Canadian STUDENT REVIEW

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SUMMER 2021

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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.

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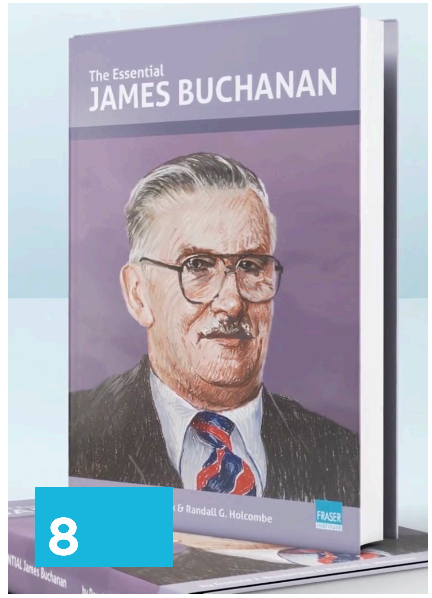

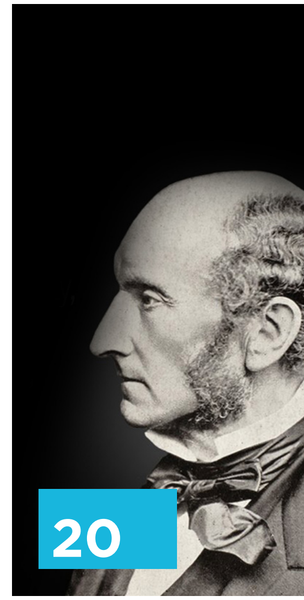

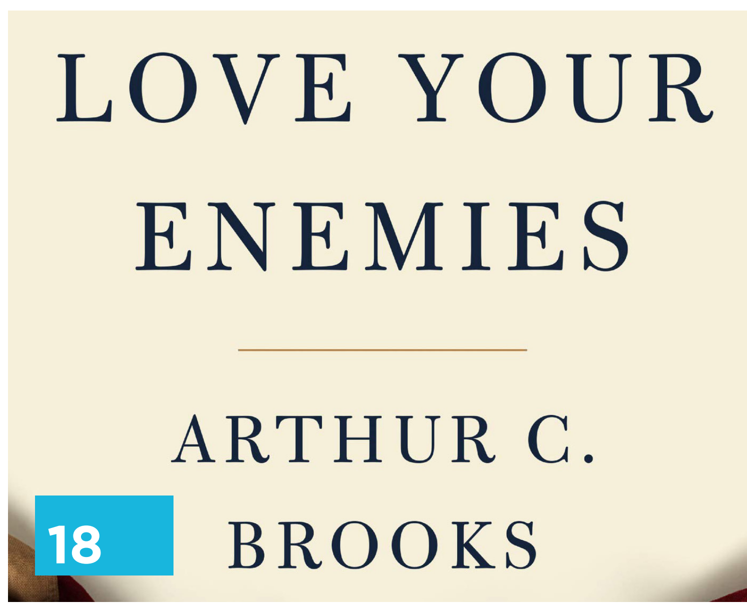

WELCOME

Daniela Castillo

Ryan Hill

Dear Readers:

Summer weather is here and we hope you are taking full advantage of some much needed sunshine!

This issue features four of our student contributors. Brennan Sorge warns against the effects of Modern Monetary Theory, Sam Kerr discusses the politics of carbon pricing, William Dunstan explains the benefits of the payday lending system, and Denise King reviews Arthur Brooks's *Love Your Enemies*. In addition to these contributions, this issue highlights a recent infographic that breaks down the average Canadian family's total tax bill. Within these pages you'll also find a video from the Fraser Institute's *Essential James Buchanan* series, "Constitutional Economics."

We're also including a thought-provoking quote from John Stuart Mill, two exciting blog posts, and two more recordings from the *Explore Public Policy Issues* webinar series for your enjoyment.

If you or someone you know wishes to contribute content to the *Canadian Student Review*, please have them contact Daniela Castillo directly at Daniela.Castillo@fraserinstitute.org.

Regards,

Daniela and Ryan

MODERN MONETARY THEORY AND THE COVID CRISIS

BRENNAN SORGE

As the pandemic has progressed and governments have increased spending substantially to counteract the economic fallout of the pandemic lockdowns, the question of how to pay for this new spending has grown. One potential answer that has gained increasing public attention in recent months is called Modern Monetary Theory (MMT). MMT promises to solve government spending constraints through both monetary and fiscal policy, instead of purely through fiscal policy as is currently done. MMT would ensure government spending is funded through the central bank's ability to create currency and change interest rates instead of through higher taxation or reductions in spending in other areas. Given its growing prominence, MMT is worth understanding, especially in areas where MMT is arguably already being used, albeit to a limited degree.

