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Experiences 7 times less job loss

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Canadian
STUDENT REVIEW

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WELCOME!

Dear Readers,

After another long winter, spring is finally upon us. This issue of the *Canadian Student Review* highlights the differences in compensation for both public and private sector workers. How did workers in each sector fare? Our Hot Topics section has all the answers.

Other articles in this issue include articles on new tax reductions for Ontario's craft spirits industry, an analysis of the implications of British Columbia's carbon tax, and a first look at the Fraser Institute's newest book *End of the Chrétien Consensus?* Don't forget to check out this issue's Infographic and Video Gallery features as well.

We wish you the best of luck on your upcoming exams and hope you enjoy this issue!

Lisa-Diane Fortier
Editor, *Canadian Student Review*

Canadian STUDENT REVIEW

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IRELAND AND THE NEW NORMAL

by Brennan Sorge

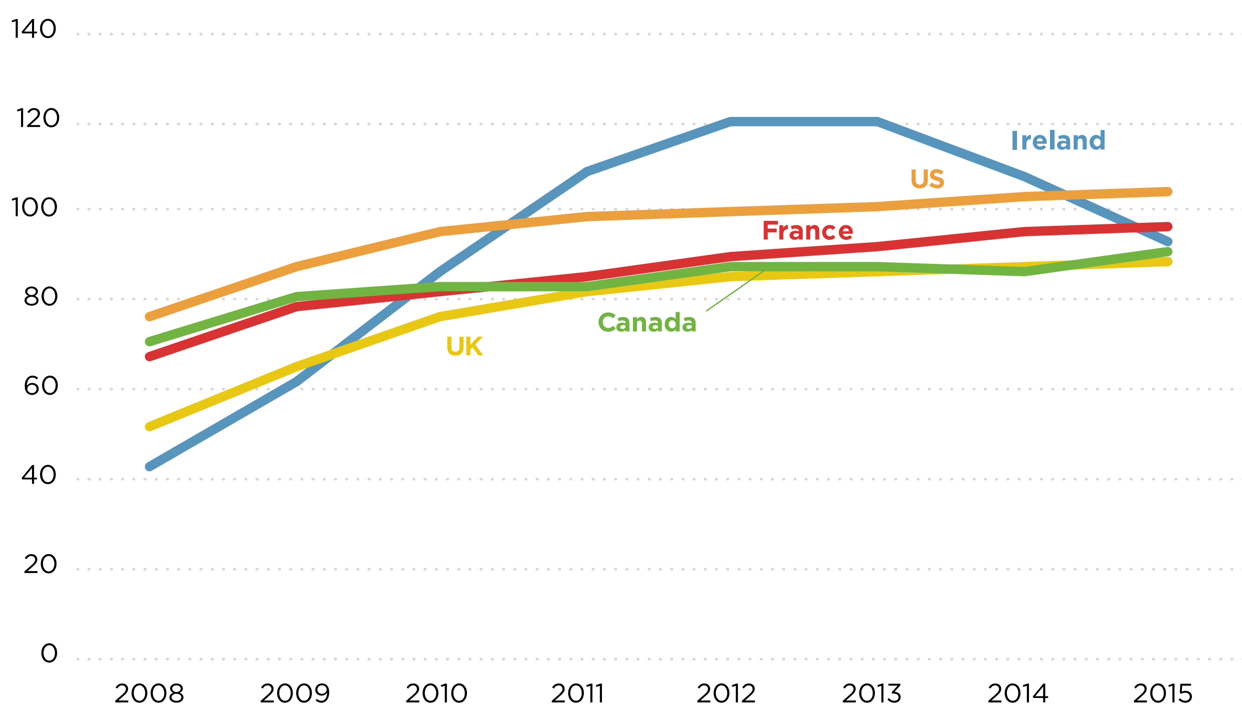
Across the developed world, many have seen a new trend develop, dominated by weak economic growth, persistent high unemployment, and low interest rates. It is a common enough trend to have received the title of "the new normal", suggesting that a low-growth economy is the new natural state of affairs.[1, 2] Given that many developed economies seem to fit this pattern, it becomes easy to believe that the new normal has become an inevitable state for our economies.[3] It suggests that current trends cannot be changed. I would argue this view to be mistaken.

All economies are ultimately a result of their participants' behaviour and

the policies that govern and influence that behaviour. No economic state is truly inevitable, and no trend is irreversible. An economy is the result of the accumulated actions of participants, and actions can always be changed. By this understanding, the new normal is the result of changed behaviours, and changed policies. If this is the case, higher growth and increased employment can be restored by changing government policy, and by allowing the effects of that policy to change behaviours.

There are some examples of governments that have changed policies in order to improve their weak economies. I would posit that

Debt-GDP Ratio (2008-2015)



Ireland is a good example. In the years following the financial crisis of 2008, Ireland faced severe economic challenges. Not only did Ireland experience a recession, but also a severe debt crisis.

If Canada were to encourage and facilitate growth in Canadian business, and the employment of Canada workers as Ireland has done, we too could see strong growth and more prosperity.

In 2008 Ireland had a debt/gdp ratio of 42%, which by 2012 had reached its astonishing peak of 120%.[4] However, in 2013, Ireland was able to stabilize its growing debt burden.

By 2014, Ireland had differentiated itself from most developed nations by achieving a rapidly declining debt/gdp ratio, dropping from 120% in 2013 to 94% in 2015.

