

# THE IMPERATIVE OF A REFERENDUM



**What's  
Inside**

Tax Freedom  
Day 2016

Red Tape Drives Canada's  
Housing Affordability  
Woes—Not Foreign Buyers

Canadian  
Consumer Tax  
Index 2016



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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!



Welcome back to school, we hope you had a fun and relaxing summer! School is not the only thing starting up this fall, Parliament is back in session in Ottawa and the federal government has several key issues to deal with. One of these main issues revolves around electoral reform and whether or not there should be a referendum on any changes made to Canada's electoral system. In this issue's *Hot Topics* section, part one of the Fraser Institute's essay series on electoral reform explores the constitutionality of holding a referendum on electoral changes more in depth.

Other articles in this issue include student articles from two of the Fraser Institute summer interns tackling both the climate change-policy debate and infrastructure spending. In addition, this issue includes op-eds on both housing affordability and the current crisis in Venezuela, and an analysis of the role of government in Netflix's latest hit series. You will also be able to check out the Fraser Institute's latest video on the 2016 Canadian Consumer Tax Index.

We hope you enjoy this issue and look out for one of our upcoming high school or post-secondary student seminars in a city near you!

**Lisa-Diane Fortier**

Editor, *Canadian Student Review*





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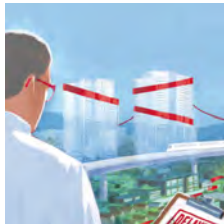


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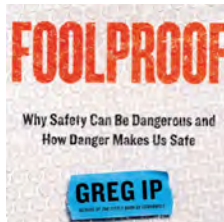


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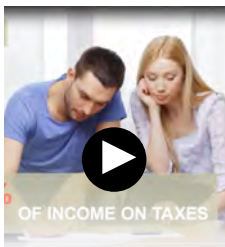
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Peter Munk  
Centre *for*  
FREE ENTERPRISE  
EDUCATION

# \$5 million gift to Fraser Institute launches Peter Munk Centre for Free Enterprise Education



We are delighted to announce that Peter Munk is donating \$5 million to launch The Peter Munk Centre for Free Enterprise Education at the Fraser Institute. The gift will allow the Institute to greatly expand its education programs in Central Canada, with a particular focus on Ontario.

“The Fraser Institute is Canada’s leading think-tank and one of the most influential in the world. It continues to play a critical role in improving the quality of life for Canadians,” said Peter Munk. “I am very pleased to support this great Canadian institution and the creation of the new Centre. I hope this gift inspires others to support the Fraser Institute in a material way.”

# **“CONSENSUS” ON CLIMATE CHANGE STIFLES DEBATE SURROUNDING PUBLIC POLICY**

Kyle Sholes

**“SURELY INTERVENTION  
IS NECESSARY TO STOP THE  
EFFECTS OF CLIMATE  
CHANGE!”**

**“CAN’T WE DISCUSS  
SOME OF THE OTHER  
CLIMATE CHANGE  
THEORIES?”**



**G**overnment action on climate change has become commonplace in Canada and in many countries around the world—look no further than the 190 countries that were represented at the 2015 Paris Climate Conference (COP21 Paris, 2015). To name a couple of examples of climate change action in Canada, British Columbia (2016) put in place a carbon-tax in 2008 and Ontario (2016) recently released a five year Climate Change Action Plan in which it plans to reduce emissions and transition to a low-carbon economy. These plans and policies are reflective of the government’s belief that intervention is necessary to stop the effects of climate change. Indeed, Canada’s Environment Minister, Catherine McKenna, has stated that climate science is “indisputable, and [the Government of Canada recognizes] the need for urgent/greater action” (2015).

**Words like “indisputable” and “the need for urgent action” limit the scope of debate, relying on claims of perceived experts to justify any and all policy decisions without room for discussion.**

Our government’s desire to enact climate change-focused public policy—and the effects of such policies—are topics for a different discussion; here the rhetoric used to support these decisions is the concern. Words like “indisputable” and “the need for urgent action” limit the scope of debate, relying on claims of perceived experts to justify any and all policy decisions

without room for discussion. But, as will be shown, not all of these experts’ claims are as reliable as our politicians make them out to be.

While the specific areas of “indisputable” science to which McKenna refers are unclear, one such widely used claim is that 97% of scientists believe climate change is real and man-made. US President Barack Obama backs the claim—from here on referred to as the 97% claim—with a tweet saying that “ninety-seven percent of scientists agree: #climate change is real, man-made and dangerous” (2013). Obama’s tweet is linked to an article about a study lead by John Cook in which the 97% claim is established.



Cook’s work provides an excellent case study on how consensus-based rhetoric can be misused by policy makers in public debate.

Cook and his colleagues’ conclusion,



that there is consensus among 97% of scientists on anthropogenic—man-made—global warming (AGW), is drawn from analyzing the abstracts of about 12,000 peer-reviewed scientific articles that appeared using the search terms “global climate change” or “global warming” (Cook et al., 2013). The 97% claim is reached by organizing these abstracts into three broad groups: those that endorse the consensus, those that reject it, and those that do not take a stance on AGW (Cook et al., 2013).

**With this in mind the 97% claim leaves many questions—both about its reliability and its implications—unanswered.**

Although seemingly simple, organizing the abstracts is based heavily on inference and assumption. For example, the study further classifies endorsements as either explicit or implicit, meaning some articles are considered endorsements based on an interpretation of what their authors might be *implying* (Cook et al., 2013). Many scientists have spoken out against the study, saying their work was misrepresented by the Cook’s conclusion; a fact which questions the reliability of the 97% claim (Forbes, 2013, May 30).

Further, the 12,000 abstracts used give false legitimacy to the study, for although nearly 12,000 articles were identified, 66.4% of them did not take a stance on AGW (Cook et al., 2013). Instead, the 97% claim is based off of the abstracts in which there was a judgement made; those which took no stance are not considered in the

claim, which again calls into question its accuracy.