There are a few essential aspects to MMT. First is the idea that a nation with its own currency can never go bankrupt, as it will always be able to create new currency to cover shortfalls in its budget. The theory further states that since a government cannot go bankrupt, it should not operate under the same assumptions as entities that *can go* bankrupt, such as a household or business. Another essential MMT claim is that government spending does not need to be constrained by revenue, but rather the primary constraint on spending should be inflation. Implicitly, MMT proposes that government can fund its policies through the central bank, and ultimately the creation of new currency. If government wants to increase spending, it only needs to request the funds from the central bank, and the central bank will cover the spending demand by creating new money. While central banks are able to make independent policy from government, MMT also assumes that the central bank will comply with government policy. As a result, government can cover any spending it wants, although it is still nominally constrained by inflation. In order to combat excess inflation, MMT *reimagines the role of taxes*, seeing them as a way to draw excess money out of the economy in order to reduce inflation, rather than as a tool to raise revenue as is currently the case. Reduced spending is another way to control inflation, but this conflicts with the final idea that MMT puts forward, which is that having greater government spending is desirable and ought to be a primary method of solving socioeconomic problems.

THERE ARE A NUMBER OF EXAMPLES OF SIMILAR POLICIES THAT CAN BE USED TO ASSESS THE EFFICACY OF MMT

While MMT is often presented as a new theory, it is closer to a reformulation of older theories and policies. As a result, there are a number of examples of similar policies that can be used to assess the efficacy of MMT. South America has used MMT-like policies quite frequently; Argentina specifically has used MMT-like policies numerous times over the last century. Argentina has funded its government and attempted to ward off challenges related to high levels of government debt by creating new currency. The results are dramatic: during the early twentieth century, Argentina had income levels comparable to Canada or the United States (Bolt and van Zanden, 2020). Today, Argentina remains a developing country, with a per capita GDP that is only a fraction of Canada's (Trading Economics, 2021). Inflation in Argentina has remained a persistent problem for decades, such that exchanging international currency has been controlled to prevent citizens from abandoning the use of the Argentine peso in favour of more stable foreign currencies. Even so, a large black market remains for US dollars, with exchange rates sometimes reaching double the official rate (Bianchi, 2020, May 14). Overall, it seems clear that Argentina has had poor results using these MMT-like policies, with inflation and the degrading of trust in its currency being the primary results. Other nations that have used MMT-like policies have fared little better, Greece being one such example.

In Canada, no political party has endorsed MMT, nor have any major government institutions at this time, but its ideas have still been applied to a limited degree during the COVID pandemic. Historically, most Canadian public debt has been purchased privately, and not by the central bank. During the pandemic, this has changed, with the central bank purchasing more government debt than at any point in the past. Whether this will continue after the pandemic is over is an important question that has yet to be answered. The Bank of Canada (BoC) now holds over four times the amount of government debt it held in 2019 (Bank of Canada, 2019). In other words, much of the money spent during the pandemic has been new money created to fund government policies, in keeping with MMT policy. While much of the pandemic spending is targeted at emergency spending and will likely be reduced over time, 2020 and 2021 have, nevertheless, given Canada a brief trial of what MMT policies can look like. And certain Canadian markets have been experiencing some of the effects of inflation that MMT policy and its critics would predict. Housing markets have risen over 30 percent, lumber prices

have reached historical highs, and used vehicle prices have reached new heights (WOWA, 2021, May 17). While this is not the same level of broad spectrum inflation seen in countries like Argentina that used MMT-style policies for decades, there is still cause for concern. Canada has not yet embraced MMT, but during the pandemic it has certainly come closer than at any point in its past. Even though Canada's experience so far has been limited, the results should give it sufficient cause to change course. Countries that have embraced MMT policies in the past have been unable to control inflation and their citizens have suffered substantial economic consequences as a result. There is no reason to think that Canada would succeed using the same policies. ◆

Brennan Sorge is currently an economics and business student at Thompson Rivers University. His interests center 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.

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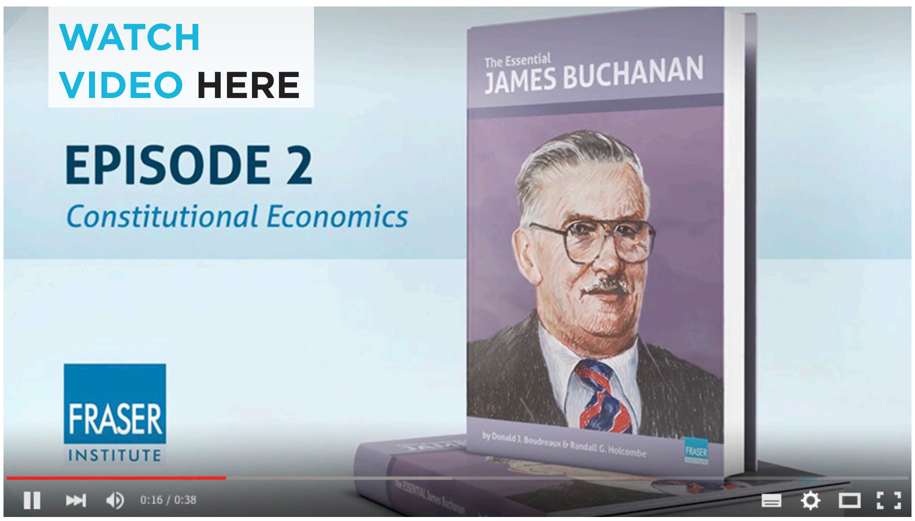
ESSENTIAL BUCHANAN: CONSTITUTIONAL ECONOMICS

THIS VIDEO FROM *THE ESSENTIAL JAMES BUCHANAN* SERIES DEMONSTRATES THE IMPORTANCE OF RULES IN DETERMINING OUTCOMES. ACCORDING TO BUCHANAN, WHEN OUTCOMES FAIL TO MEET EXPECTATIONS, THEN WE NEED TO CHANGE THE RULES.



