Canadian STUDENT REVIEW

FRASER INSTITUTE

WINTER 2017

QUARTERLY STUDENT MAGAZINE

STUDENT ESSAY CONTEST WINNERS

SMALL CHANGE BIG IMPACT

Improving Quality of Life One Policy Change at a Time

What's Inside

Canadian STUDENT REVIEW

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FRASER INSTITUTE

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

WELCOME!

Dear Readers,

With the school year in full swing and winter fast approaching, we hope you are taking time for yourselves and enjoying the beautiful fall weather. In this issue of the *Canadian Student Review*, we feature our three essay contest winners at the high school, undergraduate and graduate levels. There were many fabulous entries and we would like to thank all who participated and submitted an essay. Keep an eye out for this year's topic in a future issue to find out how you can win and be featured in an upcoming issue of CSR.

This issue also features two new hot topics on comparing health care systems around the world and an analysis on increases in education spending. We also feature a recent Fraser Institute video on electoral reform and different types of voting systems along with an infographic from the Fraser Institute's annual *Economic Freedom of the World* study.

We hope you enjoy this issue of the *Canadian Student Review*!

Lisa-Diane Fortier
Editor, *Canadian Student Review*

Canadian
STUDENT REVIEW

Contents

1st Place Essay Contest Winner
High School Category

REPEALING THE INDIAN ACT

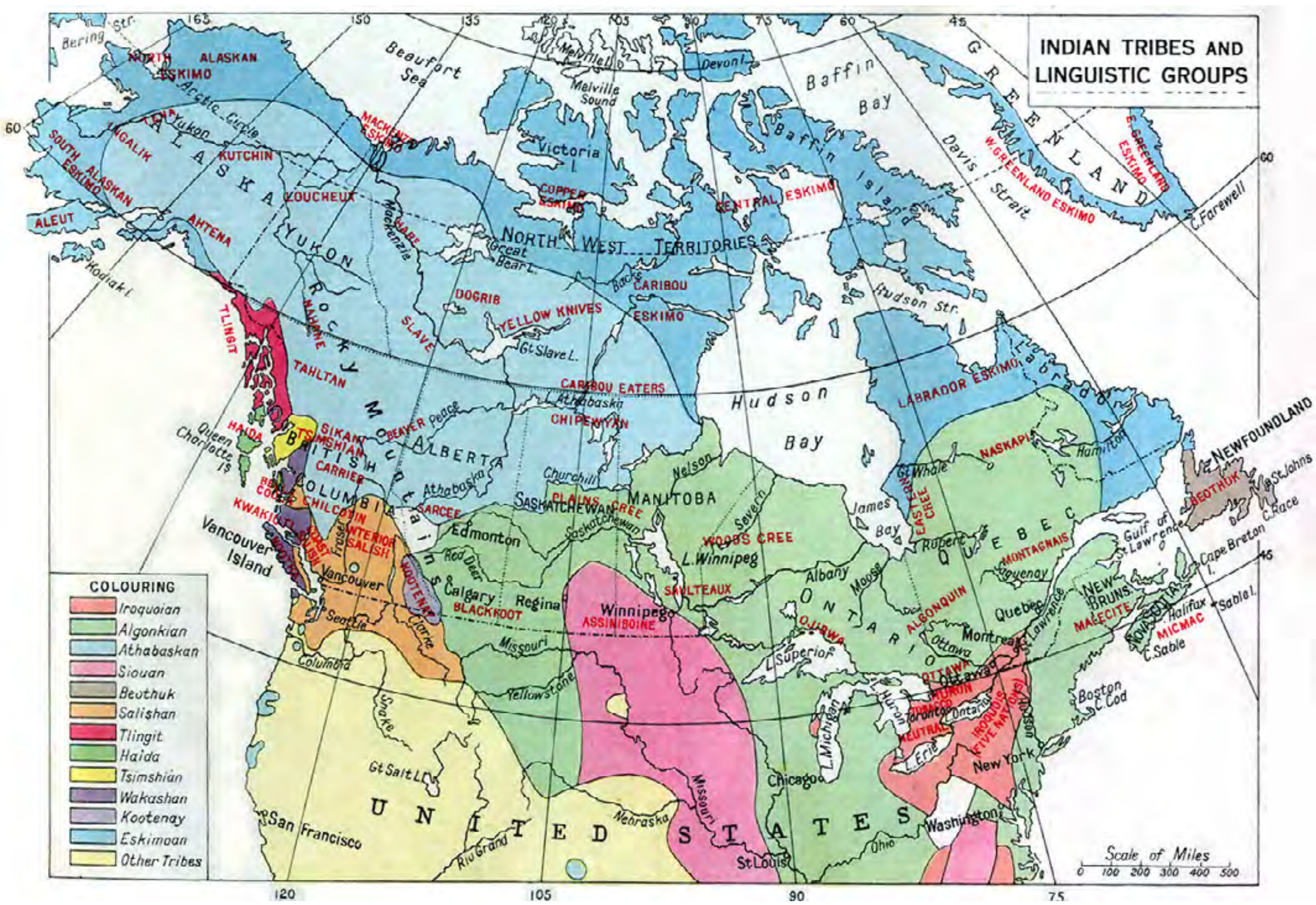
William Dunstan

On the 28th of October 2011, Attawapiskat First Nation, located in northern Ontario on the coast of James Bay, declared a state of emergency due to a lack of housing and infrastructure. At the time of the announcement it was revealed that an extraordinary 19 families on the reserve lived without running water or electricity and that a further 128 families were living in 87 buildings deemed fit for condemnation (Toulouse, 2011). While such ghastly conditions stunned many Canadians, similar situations continue to occur within First Nation communities across the country. In fact, that same year the Community Well Being Index found that 96 of the 100 lowest performing communities nationwide were under First Nation jurisdiction (INAC, 2015). The causes of such a predicament can be attributed to an atrociously oppressive, divisive and outdated statute known as the *Indian Act*. The *Indian Act* inhibits the economic development of First Nations citizens and their communities by preventing the creation of economic capital on-reserve and creates administrative inefficiencies with respect to on-reserve services, such as education. In order to ensure the economic freedom and basic equality of Canada's indigenous communities, it is imperative that this statute is repealed, that the First Nation reserve system be abolished and that the rights to all reserve lands are redistributed from the crown into the hands of Canada's First Nation, Inuit and Metis populations.

The *Indian Act* is the principal statute through which the Canadian federal government administers local First Nations governments, such as through outlining the principles and regulations of on-reserve services including housing and education, and the management of reserve land and communal monies. While the *Indian Act* lays out the regulations and guidelines that are to be followed by the band and the federal government, the statute is also an archaic piece of legislation that grants both special privileges and blatant discrimination towards a single ethnic group. This has prompted some First Nations leaders to declare the *Indian Act* one of the main barriers to creating functional rules and systems to govern community life and, as such, inhibitors of economic development (INAC, 2013).

