They include the concrete rules, incentives, and laws that create the environment within which individuals and groups of people act within a society. The third section discusses fifteen prominent myths and commonly held misperceptions that often impede improvement. This last section aims to give readers greater clarity about many pressing issues facing Canada, some of which could be resolved were many of us not wedded to the myths discussed. By teaching economic principles, explaining the institutional prerequisites for prosperity, and shattering economic myths, this book equips everyone with the intellectual tools needed to achieve a more prosperous Canada. ©

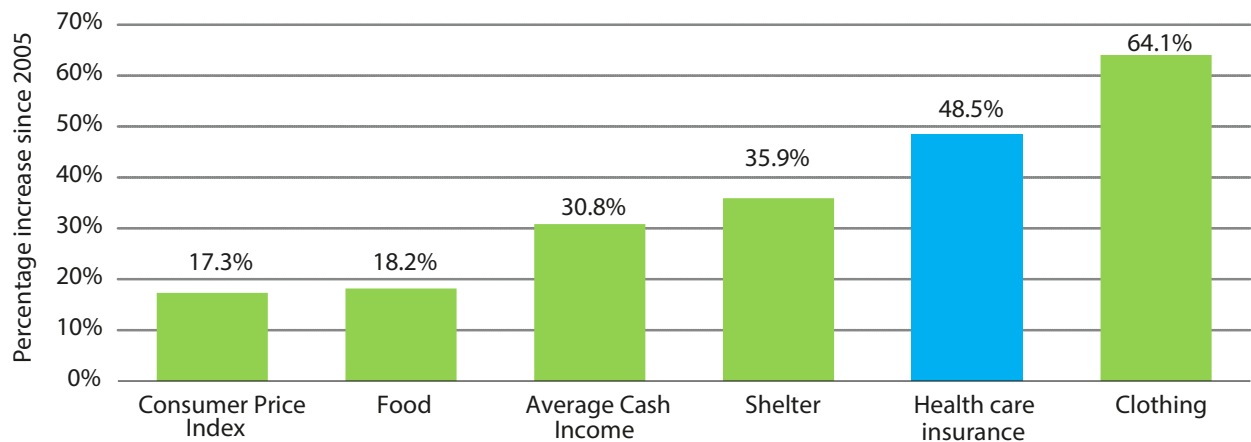
The book can be downloaded
here [»»](#)



How much does your family spend on HEALTH CARE INSURANCE?



How health care insurance has increased relative to other costs, 2005-2015





THE FRASER INSTITUTE LAUNCHES NEW WEBSITE AND BLOG

The Fraser Institute's website, www.fraserinstitute.org, has undergone a dramatic makeover. The revamped site offers a wide array of improvements and new features including more infographics and videos, increased search functionality to make it easier for you to find specific research publications or commentaries, and optimized mobile device viewing.

Coinciding with the new-look website is the launch of the Fraser Institute blog, Fraser Forum, available on the website or directly at www.fraserforum.org. Fraser Forum will feature blog posts on the pressing policy issues of the day.

BLOGGERS INCLUDE:

FRASER INSTITUTE RESEARCH STAFF

Kenneth P. Green –

natural resources, energy, and the environment

Charles Lammam – taxes and government spending

Ravina Bains – Aboriginal issues

Deani Van Pelt – education issues

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William Watson,

McGill economist and National Post contributor

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David Henderson,

U.S. Naval Postgraduate School & Hoover Institution

John Graham, National Centre for Policy Analysis

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To read posts on other interesting policy issues from leading policy experts, please visit www.fraserforum.org >>

AN ADULT CONVERSATION ABOUT THE OILSANDS

Kenneth P. Green

Max Fawcett, the editor of Alberta Oil, penned an interesting article recently, taking on the newest environmentalist stance on the oilsands, which many Canadians may not understand. The current environmentalist demand is for 85 per cent of the oilsands to remain untapped, and that net emissions of greenhouse gases must not increase—at all—after 2018.

