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From the editor

inimizing government intervention is a familiar theme throughout many Fraser Institute publications, and in this particular issue of Fraser Forum, it is government intervention specifically in the field of housing finance that forms our feature story. In "Government participation in housing finance: the case for CMHC withdrawal keeps becoming stronger" (pg. 10), Neil Mohindra outlines the concerns and risks that come with having the Canada Mortgage and Housing Corporation (CMHC)—a crown corporation—involved in housing finance. The concerns of the article, as well as Neil's larger study, Mortgage Finance Reform: Protecting Taxpayers from *Liability,* revolve largely around the degree to which government intervention

in the mortgage insurance market unnecessarily exposes the Canadian taxpayers to financial liabilities should a collapse in the housing market occur. Accordingly, he argues, the Canadian government should "eliminate its support for the residential mortgage market."

Other articles in this issue of Fraser Forum also raise questions about the extent of government involvement at the provincial level as well. In "Ontario should replace age-based drug subsidies" (pg. 16), Mark Rovere and Bacchus Barua

Minimize government intervention

argue that the Ontario government should eliminate its age-based policy on drug subsidies because the predetermined age of 65 is a poor indicator of need. Rather, they claim, means-tested eligibility is a much more sound practice that would generate significant savings for Ontario.

Also included in this issue of Fraser Forum is a commentary about the role of the World Bank in the palm oil industry in Liberia. Thompson Adoyele's article "Banking on Liberia's future" (pg. 8) claims that "the World Bank's suspension of palm oil funding undermines its historical mandate of poverty alleviation through agricultural development in the developing world."

Finally, we once again end with an article in our regulation series; in this issue, Nadeem Esmail writes about the misguided support for a "Fat Tax" (pg. 24), claiming that it is not the appropriate policy tool to deal with the rising prevalence of obesity and poor diet. Are "targeted solutions that require the obese to take responsibility for the health costs created by their lifestyle choices" actually a smarter solution?

CARI A. FERGUSON (fraserforum@fraserinstitute.org)

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Forum Authors



BACCHUS BARUA (bacchus.barua@ fraserinstitute.org) is an Economist in the Centre for Health Policy Studies. He completed his B.A. degree in economics at the University of Delhi, and received an M.A. in Economics from Simon Fraser University.



NADEEM ESMAIL is a senior fellow and a former director of Health System Performance Studies at the Fraser Institute. He holds an M.A. in economics from the University of British Columbia.



MILKE (mark.milke@ fraserinstitute.org) is director of the Fraser Institute's Alberta office and of the Alberta Prosperity Project, www.fraserinstitute.org. He has a Ph.D. in International Relations and Political Philosophy from the University of Calgary.



NEIL MOHINDRA (neil.mohindra@fraserinstitute.org) is the Director of the Centre for Financial Policy Studies at the Fraser Institute. He holds a BA (Honours) in Social Sciences (Economics) from the University of Ottawa and an MBA in Finance from McGill University.



MILAGROS PALACIOS (milagros.palacios@ fraserinstitute.org) is a senior economist with the Fraser Institute's fiscal studies department. She holds an M.Sc. in economics from the University of Concepcion in Chile.



ROVERE (mark.rovere@ fraserinstitute.org) is the associate director of the Health Policy Research Centre at the Fraser Institute. He holds an M.A. in political science from the University of Windsor.



NIELS VELDHUIS (niels.veldhuis@ fraserinstitute.org) is the director of fiscal studies and vice-president, Canadian policy research, at the Fraser Institute. He has an M.A. in economics from Simon Fraser University.

Contributors

Dr. GORDON ATHERLEY holds the British equivalents of the North American PhD and MD degrees, and LLD, Honoris Causa, from Canada's Simon Fraser University. Prior to retiring from medical practice, his specialties were occupational medicine and public health.

THOMPSON AYODELE is the Director of Initiative for Public Policy Analysis, a public policy think tank promoting the institutions of free society based in Lagos, Nigeria. He attended Obafemi Awolowo University, Ile-Ife, Nigeria, where he got a degree in humanities, and Kwara State Polytechnic, Ilorin, Nigeria, where he also received his Diploma in Law. Prior to his work with IPPA Nigeria, he was a journalist with *The Comet*.