By preventing the fee-simple ownership of land, the *Indian Act* significantly discourages the creation of businesses and other employment opportunities on reserve.

In his seminal work, *The Mystery of Capital*, Hernando De Soto concludes that the reason for the lack of capital in the developing world is that assets in these countries, such as houses and the land on which they are built, do not have adequately recorded ownership. This means the majority of businesses remain unincorporated, rendering them unable to be readily turned into capital (De Soto, 2000). This parallels the situation on First Nations reserves where, unlike elsewhere in the country, individuals



Map: Lawrence J. Burpee, *An Historical Atlas Of Canada*, 1927

are unable to obtain fee-simple ownership of their property. Under the *Indian Act*, all reserve lands are held in trust for the bands by the crown. However, the Ministry of Indigenous and Northern Affairs, or INAC, can grant property rights to individuals on reserves, most often in the form of Certificates of Possession (CP). These individuals have limited abilities to transfer or lease the land (Brinkhurst and Kessler, 2013). As well, as this property is legally crown land and therefore immune from legal seizure, it is virtually impossible for a CP holder to mortgage or use their property as equity as financial institutions are severely restricted in their ability to collect on defaults. Additionally, CP's are entirely under the discretion of INAC and can be revoked at any time for a variety of reasons (Alcantara, 2002). By preventing the fee-simple ownership of land, the *Indian Act* significantly discourages the creation of businesses and other employment opportunities on reserve. To illustrate this further, while Canada experienced an average national employment rate of 75.8% for the year of 2011, the employment rate on First Nations reserves was a meager 47.0% (Statistics Canada, 2011). The combination of low employment rates and reduced economic opportunities has created an environment on many reserves where a large segment of the population is dependent on government aid.

While Canada experienced an average national employment rate of 75.8% for the year of 2011, the employment rate on First Nations reserves was a meager 47.0%.

This level of dependency on government aid coupled with the rapid aging of Canada's workforce is widely anticipated to result in a fiscal crisis often referred to as the "Demographic Tsunami." Over the next decade or so, a large portion of Canada's population will be exiting the workforce and entering retirement. Statistics Canada estimates that by 2024, 20.1% of the Canadian population will be aged 65 years or older (Statistics Canada, 2015). This segment of the population will contribute far less to the nation's tax base while also relying more heavily on social programs, such as healthcare, swamping the nation's finances in the process (Helin, 2008). Several scholars, notably Tsimshian author Calvin Helin, suggest increasing economic prosperity for First Nations and mobilising the rapidly growing indigenous population into the workforce , particularly by unleashing the massive economic potential of the substantial amount of land held by First Nations through expanding access to fee-simple property ownership and removing other barriers to the development of private enterprise found within the *Indian Act* , as a prime method to help combat the impending "Demographic Tsunami (Helin, 2008). The abolition of the Indian Act will not only lead to a greater quality of life on reserves, but is urgently needed in order to ensure a strong fiscal future for Canada.

Elsewhere in the world, it has been demonstrated that proper land titling results in economic growth and increase in quality of life for those affected. For instance, in 1981 when a group of squatters lived on the outskirts of Buenos Aires, Argentina, the government ordered the transfer of the land from the original owners to the squatters. However, only some of the owners complied, which resulted in one group of squatters obtaining formal land rights, while others lived in the occupied parcels without paying rent, but without legal titles. The parcels inhabited by the entitled and untitled households were identical and the allocation of property rights was entirely independent of the characteristics of the squatters, thus creating a natural experiment allowing for the examination of the effects of land titling. 29 years later, it was found that while the group that did not obtain formal land rights experienced little change, the group that received legal titles to the land witnessed a dramatic increase in their quality of life (Galiani and Schragrodsky,2010) the overall index of housing quality grew by 37% and the secondary education completion rate doubled. Moreover, the average household size for the entitled group was 5.11 people, compared to 6.06 for the untitled group (Galiani and Schragrodsky, 2010).

When over half of a population does not complete a secondary education, the cycle of poverty continues into the future generations.

The administrative deficiencies created by the *Indian Act* are accentuated by the abysmal quality and ludicrous cost of education for reserve residents. As mandated by the *Indian Act*, education for children on First Nations reserves is funded by the federal government rather than their provincial counterparts and is independently administered by each band to its members. Due to the autonomy given to these bands, First Nations education systems have no requirement to teach a core curriculum that meets provincial standards, no requirement to have certified educators and no requirement to award a provincially recognized diploma to graduating students (Bains, 2014). This is demonstrated by low graduation rates as only around 40% of on-reserve students graduate high school compared to roughly 90% of off-reserve students in Canada (Omand, 2016). Education is a vital component to ensuring a high future quality of life for youth, especially considering it is one of the indicators used for the CWB Index. When over half of a population does not complete a secondary education, the cycle of poverty continues into the future generations (Baker and Coley, 2013). Some reserves ultimately decide to send their students to off-reserve schools at provincially run institutions (Bains, 2014). However, given that these students are members of their reserves and under federal jurisdiction rather than the provincial jurisdiction off-reserve students are under, band governments must pay these students' tuition to the provinces (AFN, 2012). In other words, the federal government often funds First Nations reserves to ensure that the reserve can pay provincial governments to allow their residents to receive an education at provincial institutions (INAC, 2016). Education is one of several government services that are inefficiently administered to on-reserve members since it is a provincial responsibility that the federal government has jurisdiction over due to the Indian Act. Because of the manner in which the *Indian Act* mandates the administration of government services on reserve, costs tend to be higher given the added bureaucracy of going through various governmental departments.

In conclusion, the *Indian Act* continues to place barriers to on-reserve economic prosperity by not allowing fee-simple land ownership and by creating a system of administrative inefficiencies when delivering services on-reserve, most prominently in regards to education. If First Nations citizens are ever to obtain a quality of life remotely comparable to that of other Canadians, the *Indian Act* must be repealed.

William Dunstan is currently a Grade 11 student at St.Matthew High School and he plans to study public policy and administration after graduating. He has a particular interest in Aboriginal Policy and Economic Freedom.

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1st Place Essay Contest Winner
Undergraduate Category

Innovating Education for the Future

INCENTIVE PAY FOR TEACHERS

Mark Ren

Global Talent Pool

If you're a student, it may not be long before you find yourself in a classroom competing with peers from all over the world. With the ensuing tide of globalization, the top companies and firms will be able to look beyond students from local schools and access a growing global talent pool. Over the last two decades, countries around the world have focused on expanding and innovating education as the key to maximizing well-being, reducing poverty, and increasing economic growth.[1] As a result, Canadian students may soon find themselves trailing behind their international peers, which would gravely impact Canada's ability to stay competitive with the global economy. With the second highest government spending on education per capita in the world,[2] Canadians understand the importance of investing in education. Improving education outcomes is a key priority for governments around the world, if Canada wants to stay competitive it must be willing to innovate. Here's an idea: incentive pay for teachers.