THE POLITICS OF CARBON PRICING: THE SUPREME COURT AND THE GREENHOUSE GAS POLLUTION PRICING ACT

SAM KERR

Canada's Greenhouse Gas Pollution Pricing Act (GGPPA) sets a minimum standard for carbon prices to meet emissions reductions targets under the Paris Agreement. The Act stipulates that carbon and fuel taxes in Canada increase until the country meets its targets under the Paris Agreement in 2030, but also outlines a backstop system that allows the federal government to implement a pricing system on provinces that don't meet stringency requirements (GGPPA, 2018).

This Act received significant media attention first when Alberta, Saskatchewan, and Ontario began an appeal of its implementation in 2018, and more recently this year when the Supreme Court found the decision to be constitutional in a 6-3 decision.

The Court's decision represents a significant milestone for carbon taxes. It removes power from the provinces to administer their own plans because climate change is seen to be a matter of national interest. Section 91 of the *Constitution Act* notes that:

> It shall be lawful for the Queen, by and with the Advice and Consent of the Senate and House of Commons, to make Laws for the Peace, Order, and good Government of Canada, in relation to all Matters not coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces...

This is known as the "peace, order and good government" (POGG) clause of the constitution. The Court found that climate change threatens Canada's national interests, and therefore the power to regulate carbon emissions should be in federal hands if the provinces do not act. With confirmation from the Supreme Court on the constitutionality of the federal carbon tax, it would be a mistake to underestimate the government's seriousness about acting on climate change, and its willingness to use federal powers to ensure carbon emission reductions occur.

REGULATORY COSTS ON BUSINESS CAN REACH WELL INTO THE THOUSANDS OF DOLLARS PER EMPLOYEE

On the surface, the constitutionality of the GGPPA appears almost indisputable. Climate change may threaten people's health and well-being, safety, and economic prosperity, the integrity of ecosystems, and the national interests. Not to mention the fact that Canada usually plays an active role in addressing international problems and has led the way on reducing or eliminating harmful materials like ozone-depleting substances.

Nevertheless, the GGPPA also has the potential to undermine the well-being of Canadians. While climate change can compromise peace, order, and good government in Canada, so too can deteriorating economies and left-behind and forgotten regions and sectors. The well-being of these regions and sectors is also of national interest.

Now that national carbon pricing has been determined to be constitutional, Canada's more ambitious carbon pricing system may have unintended negative consequences. A crucial area where the government's plan falls short is its action to address "carbon leakage"—a process that results in emission-intensive and trade-exposed industries relocating to jurisdictions with less stringent climate policies (Green, 2019). While the GGPPA includes compensation for trade exposed and emissions intensive sectors, this system is simply insufficient for addressing carbon leakage (McKitrick et al., 2009). The GGPPA may therefore have the practical effect of reducing our competitiveness. Emissions from highly regulated nations might fall, but countries with fewer regulations often soak up energy intensive investments (Green, 2019). For Canadians, this phenomenon may result in jobs being lost to international counterparts in the oil and gas sector, and in the auto, manufacturing, and steel sectors. Displaced workers are often not very mobile and may not easily shift out of their line of work if their sectors are outsourced.

The GGPPA also creates financial offsets for those reducing their carbon consumption in the form of individual carbon tax rebates, but such rebates provide inadequate assistance. Shutting down industries may result in social and economic disruption, creating ripple effects for workers and their families. Moreover, provinces that heavily rely on carbon intensive industries—particularly Alberta and Saskatchewan—may face economic disempowerment in confederation and direct their anger towards what they perceive as an ambivalent federal government (Mintz, 2020). With their source of previous prosperity diminished, and feeling they have only a minority stake in confederation, provinces that have been disadvantaged by a carbon tax may seek representation in other ways. It is one thing to approve of ambitious carbon pricing if one is insulated from its immediate effects. It's quite another to be left trying to piece together a living in a financially devastated industry and region.

It is worth noting that the Liberal government has put forward the idea of carbon border adjustments to address climate change. The basic idea of this policy is that goods and services from jurisdictions without climate plans become subject to taxes to account for the carbon that they create. For example, a car

manufactured in one of the US states where there is no carbon tax would be subject to a tariff to help nullify its manufacturer's competitive advantage. Similarly, fuel from a US refinery in a state without carbon pricing would become subject to taxes to ensure that Canadian producers don't face unfair competition. Carbon border adjustments, however, are administratively difficult to implement, and in a time when global trade is increasingly compromised, they may further harm the global trade climate and possibly result in retaliatory measures.