A great entrepreneurial idea or not



The public-private partnership between IMS Health and the Canada Pension Plan

Dr. GORDON ATHERLEY

The Canada Pension Plan Investment Board (CPPIB) and TPG Capital, a global private investment firm, acquired IMS Health in a \$5.2 billion transaction, completed early in 2010 (IMS Health, 2010). IMS Health is now a private company named IMS in the US with a Canadian unit, IMS | Brogan.

CPPIB is a Canadian federal Crown corporation purposed solely with investing the assets of the Canada Pension Plan to maximize returns without undue risk of loss. Begun in 1966, the Canada Pension Plan is administered chiefly by Human Resources and Skills Development Canada.

IMS says it processes billions of health care transactions each year. And that it captures information about more than 260 million anonymized pa-

tients worldwide, including diagnosis and treatment (IMS Health, 2011).

Here is a public-private partnership raising revenue for a major government program, surely a great entrepreneurial idea—but is risk signalled by the US Supreme Court lawsuit, Sorrell v. IMS Health, Inc.? (It had been heard but not decided as of this writing.) Cornell University's Legal Information Institute summarizes the lawsuit as follows: in 2007 Vermont passed Act 80, which prohibits prescription drug companies from obtaining patients' personal information for marketing purposes without the prescribing physician's consent. The pharmaceutical companies sued the state of Vermont, seeking an injunction prohibiting the enforcement of Act 80 on the grounds that it was an unconstitutional restriction on their rights to commercial speech. Vermont disagrees and argues that the law is related to Vermont's interests of protecting medical privacy, protecting public health, and controlling health care costs (Cornell, 2011).

The blog of the Supreme Court of the United States published the Brief for The United States as Amicus Curiae Supporting Petitioners, which urges that the judgment of the court of appeals should be reversed, as do another 25 organizations and groups, including one composed of 35 US states. The Brief explains that pharmacies sell prescriber-identifiable data to data-mining companies like IMS Health. It also says that companies like IMS Health receive patient-identifiable data, a statement not immediately reconcilable with IMS' charac-

terization of 260 million patients as anonymized (Scotusblog, 2011).

Data mining caused legal challenges in Canada, too. In 2010, the Canadian Medical Association Journal reported the purchase of IMS Health (Silversides, 2010). Ann Silversides notes the history of concern by Canadian physician organizations about IMS Health's prescription data mining. She reports that the Canadian Medical Association was granted intervener status in an unsuccessful appeal of the federal Privacy Commissioner's 2001 decision that physician prescribing information is not personal information.

Risks associated with privacy of patients' personal information are acknowledged by IMS Health in its 2010 form 10-K submission to the US Securities and Exchange Comcreasing public concern regarding data protection and privacy issues, and observes that jurisdictions with data protection and privacy laws have been increasing.

Concerns about risks to privacy in the electronic world are expanding in Europe. In its 2008 Judgment, I v. Finland, the European Court of Human Rights examined Article 8 of the EU's Convention for the Protection of Human Rights and Fundamental Freedoms. In the Court's assessment, Article 8 does not merely compel the State to abstain from arbitrary interference by "public authorities": there may also be "positive obligations inherent in an effective respect for private or family life" (European Court of Human Rights, 2008).

England's original objective was a health-service-wide single



mission. The submission recognizes that data protection and privacy laws may restrict IMS Health's current and future activities, which would affect its collection, use, storage, and transfer of personally identifiable information in the US and abroad. It notes that failure to comply with such laws may for IMS Health result in "civil and criminal liability, negative publicity, data being blocked from use and liability under contractual warranties" (IMS Health Inc., 2010). It perceives in-

electronic record for each patient. The record was to be accessible by the family doctor, other community-based health care providers and local hospitals. But doubts grew as concerns mounted about privacy and consent, and security lapses in other national information technology projects. Doubts arose about the benefits of electronic patient records because the "anticipated improvements in efficiency, safety, equity, and costeffectiveness of care have not been realized in the few rigorous studies

on a large scale anywhere in the world" (Royal College of General Practitioners et al., 2011). As of early 2011, the UK's framework for data sharing using electronic patient records was undecided.

In Canada, by contrast, public policy emphasizes sharing of patient records through linking electronic health record (EHR) systems. Federal health Minister Leona Aglukkaq explains that the role of Canada Health Infoway, a federal foundation, with the federal government's support, is to ensure that such systems "will one day be compatible across Canada" (Aglukkaq, 2011). She adds that new systems co-funded through Infoway require compliance with its set standards.