(From 2003-2012), Canada's per-pupil spending has increased by 63.2% to $11,835.

It sounds simple enough, an honest day's pay for an honest day's work, those who achieve better results should be better compensated in return. But depending on who you ask, the notion is either rationally straightforward—or utterly perverse.

The idea that teachers should be compensated based on their performance has Canadians entrenched in a heated debate. In 2014, a report published by the Fraser Institute advocating for teacher incentive pay was immediately met with staunch opposition from members of the media, teacher's unions and society itself.[3] While the report listed numerous case studies around the world where incentive pay had proven beneficial,[4] the Ontario Teacher's Federation countered by pointing out that Canada was not an "obscure" locale like Chile, India or Little Rock, Arkansas and that there was no evidence to show that a similar system would work in Canadian schools.[5]

The Status Quo

Since the eighteenth century, little has changed to the way teachers are compensated in Canada. A teacher's salary is rigidly determined by a combination of tenure and advanced degrees, factors that studies have shown have little if any positive impact on student achievement.[6] Such a structure causes schools to be indifferent to the actual effectiveness a teacher may possess, and gives rise to a so-called "widget effect": the premise that schools can treat teachers like interchangeable parts.[7] Over the past few decades, countries all over the world have begun to embrace teacher incentive pay programs, and as a result they have proliferated.[8] This surge however, has not yet taken place in Canada.

Canadian students, for their part, still regularly rank among the top 10 performers in reading, math and writing according to international assessments facilitated by the OECD.[9] However, the same tests underlined the more dismal fact that between the years 2003 and 2012, the math skills of Canadian students slipped significantly.[10] During this time, Canada's per-pupil spending on education has increased by 63.2% to $11,835.[11] For all the added investment, student achievement has not improved by nearly similar rates.

Theory: The Principle-Agent Model

The world's fastest growing economies like China, India and Singapore have between 60 to 75 percent of private sector employees receiving performance-based pay.[12] Incentive contracts are commonly associated with competitive economies and markets, but how exactly are they able to motivate employees to elevate their performance? And can the same competitive apparatus be applied to the realm of education?

The Principle-Agent Model is a microeconomic theory that explains incentive contracts through the balance of competitive forces. Through the lens of a principal, in this case society, and an agent, teachers, there are two key points that define the model:

1. Society is not easily able to observe the effort that teachers place into their teaching. Rather, they can only evaluate teachers' output, which is the performance of students.
2. Effort and output are correlated (teachers who are more effective and put in extra effort are more likely to improve students' learning), but not perfectly correlated.

Because of these two points, there is a problem of asymmetric information; the principle has no way of observing whether teachers are putting in higher effort. Instead many school boards resort to offering flat wage contracts that award teachers based on easily observable traits like tenure and degrees. Because this structure rewards differing levels of teachers' effort the same, teacher motivation can be diminished.

The first step to the Principle-Agent Model is accepting that teachers can make a difference; that they can affect student achievement. To do this though, requires both effort and skill, both of which are costly. Even the most altruistic of teachers need a proper incentive structure in place to keep them motivated. This microeconomic model describes how such an incentive contract can be found.

Figure 1 mathematically articulates the model.

The key to the model is that it maps out each party's objectives and constraints, from which we calculate what type of incentive contract needs to be created

Figure 1: The Principle-Agent Model—Teacher Incentive Contracts

<u>Output</u>

In this binary model, there are two kinds of

$$O = \begin{cases} H & \text{- high student achievement} \\ L & \text{- low student achievement} \end{cases}$$

<u>Effort</u> $p_1 > p_0$

Effort and output are not perfectly correlated

If effort is high: $Pr(H) = p_1$ $Pr(L) = 1 - p_1$

If effort is low: $Pr(H) = p_0$ $Pr(L) = 1 - p_0$

<u>Cost of Effort</u>

There is a cost towards putting higher effort

$$\text{Cost} = \begin{cases} C & \text{- if effort is high} \\ 0 & \text{- if effort is low} \end{cases}$$

<u>THE PRINCIPLE: Society</u>

Society's goal is to maximize its payoff.

Payoff Function: $P_s = O - w$

Society wants higher student achievement at a low cost. There is no cost of effort to society if they choose to hire an agent on their behalf.

Rather than achieve the output on its own, society can opt to hire teachers to educate children on their behalf. To do so, society offers a wage to teachers that can be:

$$w = \begin{cases} w_H & \text{A high wage if high output is achieved} \\ w_L & \text{A low wage if low output is achieved} \\ \overline{w} & \text{or a flat wage, irrespective of output} \end{cases}$$

<u>THE AGENT: Teachers</u>

Teachers' goal is to maximize utility.

Utility Function: $u_T(w) = w - C$

The wage received depends on what kind of contract is offered and the teacher's output.

<u>Individual Rationality Constraint</u>

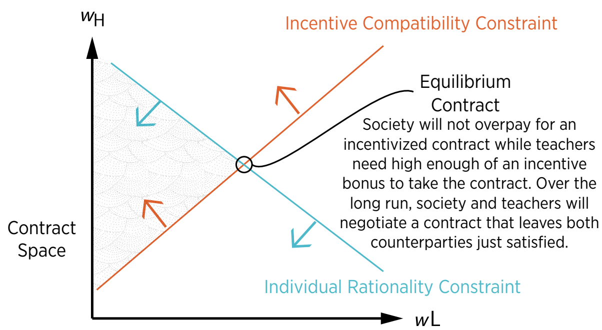
Society will only offer an incentivized contract if the expected payoff from the incentivized contract is greater than the payoff from the flat wage contract.

$$[p_1 \cdot H + (1-p_1) \cdot L] - [p_1 \cdot w_H - (1-p_1) \cdot w_L] \geq [p_0 \cdot H + (1-p_0) \cdot L] - \overline{w}$$

<u>Incentive Compatibility Constraint</u>

If given an incentive contract, teachers will choose to exert more effort if the expected payoff of putting in high effort is greater than that of low effort.

$$p_1 \cdot w_H + (1-p_1) \cdot w_L - C \geq p_0 \cdot w_H + (1-p_0) \cdot w_L$$



Source: Author's work

for both society and teachers to rationally benefit. Although the model is a simplification, its intuition can be extended towards real-life applications.