Aside from carbon leakage, a core problem that follows from the GGPPA is that the federal government has not shown that it is prioritizing workers, communities, and regions that have been left behind. Some measures have been taken. In September 2020, Western Economic Diversification announced "A Just Transition for Canadian Coal Communities," which will help reduce social and economic harms in this sector, but the program assigns only $5.8 million for coal communities in Saskatchewan and Alberta, which is just a fraction of lost output. Moreover, Western Economic Diversification has not announced a similar plan for workers in the oil and gas sector. This sector makes up about six percent of nominal GDP or about $110 billion, making the $5.8 million earmarked by Western Economic Diversification seem inadequate. The GGPPA needs to be immediately followed by legislation that supports the overall economic and social health of left-behind regions and sectors.

The GGPPA is now in effect, but the power to implement carbon taxes at the federal level must be viewed with skepticism. Will carbon once emitted in Canada move across borders to less regulated regions? Will the government prioritize left-behind workers, or remain indifferent to these groups? Climate change is a matter of national interest, but the powers to address this problem have to be held in check. ◆

Sam Kerr is a Master of Public Administration student at the University of Victoria who is currently working at Environment and Climate Change Canada. He holds a master's degree in history from the University of Calgary (2020), and a bachelor's degree in history and economics from UVic. This past summer he worked on educational assessment research at the University of Calgary; he hopes to continue to work on policy issues in the future.

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WAIT TIMES—THE OTHER HEALTH CARE CRISIS

MACKENZIE MOIR AND BACCHUS BARUA

It has been more than a year since the first case of COVID-19 was confirmed in Canada. Since then, more than one million Canadians have tested positive for the virus, which has claimed the lives of more than 23,000. The pandemic, and the consequent lockdowns, have also ravaged our economy and forced the government to spend more per person than we did during the Second World War.

Less discussed, however, are the effects of another perennial health care crisis that's only gotten worse over the last year—long wait times for health care.

In 2020, the average total wait time between referral from a GP and receiving care was measured at 22.6 weeks—the longest wait recorded in the 30-year history of the Fraser Institute's annual survey and 143 per cent larger than the 9.3-week wait recorded in 1993.

It may be tempting to blame our current predicament on COVID, and certainly several provinces across Canada have made difficult decision to postpone elective treatments in anticipation of surging COVID cases. However, while these cancellations may well have exacerbated wait times, they are not the cause. For example, in 2019 Canadian patients experienced a total 20.9 week wait for medically necessary care, well before the pandemic started.

These wait times are not benign inconveniences. They can result in physical pain and suffering, poorer medical outcomes and in some cases cause permanent disability or even death. Reduced productivity and income are a consequence of these wait times, resulting in an economic cost for patients and the economy more generally.

A recent study attempted to attach a dollar value to the time Canadians lost between seeing a specialist and receiving treatment (a 12.1-week wait). In 2020, the elective surgery queue cost 1.2 million Canadians a total of $2.8 billion (or $2,254 per person) in lost wages and productivity. This estimate only includes hours Canadians spend working during the average workweek. When we expand our analysis to include the value of time spent in a diminished capacity outside of work (but excluding eight hours for sleep), this figure increases to $8.4 billion (or $6,838 per person). Importantly, these cost estimates do not account for time it takes to see a specialist in the first place (10.5 weeks), which also carries its own risk for increased morbidity.

These waits are not an unavoidable cost of universal care. For example, in 2016, the Commonwealth Fund found that a significant number of Canadians (18 per cent), the highest proportion recorded that year, reported waiting four months or longer for elective surgery. This figure was striking when compared with other universal countries such as Australia (8 per cent), Switzerland (6 per cent) and Germany (0 per cent).

Of course, like Canada, many of these countries will likely experience increased wait times for treatment, given COVID-related delays in elective surgeries just about everywhere. However, a more recent version of this international survey, taken between March 2020 and July 2020, similarly found that Canadians were the least likely to report waiting under four months for an elective procedure. And these other countries will likely return to much shorter wait times once the pandemic passes.

We were barely two months into the pandemic when we first wrote about the impact COVID was having on our already strained health care system. Now, as of May 2021, we're climbing into a third wave while viral variants and increasing hospitalizations begin to overwhelm provincial health care systems once again. To point out and recognize the heroic efforts of our health care workers, considering all they've endured this year, does not seem as though it's enough. Our provincial governments also deserve recognition, especially as they face incredibly difficult decisions once again.

However, as provinces begin to postpone elective surgeries once again, we shouldn't forget our other perennial health care crisis. Postponement or not, we've known for some time that long waits for medically necessary care can and do result in serious consequences. While provinces such as British Columbia have had major successes with surgical renewal programs, the improvements are only temporary. To shorten wait times, fundamental reforms will be required. ◆

Read the blog post here.