In addition to these uncertainties, the 97% claim is vague and often used to support arguments beyond its scope. On its own, the claim simply suggests that some amount of human activity is causing a certain degree of warming. The claim does not substantiate to what extent human activity causes warming, how much warming is being caused, and, most importantly, if this phenomenon is a danger to human health, either now or in the future.


With this in mind the 97% claim leaves many questions—both about its reliability and its implications—unanswered. Unfortunately when policy-makers discuss claims like these with absolute certainty, these questions may not be fairly considered. However, it is possible that if the perceived irrefutability of the 97% claim is suspended, more debate may take place and new complexities could be added to the discussion that ought to play a role in public discourse.

One such complexity is found in a study by the Cato Institute climate scientists Patrick Michaels and Paul Knappenberger (2015), which questions levels of equilibrium climate sensitivity—the amount surface temperatures will rise when carbon dioxide levels in the atmosphere double—used by many climate models.

In their study, Michaels and Knappenberger (2015) argue that traditional climate models overestimate equilibrium climate

sensitivity leading them to consistently predict global temperatures much higher than we have experienced. Michaels and Knappenberger (2015) suggest that if a lower estimate were used, warnings of dangerous global warming would turn into predictions of benign global “lukewarming.” This is significant because estimates of future warming are used to assess what the human costs of climate change might be, and if warming is overestimated so too would be the potential costs and risks of climate change.

**Unfortunately, the rhetorical path taken by many policy makers today supports their decisions without allowing these questions to be debated.**

This is not to say that Michaels and Knappenberger are right, but rather to illustrate how rhetoric may stifle debate. If the 97% claim is taken at face value and the climate science favoured by many policy-makers is considered “irrefutable”, Michaels and Knappenberger’s theories may not get the chance to be considered. Regardless of who is right or wrong, our government’s decisions ought to be subject to rigorous and critical questioning. Unfortunately, the rhetorical path taken by many policy makers today supports their decisions without allowing these questions to be debated. 



*Kyle Sholes was the Natural Resources Centre intern at the Fraser Institute this summer. He has a Political Science Honours degree from Huron University College at the University of Western Ontario.*

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QUOTE  
WALL

“Everything we do to make ourselves feel safer brings with it the inherent danger of amplifying our appetite for risk taking, the possibility that we’ll treat something dangerous as less dangerous, and the potential for panic when we discover we are wrong.”

—Greg Ip  
*Foolproof: Why Safety Can Be Dangerous and How Danger Makes Us Safe* (2015).

Image: <https://gregip.wordpress.com/about/>





THIS ARTICLE APPEARED IN THE *GLOBE AND MAIL*





# RED TAPE

## DRIVES CANADA'S HOUSING AFFORDABILITY WOES—NOT FOREIGN BUYERS

Kenneth P. Green, Steve Lafleur and Josef Filipowicz

**F**oreign nationals purchasing homes in Metro Vancouver and the Greater Toronto Area is a topic that continues to make national headlines, especially as housing prices rise. This came to a head recently when B.C. Minister of Finance Mike de Jong announced an additional 15 per cent property transfer tax on foreign homebuyers in Metro Vancouver.

Soon after, Ontario Minister of Finance Charles Sousa stated that his government will look “very closely” at the proposal, raising the spectre that jurisdictions across the country could follow suit. While foreign homebuyers are a convenient scapegoat for rising housing prices, an underlying yet overlooked problem is that the supply of new homes is not keeping up with demand, driven in large part by land-use regulations. Provinces and municipalities should focus on removing these barriers to new homebuilding rather than attempting to micromanage the housing market.

So far, the discussion on housing affordability has primarily focused on demand-side issues. Beyond foreign homebuyers, low interest

rates and increased demand for housing in Canada's most desirable neighbourhoods are often pointed to as factors driving up prices. While all may indeed be true—many people are happy to pay for the natural beauty of Vancouver, or to live in a global city like Toronto—these discussions ignore the fact that when a good is in high-demand, it generally spurs greater supply.

**While the intention of taxes like these is to dampen demand from abroad, it isn't clear to what extent they will work.**

In the case of housing, however, there can be geographical constraints on building—notably in Vancouver—which hold back supply and contribute to higher prices. But even Vancouver has the capacity to add a large amount of new housing units, which is undermined by local and provincial housing regulations and opposition to more dense development.

Indeed, a recent study by the Fraser Institute takes a closer look at the

gap between demand and supply in several large Canadian urban regions, including Toronto and Vancouver. It finds that long and uncertain approval timelines for building permits, as well as onerous fees and local opposition to new homes, slow the growth of the housing stock. The result—fewer new homes with a growing pool of buyers inevitably leads to rising prices.

Instead of targeting one segment of the housing market for a tax hike, policymakers should look to factors preventing the housing supply from keeping up with all demand. Increasing the construction of new homes in Canada's most desirable regions would, eventually, put downward pressure on housing prices.


While the intention of taxes like these is to dampen demand from abroad, it isn't clear to what extent they will work. Local housing markets are complex. There are many factors that contribute to both the supply and demand of housing construction. Attempting to control one segment of housing demand could lead to a host of unintended consequences.

For instance, if taxing foreign buyers impacts demand for residential real estate in some cities, where might that demand migrate to? The geographical limits of these taxes may simply nudge buyers towards nearby municipalities—or to Canada's other major urban centres, presenting a new set of challenges.

Policymakers are rightly concerned about housing affordability, but a jarring shift in policy could change market expectations, leading to unpredictable consequences.

In the event that the tax does significantly shift demand, long-time owners could lose out on equity they planned to use for retirement and families who recently entered the market may face difficult circumstances if their home values suddenly decline.

Instead of attempting to control the demand for housing in Canada's urban centres, provinces and municipalities should use the tools they already have to ensure that regulations allow for timely construction of new housing to meet pent-up demand.