It was possible for Ireland to recover from its debt crisis because of the extensive economic growth that Ireland experienced, earning 5.2% GDP growth in 2014, and 26.3% in 2015.[5, 6] There are a few ways that Ireland achieved growth of this level, including the consistent increases in economic freedom since 2013, and the reduction in corporate taxation from 12.5% to 6.25% for businesses that employ high skill Irish citizens in 2015. This tax rate is one of the most competitive of all the advanced economies, and serves to bring new business to Ireland from abroad, and encourages growth among companies already within the country.[8] It was a competitive tax rate, and a business friendly environment that allowed Ireland to achieve the growth that it has accomplished[?].

If Canada were to encourage and facilitate growth in Canadian business, and the employment of Canadian workers as Ireland has done, we too could see strong growth and more prosperity. Government policies are within our control, and so too is the future of our economy. We may not reach 26% economic growth, but if following the Irish example can increase Canadian growth by even a few percentage points, it would be of an immense benefit to our country. More growth means more jobs, more opportunities, and the chance to reduce the burden of our debts.

Brennan Sorge is currently an Economics and Business student at Thompson Rivers University. His interests centre on the effects of law and policy on the economy, and he hopes to act on these interests in further study of both economics and law."

Endnotes

1 *Market Realist*, Bill Gross: The Economy Needs Credit Creation to Multiply Growth, http://marketrealist.com/2016/07/bill-gross-new-normal-thesis/, accessed June 28 2016.

2 *The Guardian*, Is stagnation the 'new normal' for the world economy, https://www.theguardian.com/business/2016/feb/03/is-stagnation-the-new-normal-for-the-world-economy, accessed June 28 2016.

3 OECD, *Quarterly National Accounts*, http://stats.oecd.org/index.aspx?queryid=33940#, accessed August 15 2016.

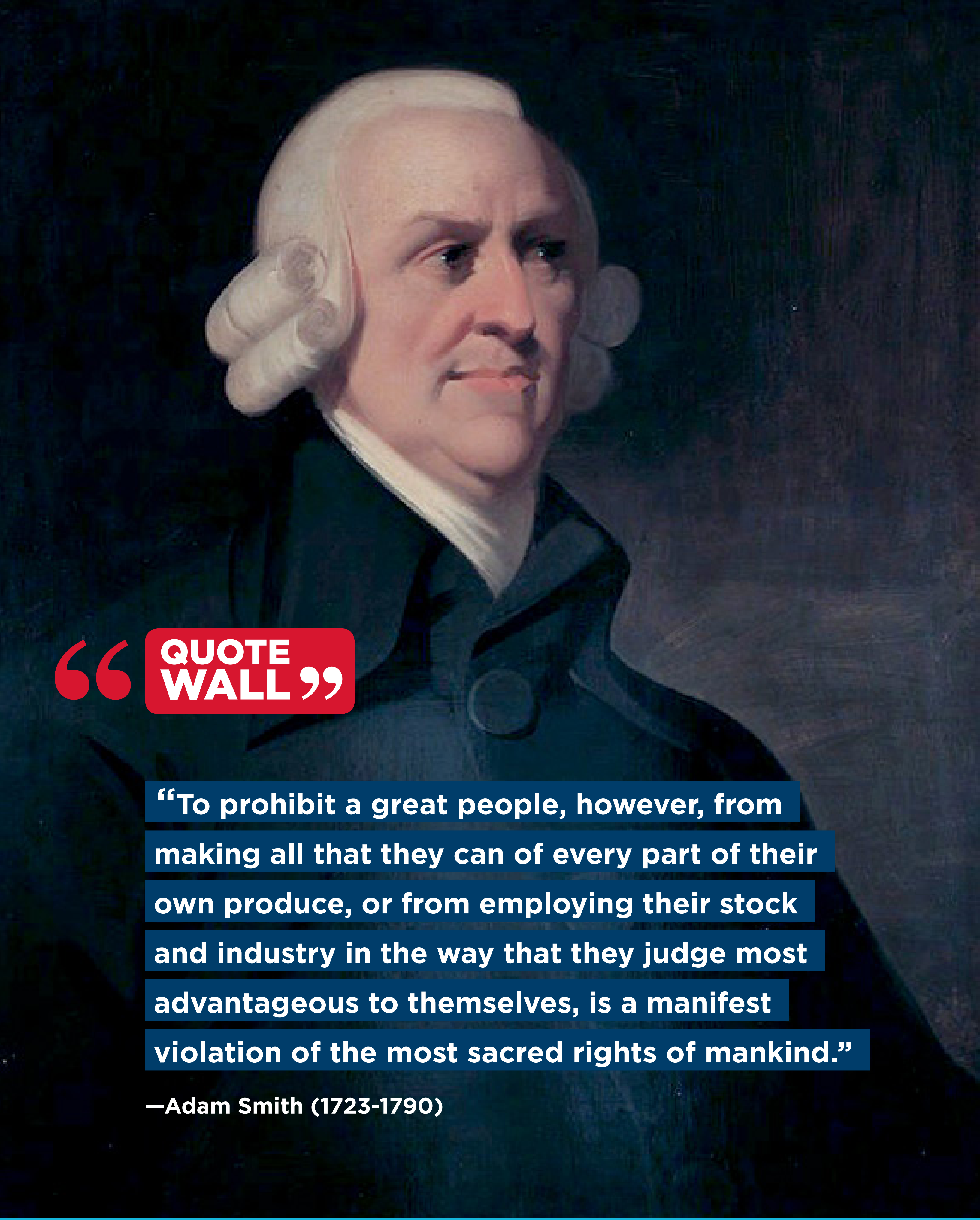
4 Trading Economics, *Ireland Government Debt to GDP*, http://www.tradingeconomics.com/ireland/government-debt-to-gdp, accessed June 31 2016.