Application: Group, Individual, and Blended Teacher Incentive Pay Programs

Individual incentive programs compensate teachers either through the form of a simple annual bonus tied to student test gains to a more comprehensive reform that requires evidence of student achievement to earn higher base salaries.[13] The best example of a nation-wide implementation of the latter is The Performance Threshold System in schools throughout England. Through the Education Reform Act of 1988, England transformed its education system into a quasi-market where teachers were compensated on a five-level pay scale and parents had a degree of choice onto where they wanted to send their children. The per capita funding and parental choice brought about competition between schools for pupils, whilst teachers were required to provide evidence from the entire course of their careers to reach the higher pay scale.[14] A study undertaken in 2004 econometrically analyzed the program's effectiveness and found that overall test scores had increased per student by a hugely significant 0.73 standard deviations.[15]

Group incentive programs, on the other hand, reward teachers for improved school-level student performance, creating a school-wide culture of cooperation towards a common goal. Only similar schools compete with each other for group bonuses, creating a powerful incentive for schools to be inclusive of students from all socioeconomic backgrounds.[16] Chile embarked on nation-wide educational reform in the 1980's by decentralizing public school management and establishing a nationwide voucher program, resulting in the increased number of private schools. Subsidized schools, both public and private, are eligible to compete for bonuses that have been award biennially since 1997.

The Teacher Advancement Program (TAP) award teachers with bonuses that are 50% based on individual skills and responsibilities, 30% classroom achievement growth, and 20% school-wide achievement growth.

By 2006, Chilean 15-year-olds outperformed their peers in every Latin American country in reading and placed second in math.[17]

Blended incentive programs, as the name suggests, combines components of both group and individual incentive programs. Schools in the United States that adopted The Teacher Advancement Program (TAP) award teachers with bonuses that are 50% based on individual skills and responsibilities, 30% classroom achievement growth, and 20% school-wide achievement growth.[18] Virtually all TAP schools were situated in socioeconomically disadvantaged areas, yet evaluations found that in 84% of these schools, students gained at least one year of achievement growth.[19]

Properly Implemented Programs

For all the case studies that tout the proven track record of teacher incentive programs, one could as easily point to programs that have been costly failures. Opponents of the policy often cite such failed programs that distribute large sums of bonuses with no positive effect on either student performance or teachers' attitudes toward their jobs.[20] Where did these failed programs go wrong?

Of the 10 successful case studies of teacher incentive pay cited by the Fraser Institute report, all of the programs were similar in that the fundamental criterion that determined bonus compensation was student achievement.[21] When teacher incentive programs strayed from this important benchmark, the abridged programs often led to distorted incentives that ended with poor outcomes. Because there have been so many different case studies, both the successes and the failures have taught policymakers key lessons to keep in mind. Depending on the myriad of factors that policymakers may face, there are many specific design features to consider. For example, if a lack of cohesion among teachers and school staff is a leading contributor to low student achievement, a group incentive may be the best option.

With careful consideration, a properly implemented teacher incentive pay program can become a reality for the Canadian education system. Overall, the evidence suggests that incentive pay programs are cost-effective, financially sustainable, and most importantly are successful at improving student achievement. Teachers enter the profession for a variety of reasons, altruism often being at the forefront. None of these goals conflict with earning a salary that compensates teachers for improving their students' academic achievement. It's a policy that has been adopted and well-established in many countries all around the world; it's impact has the potential to drastically change future generations of Canadian students. It's about time effective Canadian teachers get paid their due.

Mark Ren is currently an HBA1 student at Ivey Business School. With a keen interest in developmental economics and finance, he hopes to work at an economic consulting firm and one day become a development focused economist for the World Bank.

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1st Place Essay Contest Winner
Graduate Category

THE PRICE OF CHEESE IN CANADA

How "Supply Management" Eats Up Your Grocery Bill

Giuseppe Burtini

Invisible Factors in the Size of Government

Canadians are required to directly pay for almost every government expenditure, an amount which, in 2015, cost each and every man, woman or child an average of $20,733 (approximately 42% of the total GDP of the country) [1,2]. Income and sales taxes are the most visible of those costs, but employment taxes, transfer taxes, sin taxes on alcohol and tobacco, carbon and other so-called externality correcting taxes too make up a sizable portion of the total cost. As we all know, a regular debate especially by a well-informed electorate can and should be had upon the level of government involvement in our lives and whether the actions, behaviors and expenditures of government are just, productive or desirable.

Legislation provides certain food markets enforcement mechanisms to conduct their industries monopolistically with anti-competitive, privately-administered "marketing boards".

But this isn't the only artificial cost borne by Joe Public; there's a whole set of hidden costs and unaccounted deadweight created by many policies which make such well-informed debate difficult. Regulation has direct and indirect compliance costs, inhibits innovation, interferes with efficient price signalling and can redistribute wealth from the less wealthy to the more wealthy, all in ways which are difficult to measure and analyze. All else constant, we should prefer understandable and visible taxes to the invisible and hidden costs created by many more complex forms of regulation, as the visible taxes are easier to analyze and do not obfuscate the true cost of the policy.

One example of an under-visible area of government-created, citizen-borne cost is what economists call regulatory capture: the effect when a policy or government organization gets co-opted for individual interests at the expense of competitiveness, innovation and a healthy and productive economy. There are many cases of regulatory capture and incumbent protectionism in the Canadian economy (and indeed in most other economies). Both the quantitative and qualitative impact on well-being and satisfaction in each and every one of our lives from regulatory capture is immense.

Incumbent industry protectionism is one form of regulatory capture in which government aims to "protect" the existing industry from any external forces: imports, innovation, price competition, changes in the economic climate and any other risk. Often this form of protectionism is done by legislating minimum prices, the lowest price a firm is allowed to charge, or maximum quantities (quotas) to be provided by individual firms, each resulting in prices which are abnormally high for consumers. In other cases, it is done with strict barriers to entry, such as a

requirement of domestic ownership and regulatory approval (the Canadian mobile phone industry) or licenses required to operate which are constrained in supply (taxis in most major cities in Canada).

It is important to immediately recognize that protecting incumbents in any fashion necessarily reduces innovation. This is true both because new firms with better ideas and newer technologies are excluded from the market and because little reward accrues to a firm who innovates. Innovation that could result in lower prices (and thus taking a bigger piece of the pie) has no benefit to the consumer in a market with a binding minimum price.

"Supply Management" and the Dynamic Allocation of Rents

As Canadians, one of the most under-known forms of incumbent protectionism felt by individuals is that of so-called "supply management" organizations. Federal and provincial legislation provides certain food markets enforcement mechanisms to conduct their industries monopolistically with anti-competitive, privately-administered "marketing boards." Industries with managed supply include staple foods such as milk, eggs, cheese, poultry and formerly wheat. Marketing boards mandate maximum quantities of their product produced per farm, discouraging productivity innovation, and minimum prices for the supply and retail levels, resulting in high prices, reduced innovation (both technological and economic) and most importantly—increased costs for food essentials. As an example, the International Dairy Foundation shows that the farm price (costs before transportation, packaging and retail costs) of milk is $0.72 USD per kilogram in Canada, compared to $0.37 and $0.42 USD per kilogram in the United States and European Union respectively, where supply management in the modern day is largely unheard of [4, 5].