Infoway's standards insist that electronic medical records (EMRs), typically held in physicians' offices, provide essential information for capture in EHRs. The EMRs, says Infoway, will draw information from the EHR repositories and contribute information back. Together the EMR and EHR should provide comprehensive patient information to authorized health care providers (Canada Health Infoway, 2011). In Canadian public policy, "health care provider" means any person or organization authorized by government, and that the EMR-EHR flow is automated even to the extent that neither physicians nor patients may not be aware of the flow or its contents.

A covert and socially risky use of information technology, tracking, and surveillance, is attracting attention in Europe. Tracking and surveillance with information technology is designed into the Ontario government's Diabetes Registry operated by eHealth Ontario, an Ontario government agency (eHealth Ontario, 2011). The registry uses existing provincial databases, such as the Ontario Laboratories Information System and the Ontario Claims Database, to continually identify patients newly diagnosed with diabetes and to capture laboratory results and dates. Which organizations and persons are able to

Is it ethical to commoditize highly private medical information?



access the registry is currently unclear. Could the registry's data on a million or so identifiable Ontarians with diabetes be sold complete with patient-identifiable information to data-mining companies like IMS?

How Canada compares to Europe and the US in attitudes to privacy is hinted at in the response to the Canadian Medical Association's Principles for the Protection of Patients' Personal Health Information published early in 2011. One of its stipulations is that "patients should be informed that the treating physician cannot control access and guarantee confidentiality for an electronic health record (EHR) system" (Canadian Medical Association 2011). Explorations of the response to the policy suggest that it has been ignored by Canada's EHR officialdom. The attention it received is limited to groups and individuals with specialized interests. Of Ontario's 24 regulated health professions' associations, none offered the public any indication of any attention by the association's member professionals to the privacy of their patients/ clients' personal health information held in electronic form (Atherley, 2011).

Time will tell whether the publicprivate partnership between IMS Health and the Canada Pension Plan was a great idea. But clear already is that in substantial marketplaces for IMS, the US, and Europe, concerns about patient privacy and data mining are strengthening in trends which could create social environments adverse to data mining activities by governments and not only private companies like IMS. And Canada's governments appear to be out of sync with their US and European counterparts on electronic health record privacy and health data mining.

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THOMPSON AYODELE

he growth of the palm oil industry in Liberia is a textbook case of how developing countries can harness trade, capital formation, and technology to rise from poverty to prosperity. Policy makers must understand what is at stake to keep Liberia's advancement on track. Recently, Equatorial Palm Oil, a London-based company that concentrates its activities in Liberia, announced it has completed a major palm oil processing mill. This is a significant step in the ongoing development of Liberia's palm oil sector.

The mill, located about 160 km southeast of Monrovia, was designed by Modipalm Engineering Sdn Bhd, a Malaysian manufacturer of palm oil mills. The announcement of the mill's completion follows just a few months after the Liberian government announced US\$1.6 billion in direct foreign investment from Golden-Agric Resources in Liberia's palm oil sector. This was among the

single largest agriculture investments in Liberian history.

All of this activity validates Liberia's development strategy, one that embraces foreign investment and capital formation to bring badly needed resources and industrial capacity to boost Liberian productivity. As Liberia's palm oil industry has grown, the resulting job boom is extraordinary. There are now over 220,000 small holders of palm oil land in Liberia, earning enviable incomes. The recent investment by Golden-Agric Resources will help create an additional 35,000 new jobs. It is expected the new processing mill will add more.

It is also a validation of the policies pursued by World Bank executives just a generation ago. Beginning in the 1970s, the World Bank extended loans to Liberia's nascent palm oil entrepreneurs in an effort to kick-start plantation-scale agriculture. The loans were helpful to resuscitate Liberia's palm oil industry. But that beneficial process is being challenged by missteps at the World Bank and other Western-based environmentalist organizations.

The World Bank's mission is poverty alleviation. It thus has long believed that loans to support agric-business enterprises were a smart bet. Emerging agric-business in the developing world would provide jobs, but many have beneficial spillover effects as well. These include the ability to trade in global markets, attract foreign investment, and enable badly needed technology transfer that would boost food yields and enhance economic growth.