5 Central Statistics office, *National Income and Expenditure Results 2014*, http://www.cso.ie/en/releasesandpublications/er/nie/nationalincomeandexpenditureannualresults2014/, accessed August 2 2016

6 Central Statistics office, *National Income and Expenditure Results 2014*, http://www.cso.ie/en/releasesandpublications/er/nie/nationalincomeandexpenditureannualresults2015/, accessed August 2 2016

7 Heritage Foundation, *Index of Economic Freedom*, http://www.heritage.org/index/country/ireland, accessed August 15 2016.

8 Central Statistics office, *Statistical Yearbook of Ireland 2015*, http://www.cso.ie/en/releasesandpublications/ep/p-syi/statisticalyearbookofireland2015/business/industry/, accessed August 21 2016



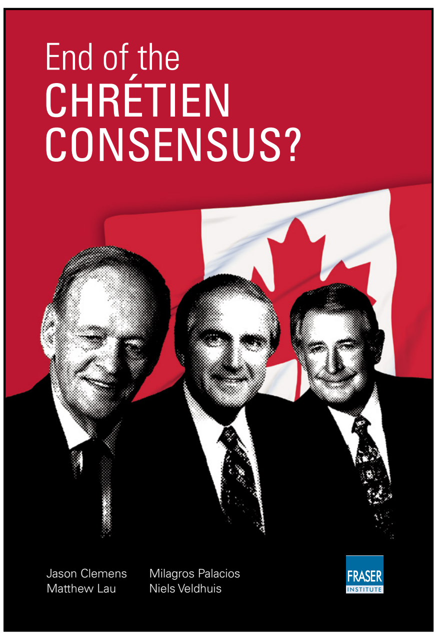
QUOTE WALL

"To prohibit a great people, however, from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind."

—Adam Smith (1723-1790)

END OF THE CHRÉTIEN CONSENSUS?

by Jason Clemens, Milagros Palacious, Matthew Lau, and Niels Veldhuis



In the Fraser Institute's latest book, *End of the Chrétien Consensus?* senior research staff members Jason Clemens, Milagros Palacios, and Niels Veldhuis, along with former summer intern Matthew Lau, analyze the end of the legacy of Chriétien-era spending policies. In the early 90s, many governments across Canada took it upon themselves to balance their budgets and slash rising debt loads. This consensus amongst governments at both the federal and province level led to policies that in turn, had a positive effect on investment and entrepreneurship, which led to rising incomes as well as strong job growth.

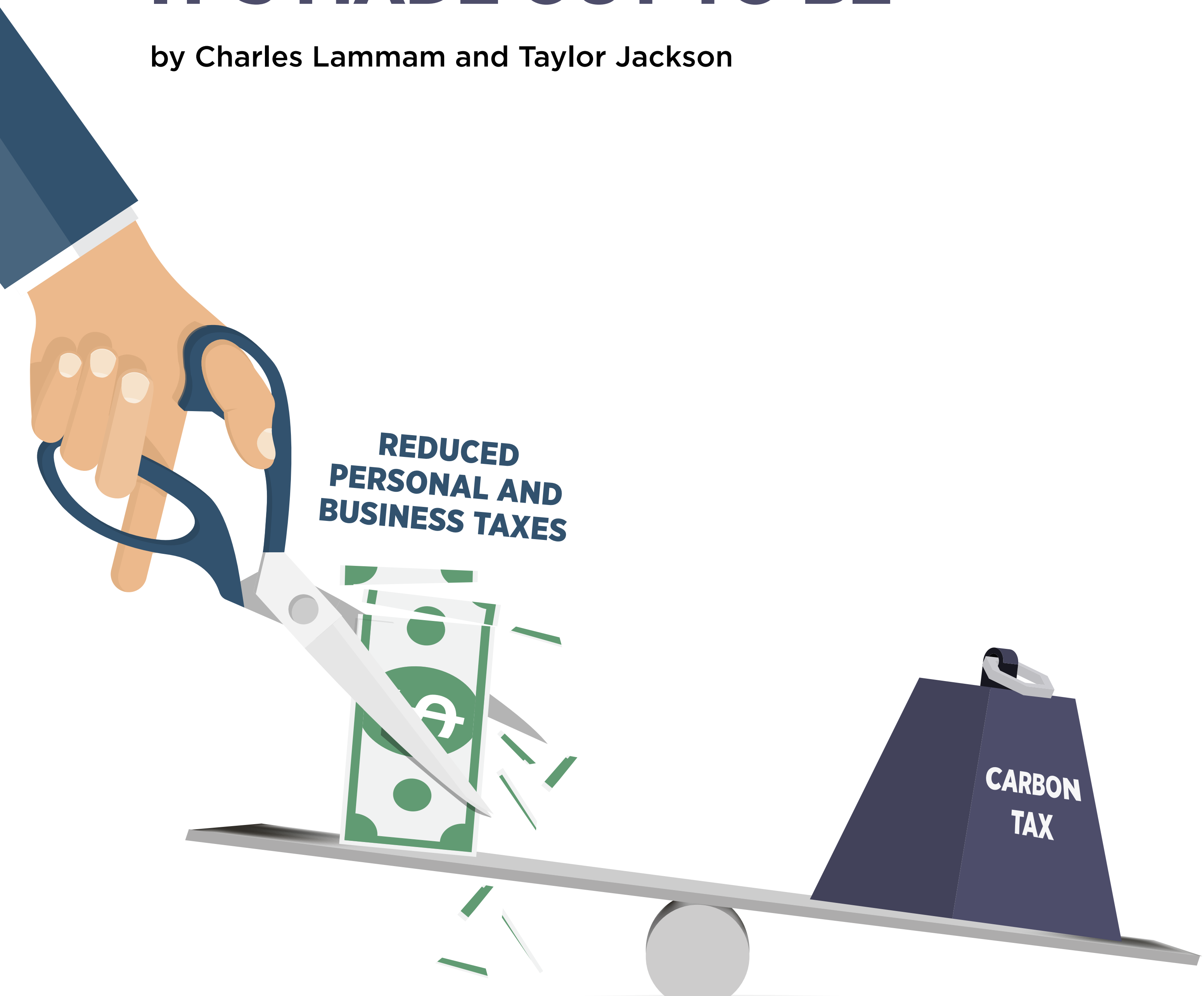
However as 2016 came to a close, many provincial governments, such as Alberta and Ontario, as well as the current federal government have moved away from this consensus and have adopted policies that are heavy on government spending, borrowing, and increased taxes. These policies, the authors argue, are short sighted and do not take into account the implications they could have on the broader Canadian Public.