Marketing boards are the reason Canadians have a reputation for crossing the border to get a lower price for milk and cheese. Cheese, eggs, and poultry in Canada can be as much as 150% to 500% as expensive as the true "market rate" [9]. Food marketing boards impact all Canadians, but one factor which is without question is how they disproportionately hurt the poor, who may not be able to make the cross-border journey and whose expenditure on these "protected" goods make up a significant portion of their budget. The group of Canadians with the lowest 20% of income spends nearly 50% of their income on essentials like shelter and food. Such a high fractional expenditure and limited budgetary flexibility makes artificially-inflated food prices an especially painful proposition for this group.

While dairy farmers in supply managed markets received $12.67 more per 100L of dairy product than firms outside of supply management, they paid an average of $19.39 per 100L of dairy produced to financial institutions.

Not Even Farmers Benefit—How Financial Institutions Capture Political Rents

The idea that society can benefit from protecting underperforming farms in the long-run is one that requires a suspension of critical thought: farms which are not economically feasible should be closed in favor of those which are more efficient or provide a better quality product. But even if we were to suspend the simple economic analysis, we find that the protection itself does not hold: farmers in the market today, as much as 80 years after the formation of the Canadian Dairy Farmers' Federation in 1934 [7], had to buy their way into the quota system from yesterday's farms.

To see why these policies don't benefit farms, follow the dynamic scenario. As new firms wish to establish and old firms close, the older firms sell their quotas to the newer firms, almost always financed by a bank loan[1]: such a loan, often collateralized by the quota itself, means that the "farm-targeted benefits" of quota systems end up in the coffers of the major banks via increased interest costs on the farm. Unfortunately, this system leaves both farmers and consumers worse off: the farmers with a large debt (and all the associated risks thereof) to purchase a quota, possibly constrained in ability to improve or innovate in their business by price or productivity regulation and individuals paying significantly higher prices for staple commodities. The farmers' responsibility to their quota-related debt means that despite not receiving a benefit from such a policy (with almost all the profit accruing to the financial industry), they stand to lose in the short-term if the policy were retracted, producing an artificial form of political support for a policy which, in the end, hurts everyone.

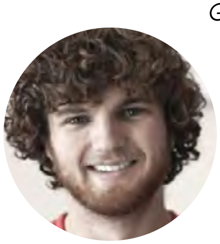
A recent publication of the Montreal Economic Institute (MEI) shows that while dairy farmers in supply managed markets received $12.67 more per 100L of dairy product than firms outside of supply management, they paid an average of $19.39 per 100L of dairy produced to financial institutions in interest payments related to the purchase of their quotas: a net loss of $6.72 per 100L for the businesses who are supposed to benefit from the policy. Outside of this specific example, researchers at the OECD maintain this is the status quo of these policies, saying "over the last two decades, the majority of government agricultural policies and programs in OECD countries have been highly ineffective in translating support into additional income for farm households." [6] This leaves no policy gains for the second-and-later generations of farms, major costs for individuals and a inhibited, slow economy where innovation is no longer rewarded.

A straightforward approach to improve the quality of life for all Canadians is to eliminate the quota system and restore a competitive approach to pricing our basic food inputs.

Assuming similar dynamics for the major managed markets (dairy, eggs and poultry), Figure 1 extends the analysis conducted by the MEI to estimate the total effect on Canadian foodstuff, finding a direct cost of more than $200 per year to the average family, a significant regressive tax on Canadian families, and finding a net loss of more than $38,000 to each Canadian farm for total losses of nearly $2 billion per year as a direct result of supply management.

A straightforward approach to improve the quality of life for all

Canadians is to eliminate the quota system and restore a competitive approach to pricing our basic food inputs. Agricultural protectionism greatly hurts the well-being of all Canadians, and especially lower income Canadians, while nonetheless not achieving the goals it sets out. In a time when food prices are rising rapidly, now is a great time to fight back against this anti-consumer policy and return to a competitive market for agricultural inputs and increase fairness, equality and productivity of our important domestic food industry. C



Giuseppe Burtini graduated from the University of British Columbia with an undergraduate degree in economics and went on to study applied econometrics, statistics and machine learning as a graduate student.

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[8] Statistics Canada (2013). "Average household food expenditure, by province" http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil132a-eng.htm

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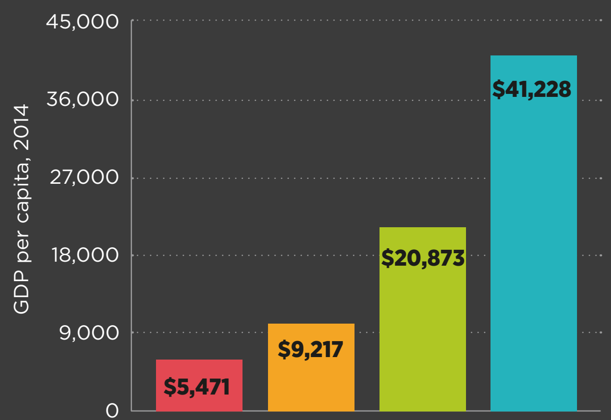
Endnotes

1 The estimated value of all quotas in food production is provided by Statistics Canada as approximately $30 billion Canadian dollars [5] and as much as $2 million held in the average dairy farm alone [9].