Introducing a tax on foreign homeowners may seem like a politically expedient fix, but it misses the most critical driver of declining affordability in major metropolitan areas: the housing supply is not keeping up with demand. Heavy-handed policies could have consequences that are worse than the problem they seek to fix. 

Read the study here [»](#)



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*Political Science and Economics. Josef Filipowicz is an analyst at the Fraser Institute.*

# POLITICS INSTEAD OF ECONOMICS

## HOW POLITICAL CONSIDERATIONS DRIVE INCREASED INFRASTRUCTURE SPENDING

Matthew Lau



It is not difficult to see why politicians often describe their spending promises as infrastructure: the public tends to be more accepting of this kind of spending. The logic is that more and better infrastructure will improve the mobility of people and goods, and enable greater economic growth.

Oftentimes, politicians really do intend to spend money on what the public normally thinks of as infrastructure, such as roads and highways. Other times, however, the “infrastructure” spending undertaken by governments does not fit this description at all. The so-called infrastructure spending in the most recent federal budget, for example, includes billions of dollars for “green infrastructure” such as climate change mitigation projects and “social infrastructure” such as cultural institutions and child care (Clemens and Veldhuis, 2016).

**Due to the deadweight costs of removing the money from the private sector... the public spending must provide significantly higher benefits per dollar spent than private spending.**

But even when governments do spend money on legitimate infrastructure, such as new highways, the public should be skeptical that their money is being well spent. One reason to believe that public infrastructure spending is often more likely to reduce economic welfare than enhance it is the cost of public funds. Every dollar spent by the government costs the private sector

more than a dollar, because taxes distort economic decisions, creating what economists call “deadweight loss.”

Economists Bev Dahlby and Ergete Ferede (2011) estimated that in 2006, the marginal cost of public funds (in other words, the cost to the private sector of each additional dollar raised by government) was \$1.71 for the federal corporate income tax, \$1.17 for the personal income tax, and \$1.11 for the federal sales tax. These numbers tended to be much higher for the provincial governments. The marginal cost of public funds for the personal income tax ranged from \$1.45 in Alberta to as high as \$3.85 in Quebec in 2006, for example (Dahlby and Ferede, 2011).

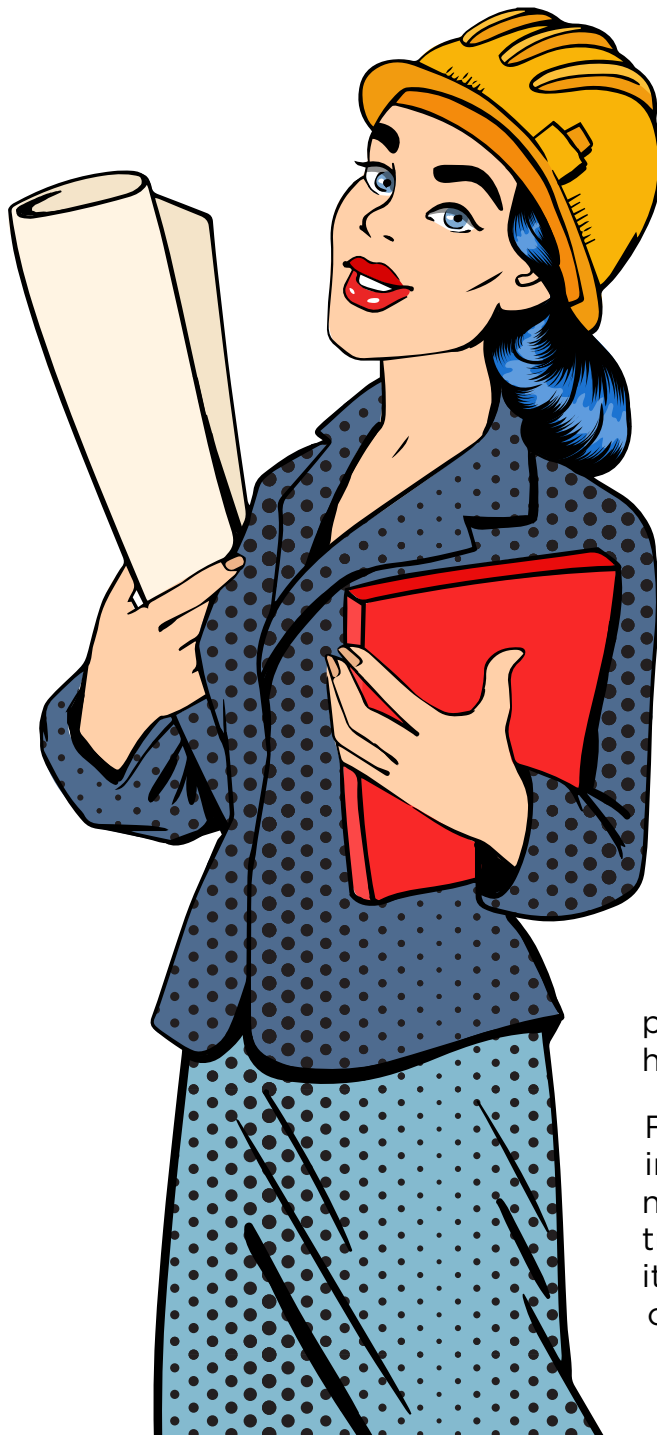
Due to the deadweight costs of removing the money from the private sector, in order to make society better off, the public spending must provide significantly higher benefits per dollar spent than private spending. This is unlikely to happen for several reasons.

Firstly, decisions regarding public infrastructure spending are sometimes driven by political as opposed to economic considerations. Politicians may be tempted to award infrastructure contracts to corporations that have donated to their party, for example. Or the government may, in the lead up to an election, announce new infrastructure projects in regions simply because they want to win or retain seats in the area. Similarly, voters are likely to be drawn to politicians who promise to build infrastructure they will benefit from. Even if the benefits of the



infrastructure are outweighed by the costs, the voters in the area know they will reap most of the benefits from the infrastructure while the costs will be dispersed over a large population.