To learn more about these policies, and to download your own copy of the book, click here ››

THIS ARTICLE APPEARED IN THE *FINANCIAL POST*

B.C.'S CARBON TAX NOT THE 'GOLD STANDARD' IT'S MADE OUT TO BE

by Charles Lammam and Taylor Jackson



In a major announcement last year, the Trudeau government imposed a policy that will require all provinces to put a price on carbon emissions by 2018. As governments in Canada and elsewhere pursue carbon pricing, British Columbia's carbon tax has received global praise as the gold standard.

Both the United Nations and the World Bank have declared B.C.'s "revenue neutral" carbon tax the model to follow. The OECD called it a "text book" example of how to implement carbon pricing.

Just five years later, as the carbon tax revenue increased, the government no longer provided new tax cuts that sufficiently offset the carbon tax's revenue.

Commentators in Canada and the U.S have similarly hyped B.C.'s carbon tax, arguing it's proof that governments can get carbon policy right.

One of the underlying reasons for all this praise is the alleged revenue neutrality of B.C.'s carbon tax. Revenue neutrality simply means any new revenue from the carbon tax is offset with new tax cuts to ensure there's no net tax increase from the policy.

But there's a fundamental problem with the B.C. model and proponents would do well to temper their enthusiasm. Despite what the government claims, B.C.'s carbon tax is not actually revenue neutral.

Back in 2008/09, when the province first introduced the carbon tax, the B.C. government promised revenue neutrality. And initially it was. To offset the new revenue, the government introduced new cuts to personal and business tax rates and a new tax credit for low-income earners. The value of these new tax reductions was enough to offset all the new revenue generated from the carbon tax.

However, just five years later, as the carbon tax revenue increased, the government no longer provided new tax cuts that sufficiently offset the carbon tax's revenue. In other words, B.C.'s carbon tax ceased being revenue neutral in 2013/14.

This is certainly contrary to what the B.C. government reports in its official documents, which claim that the total value of tax cuts more than offsets carbon tax revenue. The problem is that by 2013/14, the government was no longer solely relying on new tax reductions to offset carbon tax revenue and instead began using pre-existing tax credits to give the appearance of revenue neutrality.

In fact, a number of the tax credits the government now counts as offsets were first introduced in the 1990s—well before their inclusion in the government's revenue neutral calculation.

Once the pre-existing tax reductions are properly removed from the government's revenue neutral calculation, B.C. taxpayers endured a net tax increase of $226 million in 2013/14 and $151 million in 2014/15. Those numbers are based on historical data.

A carbon tax imposes economic costs beyond the amount of money the tax raises.

According to data from the government's own projections, the carbon tax will result in a cumulative $865 million tax increase on British Columbians between 2013/14 and 2018/19. So much for revenue neutrality.

But the problems don't end there.

Like all taxes, a carbon tax imposes economic costs beyond the amount of money the tax raises, as people change their behaviour in ways that reduce economic output. Part of the rationale for a revenue neutral carbon tax is to mitigate this effect by concurrently cutting other taxes that also distort economic activity such as personal and corporate tax rates.

In recent years, however, a much smaller share of B.C.'s carbon tax is being offset by cuts to broad-based tax rates that actually improve incentives and foster economic activity. Specifically, before 2013/14, cuts to B.C.'s general corporate income tax rate and two lowest personal income tax rates totalled, on average, more than 60 per cent of the revenue generated by the carbon tax. From 2013/14 onwards, these tax cuts account for less than 45 per cent of the revenue generated by the carbon tax.

While an increasing share of carbon tax revenue is being offset with targeted tax credits for specific individuals and businesses, these types of tax measures do virtually nothing to mitigate the economic costs of the carbon tax.

B.C.'s carbon tax is evidence that once political realities set in, the textbook theory of a revenue neutral carbon tax unravels. B.C.'s carbon tax is not the "gold standard" it's often made out to be.