Mackenzie Moir is a Policy Analyst at the Fraser Institute. He holds a Bachelor of Science in Nursing from York University and a Master of Science in Health Policy and Research from the University of Alberta. Mackenzie has extensive clinical experience and has provided direct care in general medicine, palliative care, cardiology, oncology, and neurology settings. In addition to several academic publications, Mackenzie's commentaries have appeared in University Affairs, *the* Financial Post, *and the* Globe and Mail*. His research focuses on health care system performance and health related quality of life.*

Bacchus Barua is Associate Director of the Fraser Institute's Centre for Health Policy Studies. He completed his BA (Honours) in Economics at the University of Delhi (Ramjas College) and received an MA in Economics from Simon Fraser University. Bacchus has conducted research on a range of key health care topics including hospital performance, access to new pharmaceuticals, the impact of aging on health care expenditures, and international comparisons of health care systems. He also designed the Provincial Healthcare Index (2013) and is the lead author of The Effect of Wait Times on Mortality in Canada*, and* Waiting Your Turn: Wait Times for Health Care in Canada *(2010–2014).*

INFOGRAPHIC

INCREASING PRODUCTIVITY THROUGH TAX REFORM

READ MORE HERE

The average Canadian family will pay 39.1% of its income on taxes this year

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Breakdown of total tax bill*	
Income Taxes	13.2%
Payroll/Health Taxes	8.1%
Sales Taxes	6.0%
Property Taxes	3.7%
Profit Taxes	3.4%
Sin Taxes	1.7%
Fuel/Vehicle/Carbon Taxes	1.4%
Other Taxes	1.6%
Total tax bill	**39.1%**

*based on a family income of $124,659

PAYDAY LOANS: NOT SO PREDATORY, AND NOT SO WISE TO RESTRICT

WILLIAM DUNSTAN

Few industries are more hated, or more misunderstood, than payday lending. Payday loans, due to the high interest rates charged on them, are widely portrayed as "predatory" products that exploit vulnerable consumers. This depiction, however, ignores payday lenders' vital role in expanding access to credit and the financial reality behind these rates. When governments squeeze payday lenders with restrictions on interest rates and outright bans, consumers suffer.

Payday loans are short-term, high interest loans that are typically due on the borrower's next payday, hence the name. Interest rates in Canada are capped at 60 percent per year. However, an exemption exists that allows provinces to licence and regulate payday lenders, who are then permitted to charge annual rates exceeding 60 percent. Provinces still impose a maximum borrowing cost for payday loans, which varies from $15 on a $100 loan in Ontario, Alberta, and British Columbia to $25 in Prince Edward Island (Canada, 2020). A $15 charge on a $100 loan with a term of two weeks is equivalent to an annual interest rate of 391 percent. Recently, momentum has been on the side of further tightening these regulations. Some provinces have cut their legislated maximum cost of payday borrowing in recent years; Ontario allowed lenders to charge $21 per $100 borrowed back in 2015. Federally, the 2021 budget includes plans to launch consultations on lowering the criminal rate of interest (i.e., rates over 60 percent) and there is a private member's bill currently before the House of Commons that would remove the payday lenders exemption.

PAYDAY LOANS ARE SHORT-TERM, HIGH INTEREST LOANS THAT ARE TYPICALLY DUE ON THE BORROWER'S NEXT PAYDAY

To understand how these tighter restrictions hurt consumers, it is essential to know why people choose to borrow money at high interest rates. Simply, if someone has poor credit or no credit history, a payday loan might be their only option if they wish to borrow money. This is because payday lenders will typically not conduct a credit check, instead asking the prospective borrower for proof of employment and a chequing account. Payday loans are popular among some consumers who can also obtain more conventional loans. Many Canadians take out payday loans despite being able to borrow at lower interest rates from a bank because a payday loan is faster or better suited to their individual needs (FCAC, 2016).

Imagine, for example, that your car breaks down and you know you will lose your job if you cannot drive to work. You have few savings and obtaining a bank loan quickly is infeasible. In this scenario, a payday loan could be a sensible option. The loan might be expensive, but it is less costly than becoming unemployed. According to a 2016 report by the Financial Consumer Agency of Canada, 45 percent of Canadians who use payday loans do so to handle these sorts of necessary unexpected expenses. Forty-one percent use payday loans to cover expected expenses such as utility bills, preferring an expensive loan to going without water or power.

The same features that make payday loans so appealing – no credit checks and quick approval – are why their interest rates are so high. Lending money to people who do not have a documented history of repaying is risky. Defaulted loans account for between 12 and 19 percent of the value of payday loans in Canada (Conference Board, 2016). By contrast, the share of Canadians who were more than 90 days behind payments on overall, non-mortgage, consumer debt was just 1.15 percent in September 2019—and that was the highest rate of delinquency since 2012 (Equifax, 2019). Payday lenders know that many borrowers will not repay, so to stay in business they need to make up for the losses by charging high interest rates on all loans.

There is further reason to believe that the risks of offering loans without conducting credit checks genuinely necessitate high interest rates. Canadian payday lenders appear to enjoy little market power and the industry is quite competitive (Conference Board, 2016). Under these conditions, it is unlikely that any lender is managing to charge obscenely high interest rates. Surely, if it were profitable to offer payday loans at interest rates well below those that currently prevail, a business could attract customers by doing precisely that.

Consequently, when governments legislate reductions in the maximum cost of borrowing, they reduce the commercial viability of payday lending and thereby reduce many folks' access to credit. According to a report by Deloitte, the average cost of providing a payday loan in Ontario was $18.14 per $100 lent when bad debt costs were accounted for (Conference Board, 2016). Unsurprisingly, when the Ontario government cut the maximum allowable cost of borrowing, around 10 percent of lenders closed (Dijkema, 2019).