In other words, even if oil prices came roaring back, many environmentalists would not allow any additional growth in oilsand development. In fact, they want it ramped down and ended. Those who might disagree with these notions are facing a new labelling attack, wherein people like Pembina Institute oilsand analyst Erin Flanagan opines that they are “not ready to have that mature conversation” about how much of the resource must remain in the ground. Fawcett points out that other rhetorical tactics include positing oilsand opponents as “the adults” or

“grown-ups” in the discussion (I’ve faced similar rhetorical posturing in environmental debates myself).

Fawcett’s piece is very good in pointing out that the current environmentalist pretense to maturity is simply irrational. He explains that the demand for hydrocarbons around the world is such that even if Canadian environmentalists managed to stop production or pipeline transportation of the oilsands, the demand would be met from elsewhere, most likely, with oil produced in less environmental (and probably less humanitarian) ways:

But the notion that Canada should walk away from the oil sands entirely in order to meet its climate change commitments is just as facile. Stopping projects like Keystone XL or Northern Gateway won’t reduce the world’s aggregate demand for oil and refined products. The barrels that would have flowed through them will simply be replaced by barrels coming from other parts of the world.



Image courtesy of Suncor Energy Inc.

Fawcett is also right when he calls for extracting all of the bitumen that can be extracted economically—because there are few replacements for the energy bounty that nature has bequeathed us: the concentrated sunlight of billions of years of biological activity.

The actual “mature” conversation about climate change starts with accepting reality: for humans to thrive, we must consume energy—

vast quantities of it—and fossil fuels are far and away the most abundant, affordable and reliable source of that energy. An adult conversation would also acknowledge that the UN’s climate models virtually all overstate predicted warming, and the more likely result of continuing to emit greenhouse gases is a moderate warming that can be managed with a variety of policies that are far less draconian than shutting off the fossil-fuel tap. As McKittrick observes:

The most recent report of the Intergovernmental Panel on Climate Change said that observed warming this century was slower than predicted by 111 out of 114 of their climate model simulations. On average the observed warming this century was only a quarter what their models projected.

Where I depart from Mr. Fawcett's analysis is when he suggests that the "real solution" is about imposing a carbon tax. As Fraser Institute senior fellow Ross McKittrick has pointed out (in 2012), the demand

For humans to thrive, we must consume energy—vast quantities of it—and fossil fuels are far and away the most abundant, affordable and reliable source of that energy.

for fossil fuels is so strong (inelastic, in economic parlance), that an effective carbon tax would have to be stupendously high. To reduce gasoline consumption in Canada by 30 per cent for example, McKittrick calculated one would need to raise the price of gasoline by \$2.30 per litre, representing a carbon tax of nearly \$1,000 per tonne. That is vastly higher than any estimate of the costs imposed on society by climate change, not to mention several orders of magnitude higher than the current

"price" for a tonne of carbon credit on the California carbon market, which is running at US\$12.75.

So by all means, let's have that "adult" conversation about energy. That's the one where we start with the hardest question: how do we supply modern types and quantities of energy to the 2.6 billion people on Earth who are currently suffering morbidity and early death for the lack of safe energy just to cook their food? And then work our ways to the easier ones, such as, is the answer in renewables?

Not for a long time.

The International Energy Agency forecasts only 18 per cent of global electricity production will come from all renewables (which includes hydro and biofuels) by 2040. And they forecast that only two per cent of vehicles will be all-electric, even by 2040. The vast majority of vehicles (46 per cent) will still be gasoline-only. And that forecast came before the recent crash in oil prices.