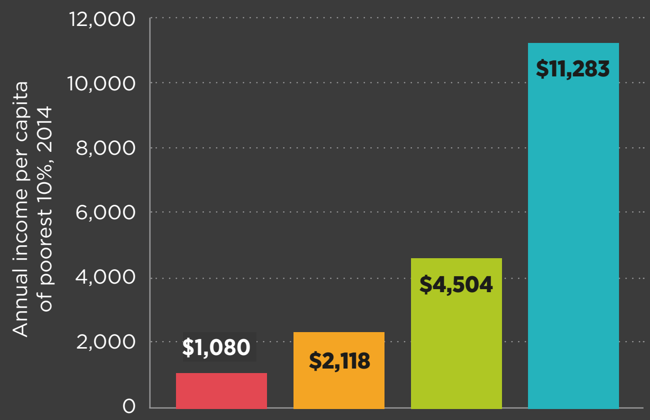
ECONOMIC FREEDOM OF THE WORLD

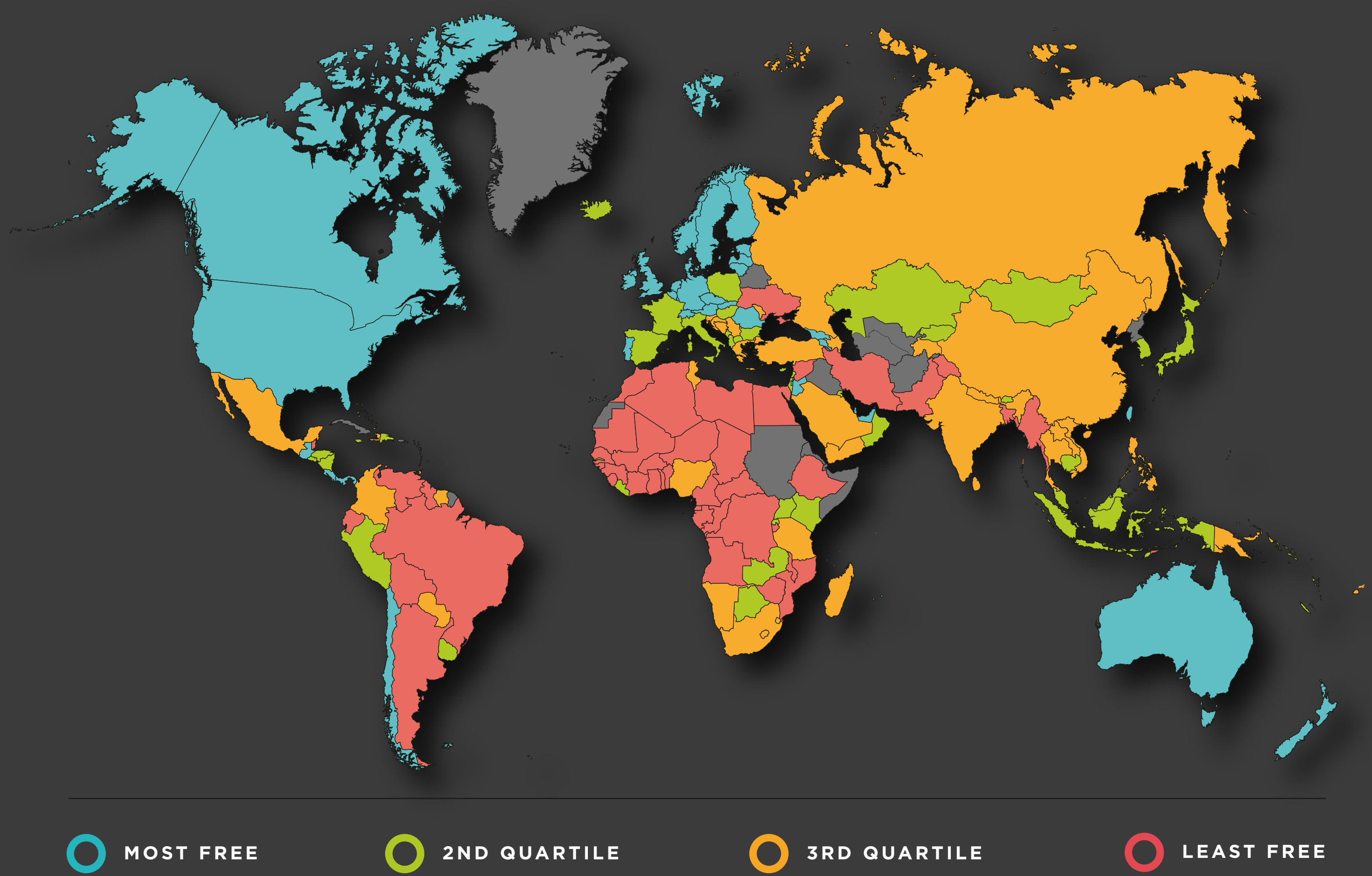
See the full infographic here »

Economic Feedom and Income per Capita



Economic Freedom and the Income Earned by the Poorest 10%





THIS ARTICLE APPEARED IN THE *TORONTO SUN*

MORNEAU'S 'PLAN FOR MIDDLE CLASS PROGRESS' CUTS GDP BY $131 BILLION

Niels Veldhuis and Jason Clemens

Last Tuesday, Federal Finance Minister Bill Morneau released his government's Fall Economic Statement titled *A Plan for Middle Class Progress*. As noted in the release, "Finance Minister Bill Morneau announced new measures to ensure middle class progress, and build on the momentum of Budget 2016."

If this is what progress looks like, please let us be the first to say: No thank you.

Start with the $32 billion the *Fall Economic Statement* adds in deficits over the government's five-year planning horizon (2016-17 to 2020-21), the result of developments and policy actions since *Budget 2016*. This is on top of the $113 billion in deficits the government included in *Budget 2016* over the same period.
In just six months, the government has increased its forecasted deficits by nearly 30 per cent!

While we hate to say I told you so, we released a study shortly after the

March budget was delivered, *Moving Targets: Re-estimating Federal Deficits and Debt-to-GDP through 2020/21,* which calculated that the government's five-year deficit could be as much as $87 billion higher than projected. Yesterday's revision puts the government well on track towards that end.

According to the government, these deficits, and the "investments" they finance, are supposed to lead to real economic growth and progress. Indeed, when Minister Morneau rose in the House to deliver *Budget 2016* he boldly noted, "What the Canadian middle-class needs most is strong economic growth… [this budget] is an essential step in a sustained, strategic effort to restore prosperity."

He then doubled down in yesterday's *Fall Economic Statement,* mentioning economic growth 27 times, using descriptors such as "long-term," "sustained," "durable," "inclusive" and "shared" to describe this growth.

Putting aside the fancy rhetoric, the real evidence on just how much growth this plan has and will continue to provide is buried in the appendix of the *Fall Economic Statement*—Table A1.1 to be precise—where the government lays out the Average Private Sector Forecasts for economic growth.

Here you will find that *Budget 2016* forecasted average economic growth of 1.9 per cent over the next five years. Now just six months later, economic growth estimates have been cut for each year and real economic growth is now expected to average 1.7 per cent over the next five years.

While a decline in average economic growth from 1.9 to 1.7 per cent might not seem like a large drop, consider that the difference amounts to $10 billion in lost income in 2016, increasing to $40 billion in 2020.

All told, the federal government's *Fall Economic Statement,* A Plan for Middle Class Progress, cuts the country's income by $131 billion over the next five years.

That, by the way, amounts to $3,600 per Canadian!

While Minister Morneau wants to believe his plan will create economic progress for the middle class, the reality is much different.

Read more here ››

Niels Veldhuis is president, and Jason Clemens is executive vice-president, of the Fraser Institute.