Secondly, even well-intentioned politicians will have significant



difficulty determining whether certain infrastructure projects are worth pursuing. In the private sector, profits and losses provide signals that direct resources to its most productive uses. Not so in the public sector. “When the government spends on infrastructure, it doesn’t use market signals that tell where money is best spent. So the government is flying blind”

(Henderson, 2016). The absence of market signals prevents government from knowing how much infrastructure to build, or what kind. This makes it less likely that the government can improve economic welfare by taxing a dollar and spending it on infrastructure as opposed to simply not taxing it in the first place.

Thirdly, even if the government does manage to identify and build the “correct” infrastructure projects, in order to improve economic welfare it must have done so more efficiently than a private firm would have. For example, economist Don Boudreaux (2012) notes that if government did not build highways connecting cities, a private firm likely would (provided that these highways are worthwhile projects)—and the privately built highway would probably be less costly and of higher quality.

Fourthly, public infrastructure investments—whether in new roads, new highways or improved public transit—may not even achieve its intended goals of reducing congestion and increasing mobility.

Many economists, researchers at public policy institutes, and commentators have continuously pointed out that more highways and more roads cannot solve congestion in the long run (they have instead advocated road tolls). While building new highways and roads can help in the short term, in the long run it will only encourage more people to get behind the wheel, to the point that congestion is as bad as it was before the new infrastructure was built. As Andrew Coyne (2011) has put it, “Countless empirical studies have shown: add more road space, and traffic simply expands to fill it.”


**Infrastructure spending is sometimes driven by political as opposed to economic considerations.**

For example, a recent study by economists Gilles Duranton and Matthew A. Turner (2011) on the effect of road lane expansion in American cities found that “increased provision of interstate highways and major urban roads is unlikely to relieve congestion of these roads” and that increased provision of public transit would be similarly ineffective. To make matters worse, building more infrastructure may even in some cases have the perverse effect of increasing travel times. Arnott and Small (1994) explain, using simple models and mathematics, three traffic paradoxes demonstrating why building new infrastructure in many cases does not reduce travel times.

The Pigou-Knight-Downs paradox mathematically demonstrates the situation described above: expanding a road or highway that is subject to congestion will not ease the congestion problem since it will only encourage more drivers to take that route. The Downs-Thomson and Braess paradoxes, meanwhile, mathematically demonstrate how building more infrastructure can actually make congestion worse. In the former, expanding infrastructure for drivers not only induces more cars onto the road, it also discourages public transit use, resulting in worsened public transit services. In the latter, building roads that enable greater access to congestion-prone bridges or highways will divert traffic onto them from other routes that are not prone to congestion, resulting in increased travel times for everybody.

Arnott and Small (1994) argue that these paradoxes are not simply thought experiments without real world application, noting that it “has been claimed that the Braess paradox explains some traffic problems observed in Stuttgart, Manhattan and Oslo. Martin Mogridge of University College, London, has forcefully, if controversially, asserted that the Downs-Thomson paradox explains the deterioration of road speeds over 20 years or so in central London.” Lastly, the Pigou-Knight-Downs paradox “is so enshrined in transportation planning that it is often called ‘the fundamental law of traffic congestion.’”

To sum up: infrastructure spending is sometimes driven by political as opposed to economic considerations, even well-meaning

politicians are often “flying blind” because they are not guided by market signals, public infrastructure spending crowds out private infrastructure spending which is likely to be more efficient, and building infrastructure in many cases will not help and may even exacerbate congestion problems. On top of that, public infrastructure spending necessarily involves the deadweight costs of taxation, and many things politicians call “infrastructure” are not infrastructure at all. That is all to say, taxpayers should always be skeptical when politicians claim that their spending promises—including on infrastructure—will lead to improved economic outcomes. 



*Matthew Lau was a research intern at the Fraser Institute this summer. He has a degree in Economics and Finance from the University of Toronto.*

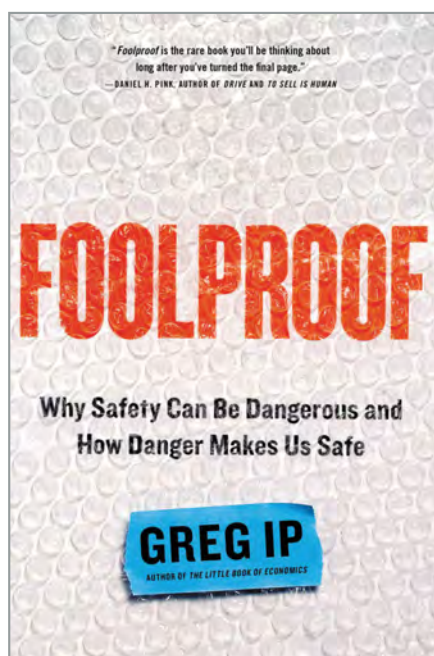
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# FOOLPROOF

## WHY SAFETY CAN BE DANGEROUS AND HOW DANGER MAKES US SAFE

Greg Ip



**D**espite the attempts to keep ourselves safe in an increasingly dangerous world, we keep having car crashes, floods, and financial crises. Since we have been more successful at making life safer we have been able to take bigger risks since ‘feeling safe’ encourages this risk taking. However, that safe feeling is illusory as risk changes shape and reappears in different and unexpected ways as the steps individuals take to protect themselves can sometimes end up putting society in greater danger. This poses a few questions: How do we stay safe? And ultimately, would acceptance of danger make us more secure? In *Foolproof: Why Safety Can Be Dangerous and How Danger Makes Us Safe*, Greg Ip presents a macro theory of human