Read the study here ››

Charles Lammam and Taylor Jackson are co-authors of the Fraser Institute study Examining the Revenue Neutrality of British Columbia's Carbon Tax

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FROM THE ARCHIVES

DEMOGRAPHICS AND CANADA'S PHYSICIAN SUPPLY

by Nadeem Esmail

In late October, the Canadian Institute for Health Information (CIHI) released a report on the physician workforce in Canada which found, among other things, that Canada's physicians are ageing, and that women now make up a larger share of the physician workforce than in years past (CIHI, 2007). These changes may make the shortage of physicians in Canada more acute over time even if the physician-to-population ratio remains constant or grows slightly. In fact, despite recent increases in medical school admissions, Canada's physician-to-population ratio is poised to fall in the coming decade unless there is a significant addition of foreign-trained doctors (Esmail, 2006a).

Understanding this dynamic and dealing with it proactively will be essential if Canadians are to avoid an even greater shortage of physicians in the future.[1]

Age, Sex, and Supply

In 2006, 33.3% of Canada's physician workforce was female, up from 30.9% in 2002. In addition, 48.6% of physicians under the age of 40 were female, which suggests that females will make up an even larger portion of the physician workforce in the future (CIHI, 2007).

This conclusion is supported by the fact that females made up more than half of all first year medical students and medical graduates in Canada in the early part of this decade (Buske, 2005).

To be clear, there is nothing wrong with a greater representation of females in the physician workforce. Indeed, women in Canada may see this as a positive development as it will give them greater access to a female caregiver. However, from a physician supply perspective, the feminization of the physician workforce in Canada will mean that more physicians may be required in the future, just to maintain the current level of services delivered, let alone expand them.

In 2006, 33.3% of Canada's physician workforce was female, up from 30.9% in 2002.

Female physicians, in comparison to their male counterparts, tend to provide fewer services per week to patients and tend to work fewer hours per week as well. According to the *2004 National Physician Survey*[2], female physicians spent an average of seven fewer hours per week on professional activities in comparison to male physicians. That difference was less pronounced among specialists (~4 hours) than it was among family physicians (8 hours) (Buske, 2005). Similarly, Watson *et al*. (2006) found that, on average, female general practitioners (GPs) held workloads equivalent to 68% of their male counterparts' in 2001, while Slade and Busing (2002) found that female GPs worked fewer hours and delivered fewer clinical procedures per week than their male counterparts in 1997/98.

Family physicians younger than 54 provided fewer office assessments in 2001 than their peers in the same age groups did in 1992.

The fact that physicians in Canada are ageing in concert with the general population will also have important implications for the future physician supply. In 2006, 19.2% of Canada's physicians were 60 or older, and 47.3% were 50 or older (CIHI, 2007).[3] In light of this fact, two issues must be considered: first, older individuals tend to work less than when they were younger, and second, younger physicians are working less than physicians in the past did when they were younger.

Watson *et al*. (2006) found that family physicians younger than 54 provided fewer office assessments in 2001 than their peers in the same-age groups did in 1992.[4] The same was true for work hours: GPs aged 54 and younger worked fewer hours per week than their counterparts in 1993. As Buske (2005) notes, "[b]oth national and provincial studies have shown that younger physicians today do not work the same hours or bill the same volume of services as did the same group 20 years ago…" (2005: 7). However, thus far, the decreased work hours and volume of services performed by younger physicians has been mitigated to some extent by the fact that older physicians in Canada are working longer hours and providing more services than their peers did 10 years ago (Watson *et al*., 2006).[5]

This increased work effort of older physiciansmay have important additional consequences when these individuals decide to retire. In 1992, a GP nearing retirement carried a workload slightly smaller than that of a new physician (under age 35), while in 2001, a GP nearing retirement (aged 65 or older) carried a workload 1.6 times that of new physicians. That difference grew to 2.1 times when potential early retirees (aged 55-64) were compared with new physicians in 2001 (Watson *et al*., 2006). Watson *et al*. conclude that "the coming wave of physician retirements could cause unprecedented annual rates of shrinkage in [General Practitioner/ Family Practitioner] service volumes" (2006: 1626). Similarly, Buske (2005) predicts that younger physicians may build smaller practices—in terms of the number of patients they take—than their older counterparts. As a result of the ageing physician population, physician retirements are likely to increase in the coming years (for example, see Kermode-Scott, 2004).

It is clear that the shifting demographics of the physician workforce will have important consequences for future physician supply. Indeed, it is entirely possible that a greater physician-to-population ratio will be required in the future in order to deliver the same volume of services that Canadians enjoy today. And the volume of services being delivered today in Canada is already insufficient to meet demand (for example, see Esmail, 2006a; Statistics Canada, 2004; and Statistics Canada, 2006).

Where To From Here?

What is the solution to this problem? First, it should be recognized that the current and looming shortages of physician services in Canada are

not the result of a market failure or the result of happenstance. Rather, they are the direct result of government intervention in the health care marketplace. Without restrictions on extra billing (allowing physicians to charge patients a price above the standard fee set by the provincial health program or to require payments in addition to those set out or provided by the provincial health program), physician activity (such as annual activity limits, and billing caps and restrictions), and the training of medical practitioners, and without the prohibition of cost sharing for medically necessary services (where patients are required by the provincial health program to pay a fee or portion of the charge for the service consumed), a shortage would not have occurred (Esmail, 2006a). Removing these restrictions and implementing cost sharing for publicly insured services, as well as increasing private competition in the delivery and financing of health care, should be the ultimate goal of governments as these changes would improve access to health care in Canada (Esmail, 2006a; Esmail and Walker, 2007).