All of that has been realized in Liberia, a previously war-torn country that is becoming one of the jewels of Africa. The palm oil industry has been a vital engine for lifting poor Liberians out of poverty.

But recently the World Bank has harboured second thoughts about



palm oil. At the behest of environmental organizations in the Western World, it initiated a suspension and review of its lending practices to palm oil projects around the world. The green NGOs wrongly believe that palm oil development harms wildlife and leads to deforestation.

While deforestation is a problem in countries such as my native Nigeria, the destruction of forests is happening in regions where there is no palm oil development. The forest depletion in Liberia and other African countries is generally due to the poor's reliance on firewood for fuel. Indeed, countries such as Malaysia, where half the nation's forests are preserved, demonstrate that there need be no tension between palm oil development and ecological health.

The World Bank's suspension of palm oil funding undermines its historical mandate of poverty alleviation through agricultural development in the developing world. This marks a worrisome evolution of its priorities. It is moving away from fostering wealth creation and toward extending a regime of environmental regulation dictated by vested interests. Such an evolution should not be seen as friendly to the developing world.

It is ironic that the Work Bank is making a U-turn at a time when other African countries are capitalizing on palm oil to grow their economies. The International Fund for Agricultural Development (IFAD) recently announced a US\$50 million loan to Uganda's booming palm sector. This loan provides direct benefits to more than 136,000 Ugandan families and local businesses. The IFAD rightly sees palm oil investment as crucial for economic development; the World Bank would be well-served to follow this agency's example.

The World Bank has issued updated guidelines with respect to palm oil plantation agriculture. A

new framework was submitted to the World Bank Group's Management Board for its approval by March 2011, after hearing first from public stakeholders. If the World Bank extends its suspension, it would hurt Liberia's access and availability to an important food source. It would also have long-term consequences for Liberia's broader development as it would be particularly harmful towards small farmers and landholders, a significant portion of Liberia's rising middle class of consumers. It is not too late for the World Bank to put people and progress first ahead of narrow Western political interests

A previous version of this article was published in the *Liberian Observer* on January 26, 2011.

Government participation in housing finance:

The case for CMHC withdrawal



keeps becoming stronger

NEIL MOHINDRA

Fraser Institute study on mortgage finance published in 2010 examined mortgage finance systems in Canada and other countries; it concludes that not only are governmentbacked insurance or guarantees not needed for a home mortgage finance industry to operate successfully, but that exposure to this industry has adverse consequences when a crisis happens (Mohindra, 2010). Where there is government backing in place, taxpayers will receive a very nasty bill when a crisis happens for covering the cost of mortgage defaults, and that bill will likely arrive in the midst of a recession alongside all the financial strains a recession creates. In Canada's case, taxpayers are particularly vulnerable through the mortgage insurance provided by the Crown Corporation, the Canada Mortgage and Housing Corporation (CMHC), which is fully guaranteed by the federal government. For all mortgages with a loan-to-value in excess of 80% from a federally regulated institution, the applicant must purchase insurance by law. According to the latest version of the Public Accounts of Canada, the size of CMHC's insurance (insurance-in-force) has reached \$482 billion (Government of Canada, 2010).

Additionally, a recent research paper by the International Monetary Fund (IMF) found that government participation in the form of subsidies to first-time home buyers, tax deductibility of capital gains on housing, and government provision of mortgage guarantees or credit. exacerbated house price swings and amplified mortgage credit growth during the run-up to the global financial crisis, particularly in advanced economies (IMF, 2011). In other words, government participation in housing finance actually contributes to financial instability. In Canada, CMHC mortgage insurance functions as a form of mortgage guarantee.

The IMF described the results of an empirical study that analyzed the relationship between house prices, credit, and housing characteristics (2011). Housing characteristics included government participation, loan-to-value rations and types of mortgage products available. The analysis covered 36 advanced and emerging market economies during two periods: the 2004–2007 global liquidity expansion, and the 2007–2009 financial crisis. The objective was to capture the feedback effects (cause and effect) between house price changes and financial stability during the financial crisis.