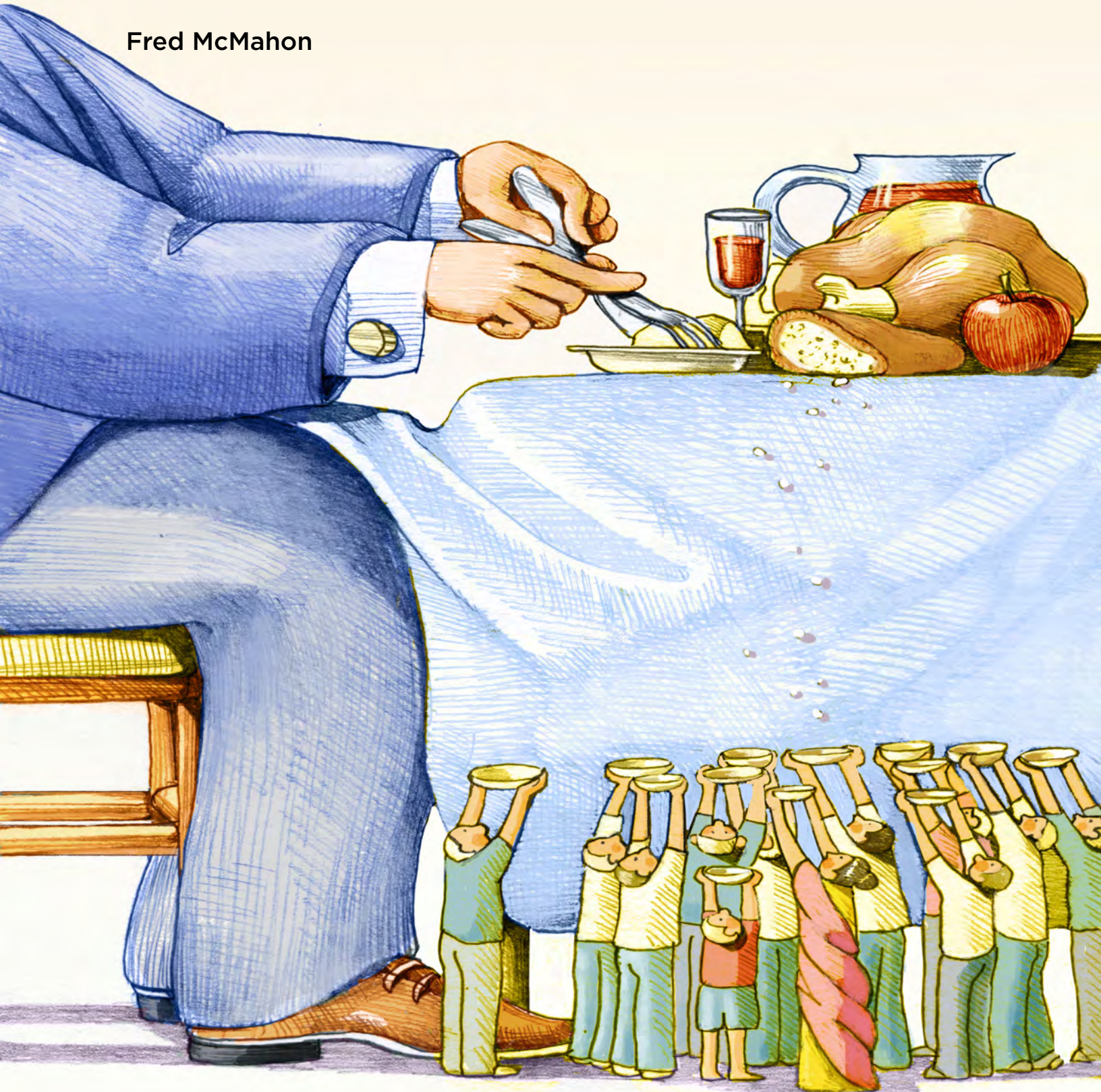
nature and disaster that explains how we can keep ourselves safe in the face of increased danger. [C](#)

Greg Ip is the Chief Economics Commentator at the *Wall Street Journal*. He is also the author of *No Way Out?: Government Intervention and the Financial Crisis* (2013) and *The Little Book of Economics: How the Economy Works in the Real World* (2010). He will be speaking at the Toronto student seminar on February 11th, 2017 at the Doubletree by Hilton in downtown Toronto.



# VENEZUELA'S TRAGEDY SPURRED BY CRONY CAPITALISTS AND SOCIALISTS WHO DETEST FREE MARKETS

Fred McMahon





Imagine a city where menus don't print prices because inflation drives them higher daily; where streets are ghostly empty after dark and the murder rate is the world's highest; where people queue for hours for meagre supplies of medicines and food, leaving many hungry and sick; where farmers don't bring goods to market because roads are dangerous and police corrupt.

Imagine a nation, whose richest woman, with billions stashed away, is the daughter of the former president, whose family owns 17 country estates in his birth state; where "socialist" elites live in mansions and have ready access to government-subsidized supplies that others queue for from dawn to dusk.

Welcome to one of the world's most beautiful cities, Caracas, in resource-blessed Venezuela. Kidnapping is so routine one victim praised his kidnappers to me. Ransom negotiations were reasonable and they only broke one finger. But murder is increasingly common once ransom is paid.

This is the aftermath of the Bolivarian Socialist Revolution, led by the late Hugo Chavez, whose daughter is the billionaire. I saw the tragedy firsthand on a recent visit to CEDICE, an impressive and courageous Venezuelan think-tank striving to build a better future.

This isn't just about Chavez and his successor, Nicolás Maduro. Venezuela has been failing for more than four decades.

In 1970, Venezuela had the most free-market policy in South America and

was its richest nation on a per person basis. Remarkably, Venezuela was poorer in 2014, the most recent data, than in 1970. During the same period, global per capita GDP more than doubled. Some blame Venezuela's misfortunes on oil, but in 1970, a barrel of oil was US\$20 in today's prices compared to around US\$100 for most of 2014. Even today, with Venezuela in crisis, oil prices in real terms are twice as high as in 1970.