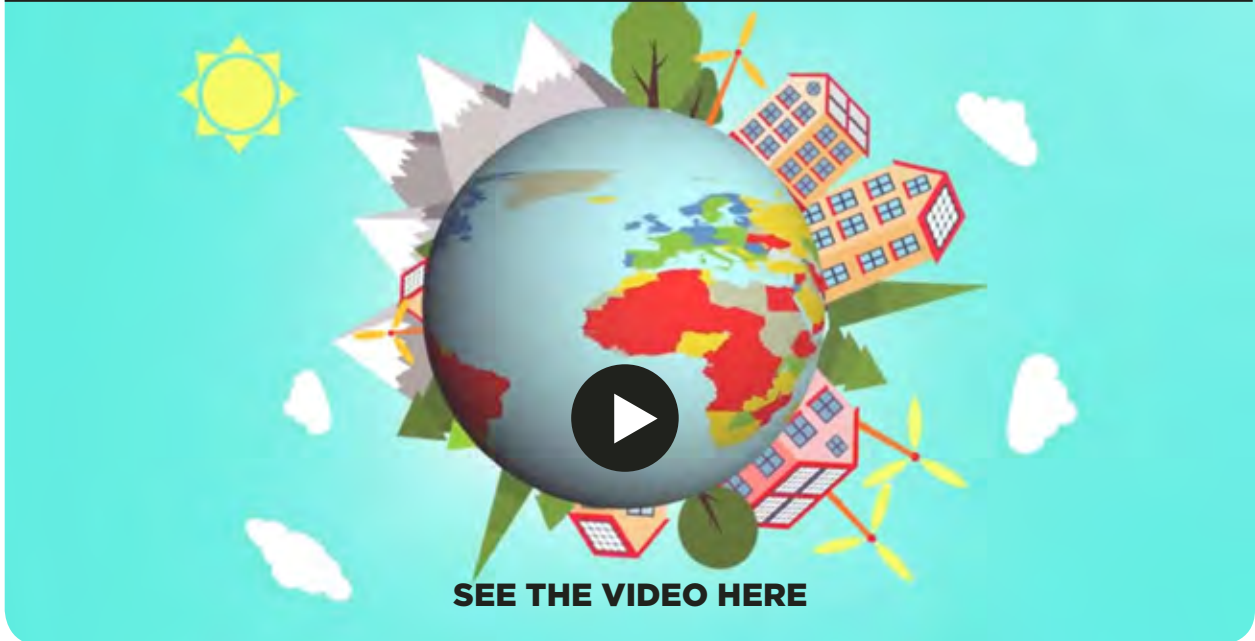
There's your adult conversation. 



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



Fraser Institute: The Benefits of Economic Freedom



ECONOMIC FREEDOM OF THE WORLD

The Fraser Institute's annual report, *Economic Freedom of the World*, measures the economic freedom (levels of personal choice, ability to enter markets, security of privately owned property, rule of law, etc.) by analyzing the policies and institutions of 157 countries and territories. Learn how increased economic freedom can improve conditions of those living in poverty, leading to increased incomes, better education, and longer, healthier lives. [C](#)



REJECTING THE UNION DISADVANTAGE

by Matthew Lau

As noted recently by Clemens and Veldhuis (2015) in the *Financial Post*, Canada's political leaders seem to be reaching some consensus on tax policy: high tax rates on businesses and individuals discourage investment, job creation, work effort,

and entrepreneurship—all of which are needed to build a prosperous society.

If only more politicians had the courage and inclination to identify and take action on another issue holding back economic growth: Canada's outdated labour relations

laws. An empirical analysis of private sector labour relations laws conducted last year by the Fraser Institute found that compared to the United States, “Canadian jurisdictions generally maintain much more biased and prescriptive labour relations laws” (MacIntyre and Lammam, 2014).

The total unionization rate in Canada is four times the unionization rate in right-to-work states in the United States.

One of the results is that unions are much more prevalent in Canada than in the United States. The total unionization rate in Canada is four times the unionization rate in right-to-work states (the 25 US states in which non-union employees in a union workplace are not forced to pay full union dues) and almost twice as high as in non-right-to-work states (Lammam and MacIntyre, 2015).