The analysis found that greater government participation in housing finance did not provide a cushion against the crisis. On the contrary, countries with higher government participation in housing finance experienced a deeper house price downturn. Government participation amplified the effect of higher house prices on mortgage credit growth before the crisis. The impact was greatest in advanced economies. Stronger mortgage credit growth during the boom was associated with not only higher house price growth during that time, but also with a larger house price decline and higher levels of non-performing loans (a loan in or near default) during the subsequent bust.

Mohindra (2010) compared home ownership rates across Canada, the US, and Australia and found that Australia has maintained comparable ownership rates to Canada and the US despite the Australian federal government exiting the mortgage insurance business and state governments withdrawing from mortgage-backed securities schemes. Mohindra also found that mortgage finance played a significant role in maintaining Australia's home ownership rate through 1994/95 and 2005/06, a period in which the number of people living in private dwellings increased by 13%. The IMF (2011) examined whether government participation in housing finance contributed to higher home ownership rates and its findings were consistent with Mohindra (2010). Despite the rational for government participation in housing finance often being to promote home ownership, the IMF found these two factors do not always correlate (see figure 1).

In April 2011, the US Treasury released a paper noting its intention to "pave the way for a robust private mortgage market by reducing government support for housing finance and winding down Fannie Mae and Freddie Mac on a responsible timeline" (US Treasury, 2011). The paper outlines a range of options the treasury was considering. Although each option retained some degree of future government participation in the mortgage finance industry (i.e., government assistance such as insurance for narrowly targeted groups of low-income borrowers), all three options included a substantial degree of withdrawal by government and increased reliance of the private sector. IMF (2011) was broadly supportive of the direction of housing reform options currently under consideration in the US, although noting some concerns with each option including moral hazard resulting from an ongoing limited government role. By maintaining some form of government participation, the IMF flagged this could create an expectation of government support in times of severe financial crisis.

0.8 Singapore 0.7 Higher government participation 0.6 Government participation (index 0-1) United States 0.5 Netherlands Canada Russia 0.4 Chile France Poland 0.3 Australia Denmark Ireland Belgium 0.2 Germany Austria Czech Slovenia Republic United 0.1 Kinadom 0 50 60 70 80 90 100 40 Homeownership rate (%)

Figure 1: Homeownership rate and government participation in housing finance

Source: International Monetary Fund (2011); IMF staff estimates.

An earlier consultation paper on housing reform included a question on what role the federal government should play in the housing finance system including whether the government should provide any explicit guarantees¹ (US Treasury, 2010). In considering only options that reduce government exposure, the US administration expressly rejected options more consistent with the Canadian system with its explicit government guarantees through mortgage insurance.

The IMF paper reaffirms the need for the Canadian government to eliminate its support for the residential mortgage market, which made it through the financial crisis despite government guarantees through mortgage insurance. The US has shown that it has seen the light, albeit with a reluctance to let go entirely. With hope, Canada will take action to eliminate its exposure to the mortgage finance market before a crisis rather than after one. Acting beforehand will not only save taxpayers a lot of money, but as shown by the recent IMF publication, will also lessen the magnitude of the crisis.

Note

1 Fannie Mae and Freddie Mac were long perceived to have an "implicit" guarantee form the US government. While there was no formal guarantee, there was a market expectation that these entities would be bailed out by the US government in the event of insolvency.

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MILAGROS PALACIOS AND NIELS VELDHUIS

t is nearly impossible for an ordinary Canadian to have a clear idea of how much tax s/he really pays, which is why the Fraser Institute annually calculates Tax Freedom Day in order to provide a comprehensive and easily understood indicator of the overall tax burden faced by the average Canadian family. This article summarizes our 2011 Tax Freedom Day report (Palacios and Veldhuis, 2011).

Tax Freedom Day

Tax Freedom Day is the day that the average Canadian family has earned enough money to pay the taxes imposed on them by the three levels of the Canadian government: federal, provincial, and local. Taxes used to calculate Tax Freedom Day include income taxes, property taxes, sales taxes, profit taxes, health, social security and employment taxes, import duties, license fees, taxes on the consumption of alcohol and tobacco, natural resource fees, fuel taxes, hospital taxes, and a host of other levies.

In 2011, Canadians started working for themselves on June 6th (table 1). That is, Canadians worked until June 5th to pay the total tax bill imposed on them by all levels of government. From June 6th to the end of the year, taxpayers can keep all the income they earn.