Research from the United States shows that consumers and communities at large suffer when people lose access to payday loans. Bhutta, Goldin, and Homonoff (2016) find that restrictions on payday lending are associated with higher rates of involuntary chequing account closures. They also find that many would-be payday borrowers turn to other forms of high-interest credit like pawnshop loans. Morse (2011) concludes that the availability of payday loans mitigates increases in rates of home foreclosures and property thefts during periods of widespread financial distress, such as the aftermath of natural disasters. Clearly, consumers suffer when governments prohibit payday lenders from offering loans at profitable interest rates. For most borrowers, the alternative to payday loans is not lower-risk forms of credit; rather, it is financial disaster or other, less desirable forms of high-interest credit.

Some people undoubtedly harm themselves by taking out payday loans when they should not. But protecting these people from payday loans means preventing others from benefiting. It is cruel to deny consumers access to the financial products they need because others misuse them. When the evidence shows that large numbers of consumers simply shift to similarly high-risk products when payday lending is restricted, it is unlikely that much "consumer protection" occurs from the restrictions anyway.

Canada should retain the criminal code exemption for payday loans, and provincial governments like Ontario's should reverse recent decreases to the maximum allowable cost of borrowing. The unfortunate reality is that some consumers are risky borrowers, which obliges their creditors to charge high interest rates to safeguard against losses on bad debts. Restricting payday lending does nothing to keep people out of the predicaments that lead them to seek risky loans, it just denies them one of the options they have available to resolve their troubles. ◆

William Dunstan is a Public Affairs and Policy Management student at Carleton University. He has a passion for the power of markets to improve people's lives and for developing policy that allows this to occur.

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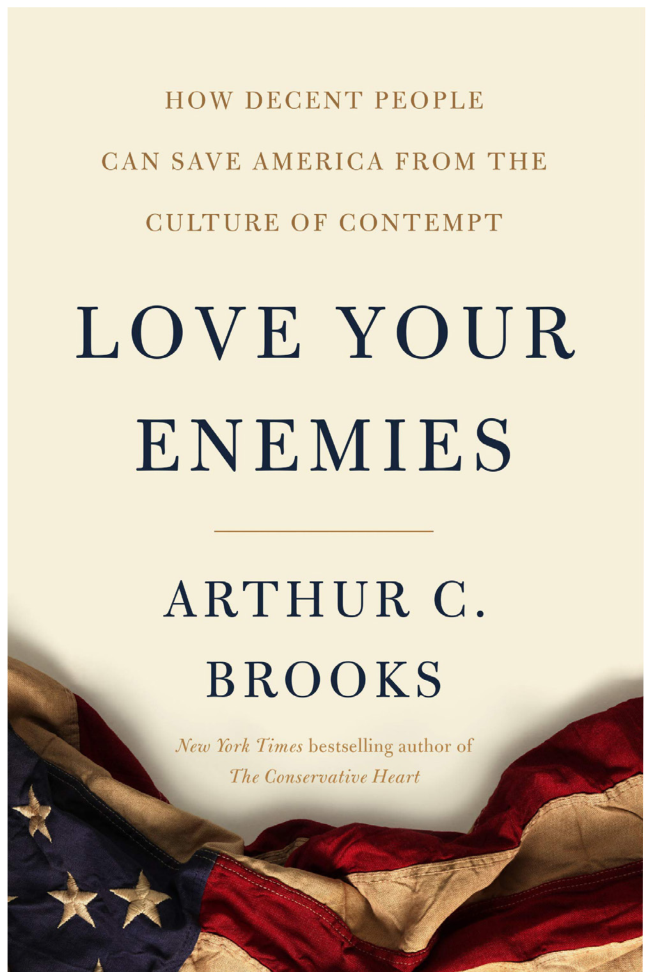
A REVIEW OF *LOVE YOUR ENEMIES*

DENISE KING

When I call for a standard of love, I am asking us all to listen to our hearts, of course. But also to think clearly, look at the facts, and do difficult things when necessary, so that we can truly lift people up and bring them together.

—Arthur Brooks, *Love Your Enemies*

In the world we live in today, contempt and hate is so prevalent that it has bred a new trend of "cancel culture." We've become so polarized that when someone's views don't align with our ideals and beliefs, we simply dismiss them instead of being open to discussion so we can try to understand the way the other person sees and understands the world. We need to be better than this. We need to replace contempt with respect, hate with empathy and kindness. This is exactly what Arthur Brooks calls on us to do in his book *Love Your Enemies: How Decent People Can Save America from the Culture of Contempt* (HarperCollins).



At its core, *Love Your Enemies* is a book about common human decency. After reading it, you will likely think, "well, that's actually pretty obvious," and yet, when looking at society nowadays, it seems that being decent isn't the norm. In the current political climate, the polarization between conservatives and liberals is so extreme that when we meet someone from the opposite political party, we might dismiss them immediately without a second thought. How, then, would we be expected to love our enemies when we won't give them the time of day?