So what happened?

Venezuela, like much of Latin America, was afflicted by crony capitalists, who detest free markets as much as crony socialists and degraded free-markets long before Chavez. "Elites in the private sector salivate over... policies destructive of markets because it is their custom and culture to accumulate wealth through political connections," a recently released Fraser study argues.

**Back in 1970, Venezuela ranked 10<sup>th</sup> globally in economic freedom; by the time Chavez took over after 30 years of cronyism, the country had fallen to 109<sup>th</sup>.**

Cronyism restricted markets, weakened the rule of law, undermined growth, adopted many leftist "populist" policies to maintain power, and favoured their supporters at all income levels, excluding others and generating the frustration that led to Chavez.

Can we gauge the decline? The best available measure of free

markets is the Fraser Institute's economic freedom index. Back in 1970, Venezuela ranked 10th globally in economic freedom; by the time Chavez took over after 30 years of cronyism, the country had fallen to 109th; in the most recent data, 2014, it's 159th out of 159 Jurisdictions. Both, Chavez and crony capitalists attacked free markets.

In the 1960s, under free-market policies, Venezuela experienced steady growth, despite declining real oil prices. After 1970, as free markets deteriorated and crony capitalism increased, Venezuela's economy staggered. Today's disaster has decades of history, but Chavez took bad policy to extremes.

**Compared to crony socialism, crony capitalism tends to be less extreme and allows some competition but is still destructive.**


Supporters of socialism and all-powerful governments try to explain away the failures of such regimes. But failure is systematic. The cavalcade of excuses borders on fantasy and reveals closed minds.

Regimes like Castros' Cuba and Chavez's Venezuela, concentrate absurd power in the ruling "socialist" clique. Institutions that protect people, particularly the legal system, are made subservient to government if not completely destroyed. The economy is nationalized and politicized. "Managers" are chosen for ideology. If enterprises squander

resources, hardly produce anything, and make things of poor quality—tough, the people can suffer.

Compared to crony socialism, crony capitalism tends to be less extreme and allows some competition but is still destructive. True free markets produce prosperity and reduce poverty whether ever they bloom, whether in Europe, North America or Asia.

Venezuelans are coming to understand the nature of the tragedy but the opposition is divided with little policy. The current regime cannot endure in its present form—food is running out and the military may already be in control.

Venezuela will not jump to the level of economic freedom of Canada, Sweden or Denmark. Cronyism is baked into the system. But hopefully, as disaster looms, Venezuela can start down a road away from both crony capitalism and socialism. 

Learn more [»](#)



*Fred McMahon is the Fraser Institute Resident Fellow and holder of the Dr. Michael A. Walker Research Chair in Economic Freedom. He has an M.A. in Economics from McGill University. Mr. McMahon manages the Economic Freedom of the World Project and coordinates the Economic Freedom Network, an international alliance of over 100 think tank partners in about 100 nations and territories.*



INFOGRAPHIC



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# BAD GUYS IN NETFLIX'S 'STRANGER THINGS' WORK FOR THE GOVERNMENT

Sarah Skwire

Over at FEE.org, I recently wrote about the new Netflix show *Stranger Things* and the nostalgia it inspired in me for certain cultural touchstones of the 1980s. From the soundtrack, to the fashion, to the school supplies and the hairdos, the series is as satisfying a recreation of a very specific time and place as it is an homage to '80s science fiction and horror films.

But this morning it occurred to me that *Stranger Things* is nostalgic in another way.

**Honey, we have to trust them, okay? This is our government. They're on our side.**

The bad guys in *Stranger Things* work for the government.

More specifically, the bad guys in *Stranger Things* work for a mysterious unnamed government

agency that does creepy experiments involving psychoactive drugs, alternate realities and minor children. Indeed, one of the biggest laugh lines in a series that expertly uses comedy to heighten the narrative tension comes from the hapless parent of a missing child. Faced with instructions to stay inside and let the government fix the monsters and missing children problem currently plaguing their town, he turns to his wife and notes, "Honey, we have to trust them, okay? This is our government. They're on our side."


Meanwhile, when Joyce Byers needs a little credit extended to her while she searches for her missing son, she visits her boss at the local convenience store. Reminding him of her excellent work record, her willingness to work holidays, and her dire need at the moment, she persuades him to give her an advance on her salary and extend her credit for the Christmas tree



lights and telephones that become a crucial part of her attempts to find and save her son. He's not excited about doing it. He's not even particularly friendly, but he does listen to Joyce's arguments and respond helpfully—which is a lot more than most of the other adults do in the face of her crisis.

Stranger Things isn't laden with deep political or economic content. But everyone is watching it. And given the perennial complaints about the negative portrayal of businessmen in films and fiction, I always like to get a little celebratory when someone else gets to be the bad guy. The monsters in Stranger Things may be faceless slimy creatures from an alternate reality.

But the people responsible for their presence in Indiana?

Those are faceless slimy creatures from the government. And they're not here to help. 




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*Sarah Skwire is a Fellow at Liberty Fund, Inc., a non-profit educational foundation and the author of the college writing textbook, Writing with a Thesis.*



## TAXES VERSUS THE NECESSITIES OF LIFE THE CANADIAN CONSUMER TAX INDEX, 2016 EDITION

The Canadian Consumer Tax Index tracks the total tax bill of the average Canadian family from 1961 to 2015. Including all types of taxes, that bill has increased by 1,939% since 1961. The average Canadian family now spends more of its income on taxes (42.4%) than it does on basic necessities such as food, shelter, and clothing combined (37.6%). By comparison, 33.5% of the average family's income went to pay taxes in 1961 while 56.5% went to basic necessities. 