COUNTING VOTES—ESSAYS ON ELECTORAL REFORM

"The Consequences of the Alternative Vote," examines poll data from the 1997 to 2015 elections to see if the outcome would be any different under an AV system than under FPTP. The study found that the Liberals were the only party to benefit in all cases under AV electoral rules, although the NDP did experience large gains under AV in more recent elections. Moreover, the study also suggests that in the last 23 years, an AV system could have changed the outcomes of the 2004, 2006, and 2011 elections. C

See the video here ››

Fraser Forum THE FRASER INSTITUTE BLOG

TRIMMING THE RIGGING ON THE AMERICAN SHIP OF STATE

William Watson

President-elect Donald Trump was right. The election was rigged. The candidate that got the most votes lost. As of this writing, the Associated Press reports that with 99 per cent of the vote counted Hillary Clinton has 59,814,018 votes and Donald Trump 59,611,678, a difference of 202,340 votes in her favour. That's 47.7 per cent of the vote for her and 47.5 per cent for him. Moreover, many of the votes still to be counted—getting on two days after the election!—are in states that voted Democratic, so her lead may actually widen, though it's a widening lead in a race that's over.

The election was rigged, of course, two centuries ago, when America's Founding Persons invented an Electoral College to choose their president. They did so because they didn't trust the people with direct democracy. The idea was that voters would elect electors and electors—elites?—would then elect a president. Formally, that's what still happens though everything now is driven by direct democracy within each state. Sometimes when you see the people voters do elect directly—not mentioning any names here—you concluded the founders were pretty shrewd folk.

Needless to say, if the Electoral College didn't exist, it probably wouldn't be invented. But, another wise founders' move, the U.S.

While everybody's head is spinning trying to figure out the implications of the Trump Revolution, it's probably best to remember he didn't actually persuade a plurality of Americans.

Constitution is hard to change, which is actually what you want in a successful constitution. (In unsuccessful ones, easy change is better, though some that had easy change failed because of it.) So the Electoral College likely won't be done away with soon.

I don't raise this point out of sour grapes because I don't like Donald Trump. Rather, simply to say that while everybody's head is spinning trying to figure out the implications of the Trump Revolution, it's probably best to remember he didn't actually persuade a plurality of Americans, let alone a majority, of whatever it is he stands for or (if you don't think he stands for anything) represents. As a general rule, the supposed sea changes resulting from historic votes of one kind or another aren't really revolutionary but represent changes at the margins. If just one in 20 voters had switched from Trump to Clinton on Tuesday, she'd be ahead 52.7 to 42.5, a landslide that really would be of historic proportions.

It's a big country. One in 20 people is 11 million voters, if you count everybody eligible. To get them to come over to you is a big job. But one in 20 people is just that, one in 20. Let's not read too much into it.

In large part, in fact almost entirely, the election was about rigging of a different kind: groups going to Washington and fixing the political system to benefit themselves. For Trump, the culprits were donors, who have rigged Congress, and China, which has rigged trade, supposedly by rigging its exchange rate. For Bernie Sanders, the culprit is big business, which makes up the major donor class and which has rigged the rules against "working people." For ordinary Republicans, they're different groups, stirred up by activists, who get Congress and the executive to bend to their interests.

I may be naive but to me it's encouraging that just about everybody in the U.S. seems to feel this kind of rigging has to be trimmed. The obvious complication is that they disagree on exactly how to de-rig it and who are the worst riggers. But there's a consensus that when people write the rules to represent their interests and not the national interest that's unfair. Good! That's what the consensus should be.

We who like markets as a solution to many—maybe even most—of society's problems like them for that very reason: They're fair. People compete. Customers and clients decide the results. The better good or service wins. That's the ideal that I bet a big majority, not just plurality of Americans (Canadians, too) believes fair.

So, to echo Longfellow,

Sail on, O (US) ship of state! Sail on, O Union, strong and great!

But with your rigging considerably trimmed.

William Watson is a Professor of Economics at McGill and Senior Fellow with the Fraser Institute.


Fraser Institute
FraserForum
THE FRASER INSTITUTE BLOG
November 3, 2015 9:13AM
Do top earners in Canada pay their 'fair share' of taxes?
By — Charles Lammam
A reoccurring narrative in the income inequality debate is that top earners don't pay their "fair share" of taxes. The data, however, paint a different picture.
Topic:
Government Spending & Taxes
Tags: canadian income inequality, taxes
October 29, 2015 8:19AM
Alberta's true defici
is larger than you think
By — Charles Lammam, Steve Lafleur
While the headlines on Alberta's recent budget focused on the planned $6.1 billion deficit this year, the reality is that the true deficit will be even larger.
Topic:
Government Spending & Taxes
alberta deficit, alberta budget

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

COMPARING PERFORMANCE OF UNIVERSAL HEALTH CARE COUNTRIES, 2016

Bacchus Barua, Ingrid Timmermans, Ian Nason, and Nadeem Esmail

This year's analysis of the performance of universal health care countries has the potential to help aid policymakers in coming up with ways to improve the Canadian health care system by comparing it to other countries that have universal health care systems. This study finds that the Canadian health care system is actually the third most expensive health care systems in the OECD with its performance ranking from modest to poor due to a low availability of MRIs, a low number of doctors per capita, and long wait times.

Read the study here ››

Canada spends **10.6% of GDP** on health care

Ranked 3rd highest in spending amongst developed countries with universal access

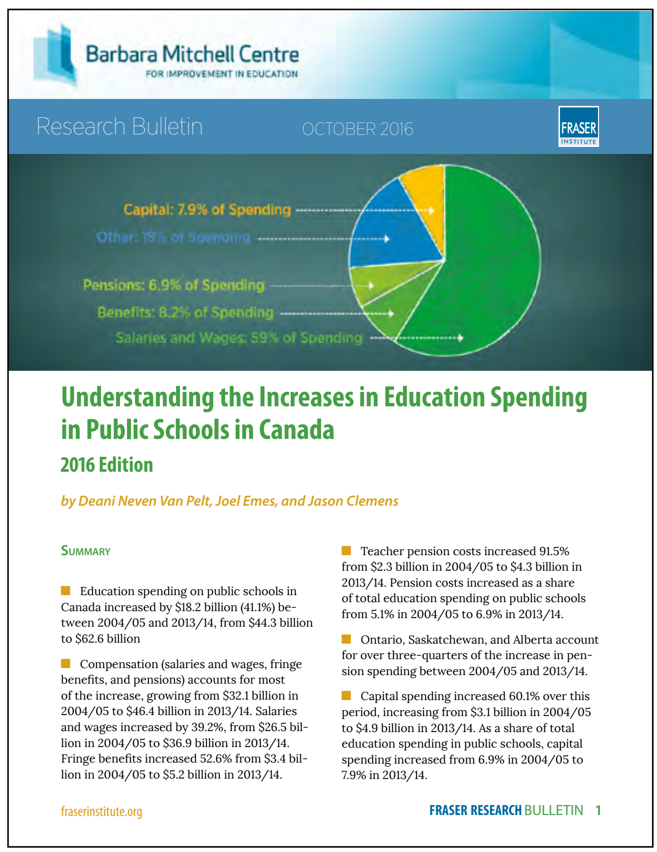
What's New from the Institute **HOT TOPICS**