However, there are beneficial solutions that can be implemented even within the current policy regime. First, the government must do no more policy harm. Specifically, current discussions on changes to the core structure of how physician services are remunerated— which often accompany proposals for primary health care reform in Canada's provinces[6]—should be shelved. The current fee-for-service regime, where physicians are paid for each service or treatment delivered, gives physicians the incentive to provide a higher volume of services than if they were paid an annual salary or paid on a capitation basis (an annual fee for each patient registered with their practice). Moving away from fee-for-service funding for physician services will necessarily mean fewer services are delivered per physician (Esmail and Walker, 2007), which is the opposite of what is required today and will be required in the future.

Removing all restrictions on the volume of services that are publicly funded would increase the number of services that are available to Canadians today.

In the short term, it is critical to understand what economists call the "labour-leisure tradeoff" in order to mitigate the reduction in supply that may result from these changes in demographics. Put simply, the labour-leisure tradeoff is the balance between time for labour and time for all other activities, as determined by each individual based on the value of their labour and the value of the time they have to do all other things. If the relative value of their labour rises, they are likely to commit more time to work rather than non-labour activities and vice versa. Recognizing this basic economic concept leads to two important short-term solutions.

Incomes of both general practitioners and specialists are currently restricted in a number of ways. For example, there are limits on the number of patients who can be treated in certain time periods, and on the total annual billings of physicians. Such restrictions reduce the supply of services delivered by active physicians by reducing their earning potential or the value of their labour beyond a certain limit. Removing all restrictions on the volume of services that are publicly funded would increase the number of services available to Canadians today from the current stock of physicians, and would encourage physicians to deliver more services in the future.

At the same time, the value of non-labour time appears to be higher for younger physicians and female physicians than for their older, male counterparts. Indeed, medical students appear to be gravitating increasingly towards specialties that offer more regular work schedules, more leisure time, and higher earnings, which may reflect their desire to choose a different balance between professional and personal commitments than previous cohorts (Simoens and Hurst, 2006; CIHI, 2006).[7] Similarly, the relationship between work hours and the presence and age of children suggests that female physicians with younger children place greater value on non-labour time than their colleagues with older children or no children; conversely, male physicians with no children place a higher value on non-labour time than their colleagues with children (Martin, 2003). The work patterns discussed above also suggest that younger and female physicians place a higher value on non-labour time.

Doctor shortages would be mitigated over the long-run as students could expect sufficient returns on their education by attracting patients with unmet health needs.

Obviously, increasing the earning potential of physicians will have some impact on the labour/non-labour tradeoff these younger and female physicians are making. However, these physicians' desire to practice less than current physicians suggests that annual activity limits may be less of a barrier to work for the next generation of physicians than previously. Increases in the value of fees billed for services may be another monetary tool that could be employed to the benefit of patients.[8] Additionally, a reduction in the rate of taxation for middle and upper income earners would have a similar effect on physician work effort.

Of course, as the amount of time committed to non-labour activities decreases, the value of the remaining time rises, and, as a result, there will be some point beyond which mechanisms other than increasing the value of labour will be more cost-effective. Reducing the cost of labour time—the cost of spending time at work—may be yet another avenue by which the impact of changing demographics could be mitigated. Options for policy makers in this area include providing compensation for daycare services for female physicians with children, and finding ways to provide better access to locum tenens (temporary substitute) coverage for physicians desiring a vacation.

Over the long term, the simplest solution to the problem of a reduced supply of physicians and physician services is to gain additional physicians. But the number of additional physicians, or indeed the number of physicians, period, should not be determined by governments and their funding decisions. Rather, the number of physicians should be determined by patients' needs and students' decisions. For provincial governments, this would mean fully deregulating tuition levels and admissions requirements for postgraduate training, thus freeing medical schools and teaching hospitals to determine their own admission levels.[9] Such a change would allow students to decide whether or not a career in medicine is worthwhile, given that their earning potential would not be artificially restricted. Doctor shortages would be mitigated over the long-run as students could expect sufficient returns on their education by attracting patients with unmet health needs and patients who may be willing to change doctors, for example.[10]

If the decision on whether or not to become doctors had been left to Canadians, it is likely that there would be more doctors serving Canadians.

Of course, if governments had not intervened in physician training in the first place, this article would have been one of general interest, rather than concern for future physician supply. Training would have already begun adjusting automatically to reflect changing conditions in the workforce. If the decision on whether or not to become doctors had been left to Canadians, it is likely that there would be more doctors serving Canadians (Simoens and Hurst, 2006; Esmail, 2006a).

Conclusion

The shifting demographics of Canada's physician workforce may mean that, in the future, more physicians will be required to deliver the same volume of services being provided today. Dealing with this dynamic requires removing governmental restrictions on income so as to encourage a greater supply of services from the current and future stock of physicians. It may also require increasing physicians' earnings and fees, and reducing the costs of working. As well, over the long-term, removing governmental restrictions on the training of physicians will result in a more dynamic physician supply that is better able to respond to changes in patient demand and the labour-leisure tradeoffs of individual physicians.

When it comes to physician training and services, governments must allow the market to work, rather than trying to manage it to the detriment of patients and taxpayers alike.

Nadeem Esmail is a Senior Fellow with the Fraser Institute.

Notes

1 Shortages can only occur when prices are not permitted to adjust. Prices will naturally rise in any functioning market where goods or services are in short supply relative to demand, thus encouraging new supply and reducing demand simultaneously. The outcome is equilibrium of supply and demand (no shortage or excess). In the Canadian health care marketplace, such adjustment is impossible because of restrictions on both the prices and the supply of medical services. Without restrictions on extra billing, physician activity, the training of medical practitioners, and the prohibition of cost sharing for medically necessary services, a shortage would not have occurred.