Unfortunately for Canadians, the economic evidence indicates that jurisdictions with more biased and prescriptive labour relations laws tend to have inflexible labour markets which are less economically productive (MacIntyre and Lammam, 2014). On the other hand, increased market flexibility “permits employees and employers to reallocate resources to maximize productivity” (MacIntyre and Lammam, 2014).

The high unionization rates themselves also tend to have negative economic effects, such as lower job

growth. Long (1993) analyzed the employment in 510 Canadian firms from 1980 to 1985, and found that “within the manufacturing sector, union firms grew 3.7% more slowly per year than nonunion firms, and within the nonmanufacturing sector, union firms grew 3.9% more slowly than nonunion firms.” The presence of unions also tend to reduce investment: a study by Odgers and Betts (1997), which analyzed 18 industries over a 20 year period, found that “in an industry moving from no unions to the mean level of unionization, net investment and gross investment are predicted to fall by 66–74% and 18–25%, respectively.”

Furthermore, as argued by Kozhaya (2005), because unions reduce the wage gap between highly skilled and unskilled workers, they discourage personal investment in education and training. Unions also discourage work effort by promoting compensation systems based on seniority instead of merit (Kelly-Gagnon, 2015). As a result, unionized businesses become less competitive. “Empirical evidence shows unambiguously that unionization leads to lower profitability,” according to Hirsch (1997), who notes that “most studies obtain estimates suggesting that unionized firms have profits that are 10 percent to 20 percent lower than the profits of non-union firms.”

Given the negative economic effects of unionization, it is unsurprising that since 1999, trade unionization rates (the percentage of wage and salary earners who are members of a labour union) have declined in 29 of 34 OECD countries, according to

the most recent data available on the OECD website (undated).

There is one sector, however, where unions are thriving: the government sector. The unionization rate among Canada's government employees is 74.8%, compared to only 16.8% in the private sector (Lammam and MacIntyre, 2015).

In one sector, unions are thriving: the government sector.

One of the reasons that the unionization rate is so high in the government sector is that government unions operate in a monopolistic environment and are isolated from market realities like bankruptcy and competition (Lanigan, 2015). At least in the private sector, companies generally face competition, which "forces an economic reality check... it forces employees and management

to pay attention to what the rest of us need and want. Not so in government" (Milke, 2015).

The result of high unionization rates and lack of competition is inflation in the cost of government labour.

The result of high unionization rates and lack of competition is inflation in the cost of government labour. According to the Fraser Institute, government employees in Canada receive a 9.7 percent wage premium on average over comparable private sector workers (Lammam, Palacios, Ren, and Clemens 2015). Furthermore, 83 percent of government employees have defined benefit pensions compared to only 11 percent of private sector workers. Government employees also tend to retire earlier,



are absent almost 50 percent more often, and have much better job security (Lammam, Palacios, Ren, and Clemens, 2015).

A literature review by the Fraser Institute shows that numerous other studies in the last few decades have also confirmed government sector compensation premiums of various sizes in Canada (Lammam, Palacios, Ren, and Clemens, 2015). In particular, Gunderson, Hyatt, and Riddell (2000) found that the government wage premium was 11.2 percent—which decreased by roughly one-third when controlling for the impact of unions. Milke (2013) notes that while “unionization does help explain part of the public sector pay and perks advantage”, it is only an explanation, not a justification.

Federal government workers receive a 13.0 percent wage premium over private sector workers, which increases to 33.2 percent when benefits such as pensions and working hours are considered.

The pay and perks advantage enjoyed by public servants is highest in the federal government. According to a recent analysis by the Canadian Federation of Independent Business, federal government workers receive a 13.0 percent wage premium over private sector workers, which increases to 33.2 percent when benefits such as pensions and working hours are considered as well (Mallett, 2015).