UNDERSTANDING THE INCREASES IN EDUCATION SPENDING IN PUBLIC SCHOOLS IN CANADA

Deani Neven Van Pelt, Joel Emes, and Jason Clemens

Over a nine year period, education spending on public schools increased by $18.2 billion to a total of $62.6 billion in the 2013/2014 fiscal year, despite declining enrollment. This runs counter to the narrative that education spending is decreasing as spending increased over 41% from 2004/2005- 2013/2014. However, the main expenditure behind these spending increases was compensation, including salaries and wages, fringe benefits, and pensions, amounting to $46.4 billion of the $62.2 billion total increase. This study breaks down the provincial spending on education by several different categories and traces these spending increases over the same nine year period.

Read the study here ››


Barbara Mitchell Centre FOR IMPROVEMENT IN EDUCATION

Research Bulletin OCTOBER 2016 FRASER INSTITUTE

Understanding the Increases in Education Spending in Public Schools in Canada

2016 Edition

by Deani Neven Van Pelt, Joel Emes, and Jason Clemens

SUMMARY

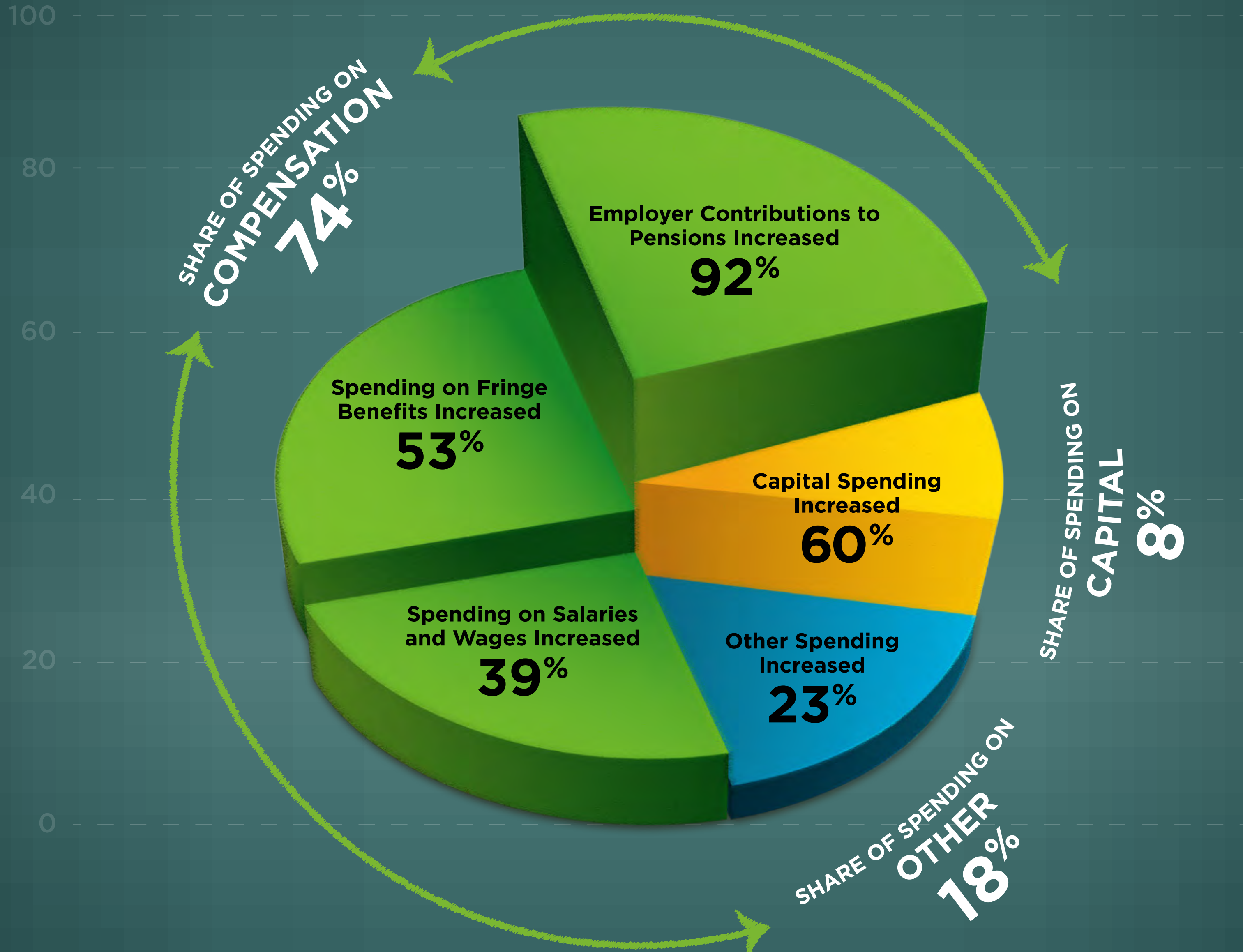
- Education spending on public schools in Canada increased by $18.2 billion (41.1%) between 2004/05 and 2013/14, from $44.3 billion to $62.6 billion
- Compensation (salaries and wages, fringe benefits, and pensions) accounts for most of the increase, growing from $32.1 billion in 2004/05 to $46.4 billion in 2013/14. Salaries and wages increased by 39.2%, from $26.5 billion in 2004/05 to $36.9 billion in 2013/14. Fringe benefits increased 52.6% from $3.4 billion in 2004/05 to $5.2 billion in 2013/14.
- Teacher pension costs increased 91.5% from $2.3 billion in 2004/05 to $4.3 billion in 2013/14. Pension costs increased as a share of total education spending on public schools from 5.1% in 2004/05 to 6.9% in 2013/14.
- Ontario, Saskatchewan, and Alberta account for over three-quarters of the increase in pension spending between 2004/05 and 2013/14.
- Capital spending increased 60.1% over this period, increasing from $3.1 billion in 2004/05 to $4.9 billion in 2013/14. As a share of total education spending in public schools, capital spending increased from 6.9% in 2004/05 to 7.9% in 2013/14.

fraserinstitute.org FRASER RESEARCH BULLETIN 1

Education spending on public schools in Canada

increased $18.2 billion

(2004/05 to 2013/14)



Ontario, Saskatchewan, and Alberta, increased pension contributions **in excess of 100%** over this time.