2 The *2004 National Physician Survey* was a survey of all Canadian physicians practicing in early 2004. The survey was undertaken by the Canadian Medical Association, the College of Family Physicians of Canada, and the Royal College of Physicians and Surgeons of Canada (CIHI, 2006).

3 According to the *National Physician Survey*, 16.2% of family practitioners were 60 or older compared to 22.4% of specialists (CIHI, 2007). This suggests that retirements in the coming years may be felt more in the specialist supply than in the supply of family doctors. At the same time, female medical graduates tend to gravitate towards family medicine, pediatrics, and obstetrics/gynaecology, while male graduates gravitate towards surgical specialties (Buske, 2005). This also suggests that the future supply of specialist physicians may be of particular concern.

4 The differences between same-age cohorts were larger among females than they were among males.

5 Watson *et al*. (2006) note that the volume of services physicians are providing in

at least two age cohorts are neither increasing nor decreasing over time: those aged 45-54 in 2001 provided roughly the same number of services in total as those aged 35-44 in 1992. This was also the case with those aged 55-64 in 2001 when compared with those aged 45-54 in 1992. Elderly cohorts in either time period delivered fewer services in total than their younger counterparts did.

6 In 1997/98, GPs working in multidisciplinary clinics, which are often considered in discussions of primary care reform in Canada's provinces, reported fewer weekly work hours on average when compared to GPs in solo or family practitioner group practices, and reported delivering fewer clinical services than GPs in family practitioner group practices (Slade and Busing, 2002).

7 According to the 2004 *National Physician Survey*, "the largest predictor of satisfaction with current professional life" for both family physicians and specialist physicians "was satisfaction with the balance between professional and personal commitments" (CIHI, 2006: 6, 8).

8 Allowing physicians to bill extra for services (i.e., charging patients a price above the standard fee set by the provincial health program, or requiring patients to make payments in addition to those set out or provided by the provincial health program) would also be a solution. However, extra billing is prohibited by the *Canada Health Act* and so is not a policy solution that could be implemented by provincial governments unless they were willing to give up all or a portion of their share of federal transfers for health and social services (Esmail, 2006b).

9 McArthur (1999) notes that postgraduate trainees can increase the number of services that a facility delivers in a cost-effective manner as they are able to deliver (in later years of training) near-physician care at a substantially lower cost than fully trained physicians. He recommends that teaching hospitals be required to pay for all patient care provided, including the care provided by physicians (who currently bill the provincial health plan and are "free" to hospitals, and, therefore, are used more often than postgraduates who are paid by the hospital), giving them the responsibility of determining the allocation of service delivery between lower-cost trainees and higher cost but more capable teaching staff. The outcome of this shift in the financing of teaching hospitals would inevitably be more postgraduate training positions at Canada's teaching hospitals, some of which may be privately financed. This author recommends a similar shift in the responsibility for determining the optimal allocation of trainee resources, but to individual teaching physicians instead of institutions.

10 Simoens and Hurst (2006) found that nations that have traditionally relied on largely unregulated markets for physician training or that have only recently begun controlling medical training have experienced higher levels and growth rates of their physician-to-population ratios than nations, including Canada, that have controlled intake for many years.

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INTRODUCING THE FRASER INSTITUTE ECONOMIC FREEDOM OF THE WORLD WEBSITE

The global source of information on economic freedom

The site offers a wide array of new features including an interactive world map and customized graphing and data downloads which will make it significantly easier for people to analyze and share economic freedom data. It is mobile-friendly and highly visual whether you are viewing it on a smart phone, tablet or desktop computer.

The new site houses all the resources found on the previous site, plus additional resources such as:

- an explanation (written and in video format) of economic freedom in laymen's terms;
- the history of the development of measurement of economic freedom;
- links to posts on economic freedom from the Institute's Fraser Forum blog; and
- information on our international economic freedom audit program.

Let us know what you think of the new site and, of course, please share the new site with your friends and colleagues.

Visit the new Economic Freedom of the World website ››

THE FIVE SOLITUDES OF ONTARIO

A Regional Analysis of Labour Market Performance in Post-recession Ontario

Ontario has experienced more than its share of economic pain in recent years. Between 2003 and 2014, real economic growth per person in Ontario has averaged just 0.3% annually. That's less than one third of the rate of real per-person economic growth in the rest of the country, which averaged 1.1% annually. The economic pain in Ontario, however, has not been spread evenly: there has been significant regional variation in economic performance within the province."

See the video or read the full study here ››

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

Fraser Forum | THE FRASER INSTITUTE BLOG

LOWER TAXES INSTEAD OF BUSINESS SUBSIDIES IN ONTARIO? LET'S DRINK TO THAT

by Ben Eisen

This morning, the Ontario government announced a $4.9 million program to subsidize the growth of small cideries and distilleries in the province.

Finance Minister Charles Sousa noted that the subsidies would support a thriving small industry, stating "Ontario cider and spirits is growing at an exciting pace" and that the program is therefore "good for business, good for customers and good for Ontario."

Now I've got nothing against cideries—indeed, I like their product as much as the next person. And it would be silly to think that such a small program is going to, by itself, make much of an impact on the health of Ontario's finances considering the province spends about $130 billion annually on programs.