Clearly, there is significant economic benefit to updating laws and policies governing unionization in Canada, since the evidence shows that high unionization rates hinder private sector investment and job creation and are a contributing factor to the wage and benefit premiums received by public servants.

Of course, unions and their allies vigorously oppose reforms to Canadian labour relations laws that favour them. A report sponsored by the National Union of Public and General Employees complains that since the “assault on labour rights and unions began, income inequality in Canada has been steadily rising” and that “in countries where union density has declined, the top 1 percent has been able to reap the gains” (Sran, Lynk, Clancy, and Fudge, 2013). The Canadian Centre for Policy Alternatives points out that the decline in unionization rates in Canada in the past several decades coincides with a rise in income inequality—the implication being that unions are needed to increase the wage of the workers, strengthen the middle class, and reduce inequality (Mackenzie and Shillington, 2015).

Such arguments ignore the disemployment and other negative economic effects of unionization. In fact, incomes for lower- and middle-class households in Canada actually rose when unionization declined—in the latter case, graphing middle-class income against unionization rates over the last few decades produces an almost mirror image. (See Figures 1a and 1b).

Figure 1a: Unionization rate versus income for the bottom 20% of households in Canada

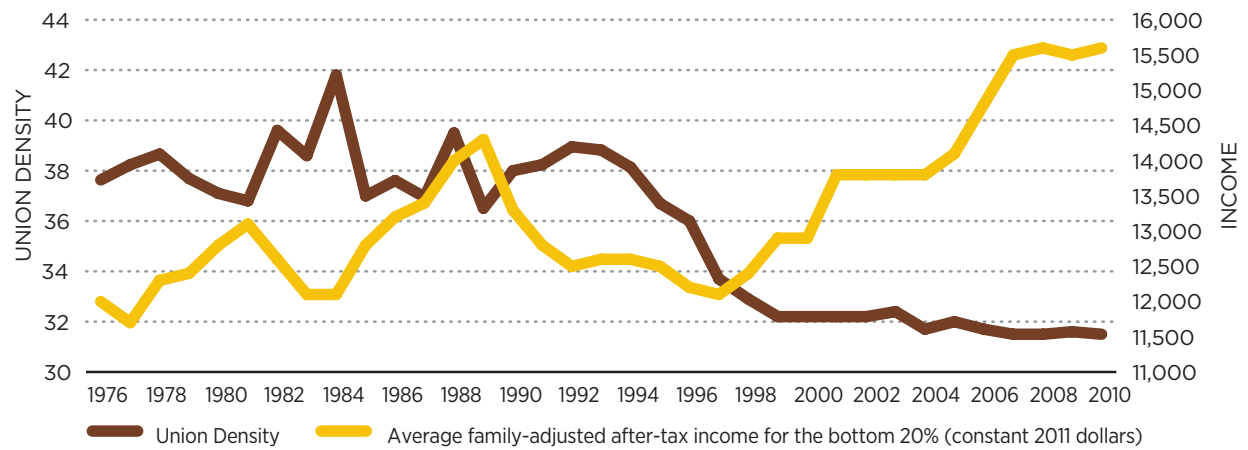
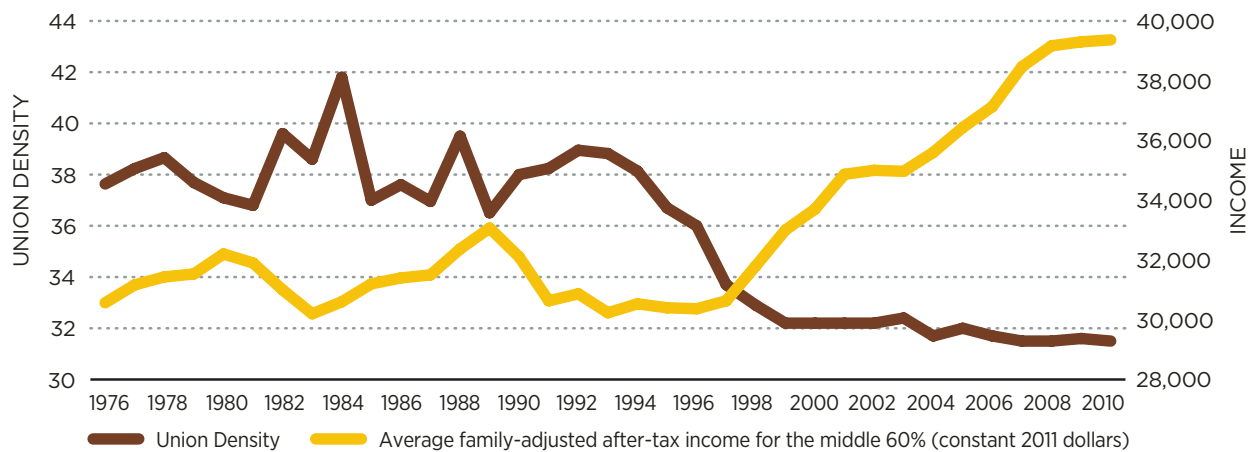