Brooks brings up politics a lot in this book, of course, and that's because politics shapes and affects our daily life. The discourse we have about politics is as significant as it is because it's the starting point from which we make progress or change in our lives. Now, the thing about engaging in political discussion is that we often dismiss the other side's ideals. What Brooks hopes is that we change the way we engage in discourse with others by finding a way to respect those whose views don't necessarily align with our own and actually take the time to listen and understand them. Understanding is an important concept that Brooks reinforces throughout the book. While we may not always agree with someone, we can at least try and understand their views and perspectives because then we aren't judging them based on just one aspect of an interaction with them.

Throughout the book Brooks encourages us to have healthy disagreements with one another. One thing I loved Brooks talking about was the importance of telling stories. It is true that personal stories affect us more than facts alone, since they show us what true humanity is. Telling stories about one's life brings out the vulnerable side of someone. Showing that vulnerability isn't always easy but at least telling stories helps build compassion and understanding. Think back to your experience hearing a speaker at a convention. Didn't their personal story stick with you the most—more than whatever subject they were talking about?

The main takeaways I've found from Brooks' book that are so relevant to society nowadays is that we need to change the way we disagree with others and that we should also treat one another with love and respect no matter how difficult that may seem to be. We're all human. We have flaws, we make mistakes, we are definitely not perfect. We need to recognize that not everyone in the world will agree with everything that we think or say and we have to be okay with that. *Love Your Enemies* is a must-read for everyone because the ideals that Brooks emphasizes throughout are important for us to learn and start implementing in our daily lives. ◆

Denise King is currently an Economics and Philosophy student at MacEwan University in Edmonton, Alberta. Denise is passionate about topics that relate to behavioural economics and the ontology of economics.

THE REAL ADVANTAGE WHICH TRUTH HAS, CONSISTS IN THIS, THAT WHEN AN OPINION IS TRUE, IT MAY BE EXTINGUISHED ONCE, TWICE OR MANY TIMES, BUT IN THE COURSE OF AGES THERE WILL GENERALLY FOUND PERSON TO REDISCOVER IT, UNTIL SOME OF ITS REAPPEARANCES FALLS ON A TIME WHEN FROM FAVOURABLE CIRCUMSTANCES IT ESCAPES PERSECUTION UNTIL IT HAS MADE SUCH HEAD AS TO WITHSTAND ALL SUBSEQUENT ATTEMPTS TO SUPPRESS IT.

— JOHN STUART MILL, ON LIBERTY

REALITY CHECK—THE DANGERS OF DEBT ACCUMULATION

FRED MCMAHON

Canada has entered perilous fiscal territory. Total government debt is 107 percent of GDP with more on the way. Risk from mounting debt casts a shadow on the future.

Former Clerk of the Privy Council, Canada's highest-ranking civil servant, Alex Himelfarb is one of the most eminent and vigorous proponents of increased debt. But his recent article in *Finances of the Nation* misrepresents the evidence about the dangers of debt accumulation. His citations are important, just not the way he claims.

After criticizing what he characterizes as the orthodox view that "deficits and debt are the problem," Himelfarb cites "three recent" IMF reports, "each of which challenges the conventional fiscal wisdom" in support of his view that Canada should borrow more. In reality, the citations warn against the course Himelfarb charts (as does the most recent IMF 2021 report on Canada).

Himelfarb first cites the IMF's *World Economic Outlook: October 2012* report. Rather than challenge "conventional fiscal wisdom," the report states that the "problem of high public debt existed before the Great Recession, because of population aging and growth in entitlement spending, but the crisis brought the need to address it forward from the long to the medium term."

That's hair-on-fire language for the IMF. The report calls for "fiscal consolidation" and "structural reforms to public finances"—IMF-speak for deficit and debt reduction.