Nevertheless, the recently announced cider subsidy is emblematic of a few problems that have plagued provincial policymaking in Ontario for some time.

While individually these subsidies may be small, the sums add up. A number of different industries have either received new subsidies in recent years or seen existing ones extended or enlarged. For example, several renewable energy companies have been heavily subsidized under the Green Energy Act of 2009.

Or consider a recent government report showing that the province's network of "business support programs" cost the government about $5 billion per year. For context, that's about twice the size of the province's projected budget deficit this year.

The bigger problem, however, is that these subsidies reflect a mistaken understanding about how governments can help economies grow. In the end, corporate subsidies mean that government chooses to financially support favoured firms and industries within the economy. This naturally puts excluded firms at a competitive disadvantage (and adding insult to injury, those

excluded firms remain on the hook for taxes that subsidize their competitors).

On the whole, the political selection of winners and losers generally makes the economy less efficient than if those winners and losers were selected by the market.

Now, there may be some specific instances where a specific business subsidy can be justified, but these subsidies can't be the foundation of an economic growth strategy. Rather than using taxpayer dollars to choose winners and losers, the best thing governments can usually do to promote growth is resist the urge to dole out special favours and use the savings to reduce taxes broadly, making it easier for Ontario firms in all sectors to compete within a competitive global economy.

Instead, a number of policy decisions in recent years have actually made it harder for Ontario businesses to compete, broadly speaking. These decisions include a range of tax increases, energy policy mistakes that have sent electricity prices skywards, and costly labour market regulations (minimum wage hikes, for example) implemented even during times when the economy was weak.

If Queen's Park is truly focused on creating jobs and getting Ontario's economy growing sustainably, it should focus its time and energy on policy fundamentals, not on bestowing business subsidies on favoured firms and industries. Let's drink to that.

Read the full study here ››

Ben Eisen is the Director of Provincial Prosperity Studies for the Fraser Institute.

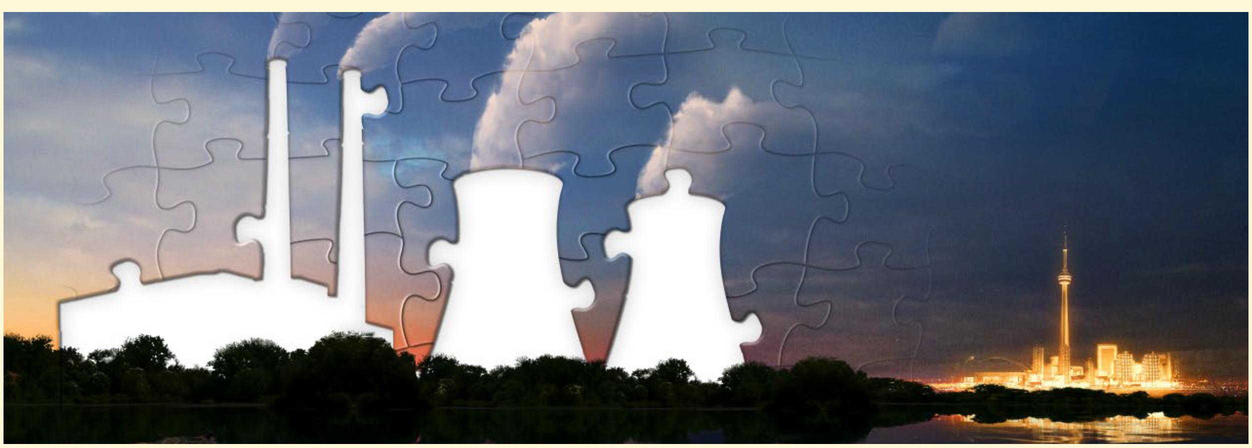
What's New from the Institute **HOT TOPICS**

DID THE COAL PHASE-OUT REDUCE ONTARIO AIR POLLUTION

by Ross McKitrick and Elmira Aliakbari

In 2005, Ontario began phasing out its coal-fired power plants, specifically the ones in Lambton and Nanticoke in southern Ontario. This was done out of the assumed benefits that would come from improved health outcomes, estimated to be around $3 billion. However, that analysis along with a second one done by the province reported that the coal phase-out would have limited effects on improving Ontario's air quality as electric power generation was a small contributor to air pollution at the time. Furthermore, the expected cost savings for the health care system was based on assuming very large health effects being correlated with very small changes in air pollution. Overall, this study finds that the coal-phase out did not lead to large-scale improvements in air quality but rather small improvements in localized areas. In other areas that are considering coal phase-outs, such as Alberta, these implications need to be understood before undertaking a similar project like the one done in Ontario.

Read the study here ››



COMPARING GOVERNMENT AND PRIVATE SECTOR COMPENSATION IN CANADA

by Charles Lammam, Milagros Palacios, Snow Ren, and Jason Clemens

This report analyzes wage data taken from January – December 2015 from both workers in the public and private sectors as a way to quantify the differences in compensation between the two sectors. After controlling for various factors such as gender, age, marital status, education, and type of job, Canada's public sector had a 10.6 per cent wage premium compared to the private sector in 2015. Other benefits in the public sector were also considered, further showing the many benefits government workers enjoy across the country. 89.3 per cent of public sector workers are covered by a registered pension plan compared to 23.8 per cent of private sector workers. Additionally, public sector workers were able to retire 2.3 years earlier on average compared to private sector workers as well as having lost more work time for personal reasons with 12.7 days on average compared to 7.8 days for private sector workers.”

Read the study here ››