Figure 1b: Unionization rate versus income for the middle 60% of households in Canada



This evidence doesn't prove that unions hold back the lower-and middle-classes (correlation does not prove causation), but at least provides preliminary data to counter the myth often put forward by unions and their allies that high unionization rates are the silver bullet to strengthening the middle class and reducing poverty.

Given the adverse economic effects of prescriptive labour relations laws

and increased unionization, Canada should consider reforming these laws in a way that makes them more balanced and less prescriptive. **C**



Matthew Lau is a finance and economics student at the University of Toronto. He will graduate in Spring 2016

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PROPERTY RIGHTS

**THE FOUNDATION OF
OUR FREEDOMS**

Peter Leeson



The most important rights in any society are property rights. Property rights define “mine and thine.” They describe the privileges and obligations of ownership and thus the rights of resource owners. Most importantly, these rights include:

1. A resource owner’s right to use her resource any way she wants, including not at all, provided that in doing so she does not infringe on someone else’s property rights.
2. A resource owner’s right to allow others to use her resource, for free or for a price, and to exclude others from its use.
3. A resource owner’s right to transfer ownership of her resource to someone else for free or for a price.
4. A resource owner’s right to the earnings her use or sale of the resource creates.

Property rights are indispensable for prosperity for three reasons. First, they make it possible for individuals to discover the information they need to use resources productively. Property rights permit market exchange and market exchanges permit market prices. As the great Austrian economist and Nobel Laureate F.A. Hayek pointed out, market prices are like signals that

direct economic traffic. If, for example, a storm in the Prairies destroyed some of Saskatchewan’s wheat crop, then the price of wheat in Saskatchewan would rise, encouraging wheat farmers in other provinces to send more of their wheat to Saskatchewan’s needy market and prompting buyers in Saskatchewan to curtail their consumption. The changing price of wheat—a price made possible by property rights—coordinates suppliers and demanders in light of changing market conditions.

Property rights make it possible for individuals to discover the information they need to use resources productively.

Imagine how things would be different without property rights. Individuals cannot trade what they do not own. Thus, without property rights there would be no market exchange. And without market exchange there would be no market prices. And without market prices the information these prices provide about how resources should be used could not be discovered. If a storm destroyed some of Saskatchewan’s wheat crop, wheat from other provinces would not flow into

Saskatchewan's needy market and Saskatchewan's consumers would not know to curtail their consumption. The result would be economic chaos. Without property rights, economic actors would be groping in the dark.



The second reason why property rights are indispensable for prosperity is that they create incentives for individuals to act on information about how to use resources productively. When their property rights are secure, individuals benefit directly—in the form of profit—from employing their resources productively. For example, the Alberta wheat farmers who, after observing the higher price of wheat in Saskatchewan following the storm, sent some of their wheat to Saskatchewan's market would get to keep the money they made by acting on this information.