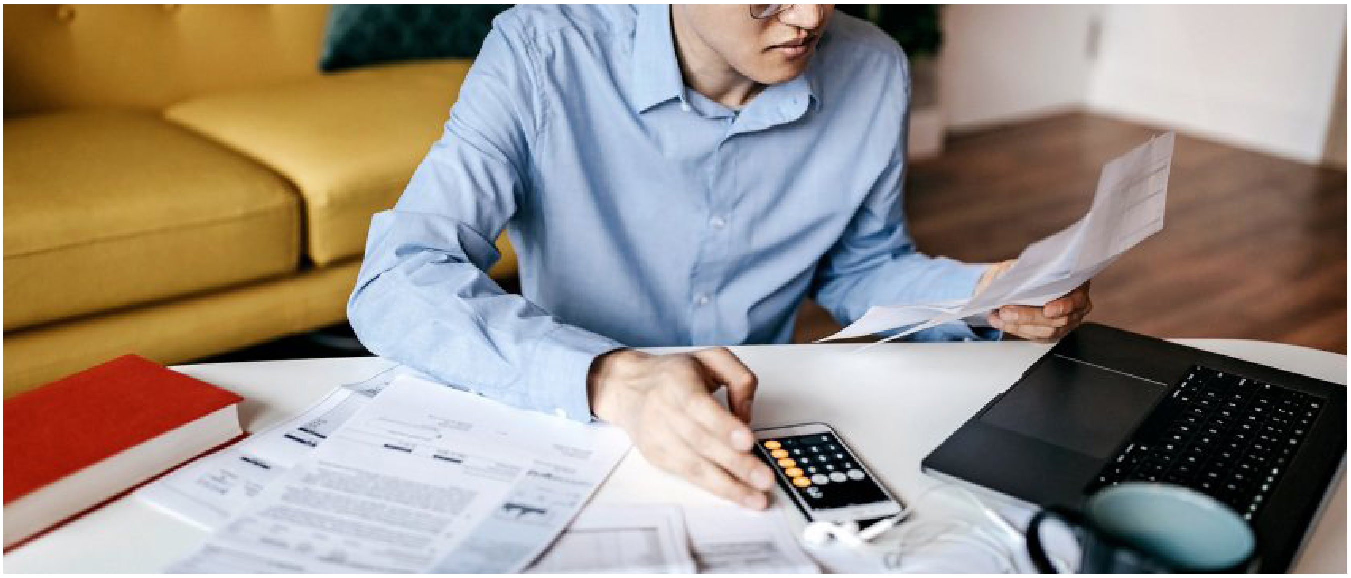
Himelfarb's description of this 2012 report as "recent" is odd, but it's relevant to Canada's debt challenge. The report searched history for "successful debt reduction" and found Canada of the mid-1990s. Debt then had reached more than 100 percent of GDP, as it has now. Rather than Himelfarb's call to damn the torpedoes and spend more, the report praised Canada's spending cuts as the only viable approach to debt reduction "given the already high level of taxation."

Himelfarb writes: "Another [study] concluded that the economic benefits of 'neoliberal' policies designed to shrink or contain the size of government had been badly oversold." The article actually says "somewhat overplayed."

Moreover, the article argues against harsh austerity but does not criticize policies "designed to shrink or contain" government. Instead, it says "high debt is bad for growth and welfare" and calls for containing government spending, "allowing the debt ratio to decline organically through growth." That's pretty conventional thinking and distant from Himelfarb's call to increase debts and deficits.

Himelfarb asserts: "Yet another [study] found no clear relationship between debt and economic growth. In fact, for advanced economies in good standing like Canada, the study comes to what it describes as the 'unpalatable' conclusion that there seems to be no limit to how much debt a government can issue." That's false.

What Himelfarb cites as the article's conclusion is actually a supposition it rejects—whether low interest rates mean "governments can safely borrow more." The study's conclusion, "The short answer: not by much." This conclusion is on the page Himelfarb quotes, and the abstract, introduction, econometric



results and conclusion. "Not by much" is rather different than "no limit."

Another oddity. Himelfarb says the article finds "no relationship" between growth and debt. But the article didn't address that question. Instead, he seems to misinterpret another one of his citations, the 2012 IMF report, which does say "there is no simple relationship between debt and growth."

The operative word is "simple." The report finds that countries with debt levels "between 90 and 115 percent of GDP" but which are decreasing debt have economic growth rates an astonishing 0.5 percentage points higher than those increasing debt. This is a striking warning against Himelfarb's recommended course. Canada's debt level is exactly in the red zone where more debt stunts growth.

The IMF's most recent report on Canada is consistent with these earlier warnings. The report worries Canada's growing debt will undermine fiscal credibility. "The recent sharp rise in public debt increases the importance of clearly specifying a medium-term fiscal anchor [a cap to deficits and/or debt] to guard against a potential weakening of credibility in the fiscal framework."

The 2021 federal budget has no defined fiscal anchor. We need a sensible debate on getting public finances under control rather than fiscal reality distortion. ◆

Read the blog post here.

Fred McMahon is a Fraser Institute Resident Fellow and holder of the Dr. Michael A. Walker Chair in Economic Freedom. He has an MA 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. His research focuses on global issues such as development, trade, governance, and economic structure. Mr. McMahon is the author of numerous research articles and several books including, Looking the Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada*, which won the Sir Antony Fisher International Memorial Award for advancing public policy debate,* Road to Growth: How Lagging Economies Become Prosperous*, and* Retreat from Growth: Atlantic Canada and the Negative Sum Economy*.*

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James Otteson

You have heard of the Seven Deadly Sins—envy, gluttony, greed, lust, pride, sloth, and wrath. But there are several deadly economic sins as well—mistakes in economic reasoning that we make routinely, and almost instinctively, but that have deleterious effects not only in our personal lives but also when they find their way into public policy. In this brief presentation, Dr. Otteson draws from his new book, Seven Deadly Economic Sins, to focus on two. ◆

Link to James Otteson Recording

How Innovation Works: And Why It Flourishes in Freedom

Matt Ridley

Innovation is the main cause of the great enrichment of the world in recent centuries and the doubling of average human lifespan. Yet it's a phenomenon that nobody fully understands. Why does it happen when and where it does? In this presentation, Ridley argues that we need to see innovation as an emergent, serendipitous, evolutionary, and collaborative process resulting from the free exchange of goods and services, rather than a consequence of deliberate planning. ◆

Link to Matt Ridley Recording

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