See the video here [»»](#)



## EQUALIZATION REFORMS: CONSENSUS AND DISAGREEMENTS

Milagros Palacios and Kumi Harischandra

**E**qualization is a major federal program designed to transfer tax dollars from the “have” to the “have-not” provinces. Since its inception in the mid 1950s, the program has been based on the principle that all Canadians should have access to reasonably comparable public services financed by reasonably comparable tax levels. However, in recent years, the efficacy of the equalization program in achieving its national purpose has been called into question, especially following the implementation of the New Framework<sup>1</sup> and several high profile side agreements.<sup>2</sup> In response, the Council of the Federation (a provincial organization based in Ottawa) and the federal government have undertaken major reviews of the equalization program with the goal of reestablishing a functioning equalization system. (For a comprehensive outline of these recommendations, see Clemens and Harischandra, 2007). It is widely anticipated that the federal government will announce a new equalization program early in 2007.

The Expert Panel on Equalization and Territorial Formula Financing was commissioned by the federal government in 2005 to review and assess the existing equalization program and provide recommendations for reform. (For further details on the expert panel’s report, see Expert Panel on Equalization and Territorial Formula Financing, 2006.) The panel, which released its report in June 2006, offered 18 major recommendations to overhaul the existing equalization program.

**The efficacy of the equalization program in achieving its national purpose has been called into question.**

At the same time, the Council of the Federation commissioned an independent advisory panel to examine, assess, and provide recommendations regarding Canada’s potential fiscal imbalance—a mandate much larger





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than that of the expert panel (for further details, see Council of the Federation, 2006) The advisory panel assessed both imbalances in the finances between the provinces (horizontal imbalance) as well as imbalances between the federal government and the provinces (vertical imbalance).

Although the two panels agreed on a number of areas of reform for equalization, others remain unresolved. The following article

outlines the major areas of consensus and disagreement in order to highlight the extreme difficulty of achieving both a functional and politically viable set of reforms.

### Areas of consensus

#### 1) Need for a formula based approach

One of the most fundamental reform proposals that both panels agreed

upon was the recommendation for a return to a formula-based approach to calculate equalization. Prior to 2004, the equalization program was based on a formula to calculate payments to the provinces that received equalization payments as well as the total cost of the program. (For a discussion of the equalization program before 2004, see Harischandra and Veldhuis, 2007.) The formula-based system, better known as the Representative Tax System (RTS), used average tax rates and tax bases in a formula to calculate provincial equalization payments. With the introduction of the New Framework in 2004, however, the formula-based approach was replaced by a fixed pool of funds that were allocated to provinces in an ad-hoc manner. Both government panels recommended a return to a formula approach that was based on clear, transparent rules and accounted for the financial situation of the provinces.

**A major concern with adopting a 10-province standard was its impact on the total cost of the program.**

## **2) Revenue-raising capacity**

Another critical area of consensus was that equalization should be based on the revenue-raising capacity (fiscal capacity) of provinces. This recommendation was in response to the suggestion by several academics and policy analysts who advocated a needs-based system for equalization that explicitly accounted for differences in the costs of delivering public services across provinces (for further details see

Clemens and Harischandra, 2007). In their report, the expert panel argued that it was impractical for the equalization program to include a measure (or measures) adjusting payments based on differing costs of delivering services given the absence of a comparable measure of provincial services and costs.

## **3) 10-province standard**

A related, mutually agreed-upon recommendation was the adoption of a “10-province standard.” From 1982 to 2004, equalization payments were calculated based on the average revenue-raising capacity (fiscal capacity) of five provinces: Ontario, Quebec, Manitoba, Saskatchewan, and British Columbia. To ensure a fair representation of provinces, both panels recommended returning to a calculation of fiscal capacity based on all 10 provinces instead of a select few.

However, a major concern with adopting a 10-province standard was its impact on the total cost of the program. Since a 10-province standard might increase the total cost beyond what the federal government was prepared to pay, both panels explicitly recommended a scaling mechanism to adjust equalization payments for receiving provinces on an equal, per capita basis. Essentially, this provision allows the federal government to scale back equalization payments should the program’s cost become excessive.<sup>3</sup>

## **4) Predictability**

Ensuring the predictability of equalization payments for provinces

was also an important area of consensus. Both panels recommended that equalization calculations be based on a three-year moving average, lagged two years. In other words, equalization payments would be based on a three-year average of fiscal capacity delayed two years to account for information constraints.<sup>4</sup> The panels felt that these measures would ensure provinces have a greater degree of certainty in their equalization receipts.

## Disagreements

Although both panels agreed on a number of reforms, two prominent issues remain unresolved: the treatment of natural resources under the equalization program and the structure of the Representative Tax System (RTS).

### 1) Treatment of natural resources

The proportion of natural resource revenues included in equalization is a critical and heavily-debated aspect of the reforms since it influences both individual provincial receipts and total program cost. (For a thorough review of the different scholarly proposals, see Clemens and Harischandra, 2007.) After a careful consideration of alternative proposals, the expert panel advocated for 50 percent of all natural resource revenues to be included in the equalization calculations. The panel's rationale for partial inclusion embodies the following criteria: (1) provincial governments have a constitutional right of ownership of natural resources and they should be entitled to the revenues arising from

such resources; (2) partial inclusion provides incentives for provinces to develop their natural resources, and; (3) partial inclusion allows provinces to cover the public infrastructure costs incurred in resource development.

**The growing awareness of the problems associated with equalization led to two major reviews by government-commissioned panels in 2006.**

In contrast, the advisory panel recommended that 100 percent of natural resource revenues should be included in the equalization calculations to meet the required criteria of fairness and transparency.


Interestingly, while the two panels disagreed on the issue of what proportion of resource revenues to include, they both agreed that the revenues should be included to some extent.