Similarly, individuals lose directly—in the form of losses—when they employ their resources unproductively.

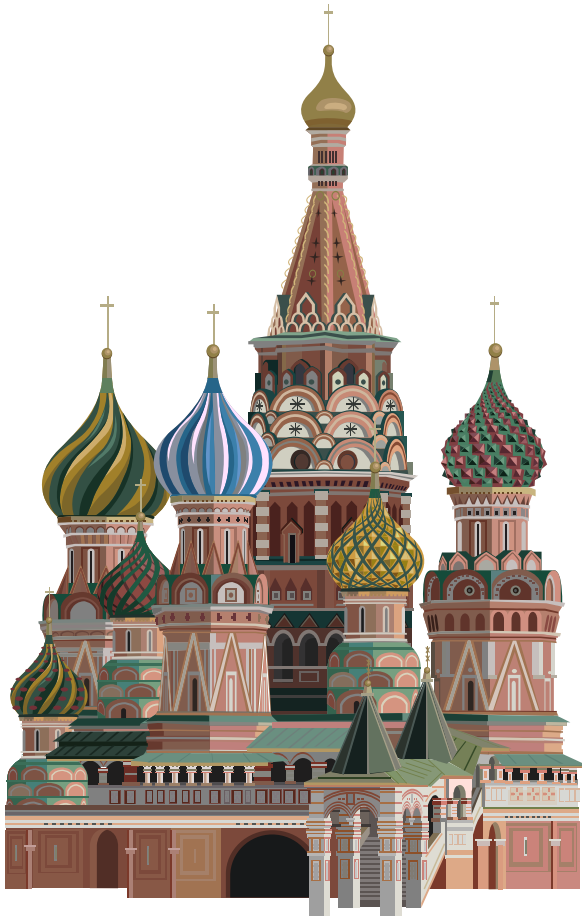
The Alberta wheat farmers who, after observing the higher price of wheat in Saskatchewan following the storm, made hats out of their wheat instead of sending it to Saskatchewan would lose money because they responded to this information inappropriately. In this way, property rights encourage resource owners to use their resources in ways that create value and avoid using them in ways that destroy value.

Property rights encourage resource owners, such as wheat farmers, to use their resources in ways that create value and avoid using them in ways that destroy value.

The final reason why property rights are indispensable for prosperity is that they make liberty possible. Besides material well-being, our overall prosperity also depends on our freedom. And as Milton Friedman, another Nobel Laureate in economics, famously pointed out, to enjoy the civil freedoms we cherish, we must have property rights. The Soviet Union's constitution officially guaranteed its citizens freedom of speech and freedom of assembly. But these guarantees were meaningless because the Soviet Union's socialist economy abolished citizens' property rights. Citizens could not own printing presses. Nor could they own assembly halls. How, then, could they exercise their supposed freedoms?

Property rights are equally indispensable for other liberties. How can there be freedom of religion

where citizens cannot own places of worship? How can there be a right to privacy where citizens cannot own homes? And how can there be freedom of thought where citizens cannot own publishing companies?



If citizens do not have property rights, then even the most basic civil freedoms, such as freedom of religion, a right to privacy, and freedom of thought, are impossible.

There can't be. If citizens do not have property rights, then even the most basic civil freedoms are impossible.

There are two threats to individuals' property rights: thieves and government. Ostensibly, the very reason for the latter is to protect us against the former. Laws, police, and courts are supposed to protect our rights of ownership from those who would not respect them otherwise.

There are two threats to individuals' property rights: thieves and government.

In much of the world, however, politicians behave much like thieves—only they plunder much more. Such governments use taxes, inflation, and, in some cases, outright expropriation to steal from their citizens.

The means that thieves and predatory governments use to violate individuals' property rights may differ, but their effect is the same. If you expect to regularly lose your earnings to a mugger, your right to your income—and thus your ability and incentive to generate income—is greatly weakened. Similarly, if you expect your government to take a large portion of your income each year through taxes or some other form of expropriation, your right to your income—and thus your ability and incentive to generate income—is weakened as well.


A society plagued by predatory governments winds up in the same situation as one plagued by thieves, and for the same reason. In both societies the citizens' property



rights are insecure, undermining individuals' ability and incentive to create wealth. It is, therefore, critical to prevent thieves and governments from undermining individuals' property rights.

By protecting individuals' property rights, we can ensure the growth of civilization.

While there are many ways to live, there is only one way to live free and prosperously: through a system of well protected property rights. Property rights are the foundation of a free society. They make the price system possible, provide individuals with incentives to create wealth, and are the linchpin of our liberty. By protecting individuals' property rights, we can ensure the growth of

civilization. By failing to do so, we ensure civilization's demise. 



Peter Leeson is BB&T Professor for the Study of Capitalism at the Mercatus Center, George Mason University, and author of The Invisible Hook: The Hidden Economics of Pirates.

SUGGESTIONS FOR FURTHER READING

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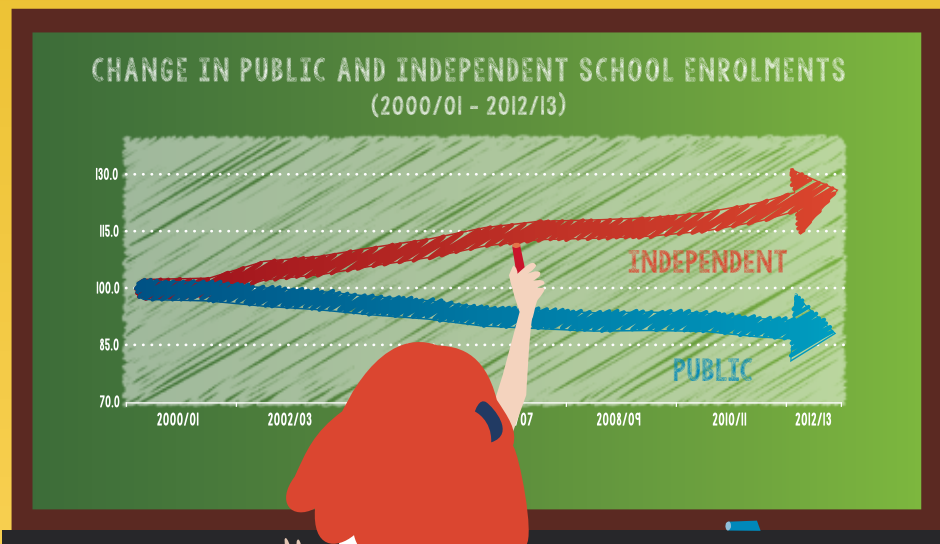
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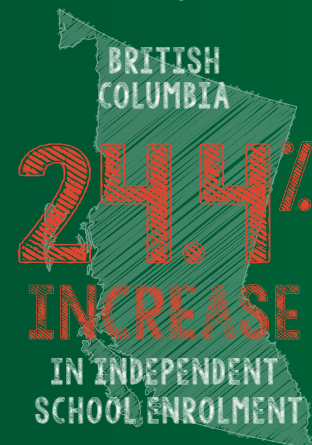
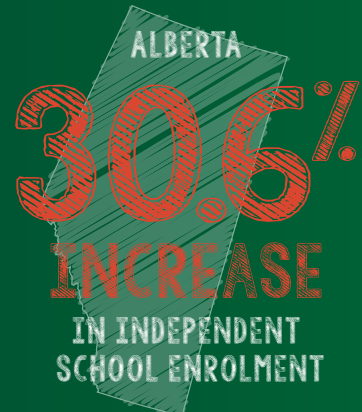
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