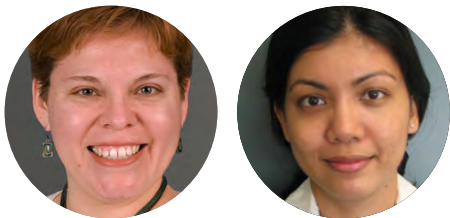
### 2) Representative Tax System

Although both government panels supported the use of the Representative Tax System (RTS) approach to calculate equalization, they did not agree on the tax categories used in the equalization calculations. The expert panel acknowledged that the RTS was overly complicated and difficult to understand. To streamline the system, the panel recommended re-classifying the 33 tax bases currently used into 5 broad-based categories: personal income, business income, sales tax, property tax, and natural resource revenues. The advisory

panel, however, did not recommend abandoning the status quo of using 33 tax bases in the calculations.

## Conclusion

Equalization reforms are an important but very contentious area of federal-provincial relations. The growing awareness of the problems associated with equalization led to two major reviews by government-commissioned panels in 2006. Although both panels agreed on some reforms, other issues remain largely unresolved, particularly those concerning the treatment of natural resources. The consensus reached between the two panels may indicate, to some extent, what to expect in the package of reforms the federal government may announce early in 2007. 



At the time this article was written, Kumi Harischandra was an Economist at the Fraser Institute. Milagros Palacios is now a Senior Economist at the Fraser Institute.

## Notes

- 1 The New Framework for Equalization, introduced in 2004, effectively ended the previous equalization regime that primarily depended upon a formula to determine both the total cost of the program and equalization payments to the provinces.
- 2 These side agreements include special offshore accords to ensure that

equalization payments to Nova Scotia and Newfoundland and Labrador are not reduced because of their offshore resource revenues. The accords pre-empt an underlying mechanism in equalization that reduces payments to provinces when their tax revenues increase.

- 3 Since such issues might ultimately become a political decision, the Expert Panel further urged the federal government to clearly define parameters for determining affordability as part of a larger initiative to improve the transparency and governance of the program.
- 4 The panels further recommended weighting the three years of data as follows: 50 percent, 25 percent, and 25 percent. For example, payments for the year 2007-08 would be based on an average of fiscal capacity data for 2005-06 (50 percent), 2004-05 (25 percent) and 2003-04 (25 percent).

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## THE IMPERATIVE OF A REFERENDUM

**Patrice Dutil**

**G**iven the current federal government's calls to overhaul the electoral system in Canada, the issue of whether or not these electoral changes should be put to a referendum has been a topic of lively debate over the past few months. More specifically, is changing the electoral system without a referendum unconstitutional?

"The Imperative of a Referendum" examines the precedents set by Canada and other Westminster parliamentary systems and their use of referendums and plebiscites to effect electoral reform and argues that without approval via a referendum, changes to the electoral system may be unconstitutional. 

Read the study here [»»](#)





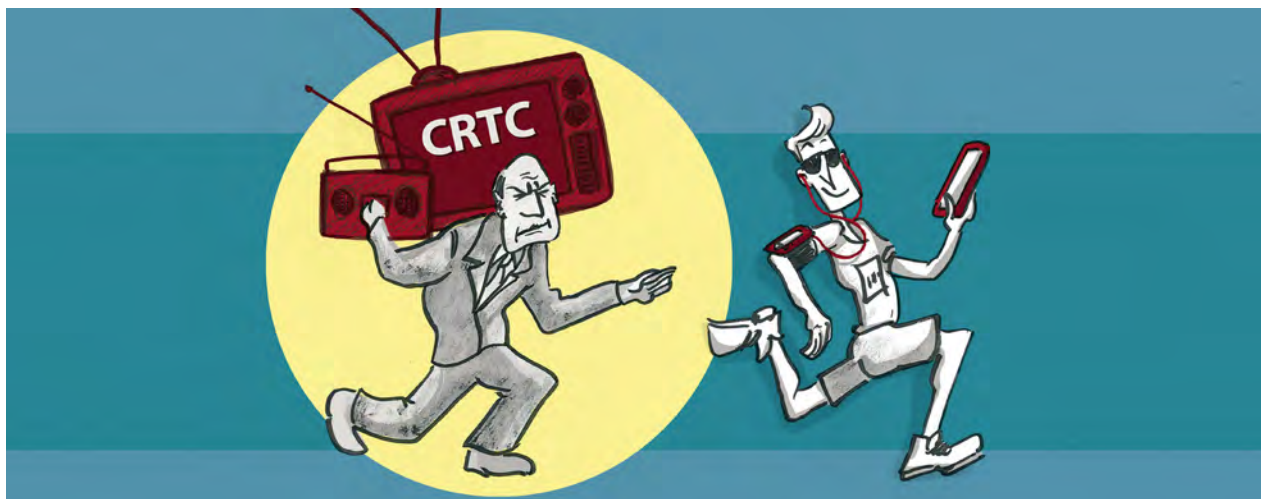
## **TECHNOLOGICAL CHANGE AND ITS IMPLICATIONS FOR REGULATING CANADA'S TELEVISION BROADCASTING SECTOR**

**Steven Globerman**

**T**he emergence and growth of digital technologies broadly underlies much of the technological change affecting the TV broadcasting industry as both producers and distributors of television content are able to operate at a lower cost. However, outside of online and 'over-the-top' programming, such as Netflix, many Canadians are not able to access as much content as they could be given the Canadian Radio-television and Telecommunications Commission's policy guidelines. "Technological Change and Its Implications for

Regulating Canada's Television Broadcasting Sector" reviews recent and prospective technological changes affecting the Canadian television broadcasting industry, as well as the regulatory changes proposed by the CRTC and argues that while some of the reforms are a step in the right direction, the protect and subsidize model set out by the CRTC remains questionable given that 'over-the-top' programming services, are able to operate outside of the CRTC's reach. [C](#)

Read the study here [»](#)



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