Canadians can calculate their personal Tax Freedom Day using the Fraser Institute's Personal Tax Freedom Day Calculator at www.fraserinstitute.org.

A later Tax Freedom Day

This year, Tax Freedom Day arrived two days later than in 2010, when it fell on June 4th.¹ The latest Tax Freedom Day in Canadian history was in 2000, when it occurred on June 24th, almost two months later than it did in 1961 (May 3rd), the earliest year for which the calculation has been made (Palacios and Veldhuis, 2011).

Tax Freedom Day declined slightly from 2000 to 2005, receding from June 24th to June 21st. From 2005 to 2009, Tax Freedom Day for the average Canadian family occurred earlier, moving from June 21st in 2005, to June 1st in 2009. There are many reasons for the relatively large change in Tax Freedom Day over this period. Prior to the 2008/09 recession, the federal government and many provinces reduced taxes.2 However, much of the decline in Tax Freedom Day in both 2008 and 2009 had nothing to do with either federal or provincial government tax reductions. Tax Freedom Day is a comparison of income and total taxes for average Canadian families.

When the economy slows and incomes either stagnate—or worse—decline (as was the case during the 2008/09 economic recession), the tax burden of those families tends to be reduced to a greater extent. This accelerated decrease in the tax burden compared to income is a result of the progressive nature of the Canadian tax system. Progressivity means that as one earns more income, s/he pays proportionately more in taxes. The reverse is also true. It is this reverse phenomenon that stimulated some of the decline (improvement) in Tax Freedom Day in 2008 and 2009.

In addition, other cyclically related tax reductions help improve Tax Freedom Day during an economic downturn. For example, reductions in consumption by families decrease the amount of sales and other consumption taxes they pay.

In 2010 and 2011, the economy rebounded and Canadians saw Tax Freedom Day arrive later in both years. As explained above, when the economy recovers and incomes increase, a family's tax burden tends to increase, but to a greater extent because of our progressive tax system. Household consumption also increases, which results in an increase in the amount of sales and other consumption taxes that Canadian fami-

Table 1: Tax Freedom Days*

	1981	1985	1995	2000re	2005re	2009re	2010re	2011pe
Newfoundland & Labrador	18 May	9 May	24 May	7 June	23 June	17 June	20 June	19 June
Prince Edward Island	6 May	7 June	22 May	1 June	8 June	24 May	25 May	27 May
Nova Scotia	11 May	17 May	31 May	11 June	18 June	30 May	6 June	7 June
New Brunswick	6 May	2 June	1 June	5 June	7 June	26 May	29 May	31 May
Quebec	7 June	17 June	9 June	4 July	26 June	3 June	6 June	10 June
Ontario	29 May	26 May	8 June	14 June	15 June	1 June	3 June	4 June
Manitoba	17 May	5 May	14 June	20 June	21 June	29 May	31 May	1 June
Saskatchewan	24 May	17 May	20 June	26 June	3 July	6 June	6 June	6 June
Alberta	30 May	22 May	2 June	18 June	15 June	17 May	16 May	18 May
British Columbia	9 June	16 June	12 June	25 June	24 June	2 June	4 June	6 June
Canada	30 May	6 June	11 June	24 June	21 June	1 June	4 June	6 June
Without Natural Resources								
Newfoundland & Labrador	17 May	8 May	23 May	6 June	15 June	26 May	24 May	24 May
Saskatchewan	15 May	9 May	13 June	15 June	21 June	30 May	27 May	27 May
Alberta	6 May	3 May	24 May	24 May	25 May	10 May	9 May	11 May
British Columbia	6 June	12 June	8 June	16 June	17 June	30 May	1 June	3 June
Canada	27 May	4 June	9 June	19 June	17 June	30 May	2 June	4 June

re = revised estimate; pe = preliminary estimate.

Table 2: Tax Freedom Days including government deficits, 2011, preliminary estimates

Impact of federal and provincial government deficits on Tax Freedom Day

					-,
	Tax Freedom Day	Balanced budget Tax Freedom Day	Total increase (days)	Federal	Provincial
Newfoundland & Labrador	19 June	25 June	6	7	-1
Prince Edward Island	27 May	8 June	12	8	4
Nova Scotia	7 June	21 June	14	9	5
New Brunswick	31 May	16 June	16	9	7
Quebec	10 June	21 June	10	6	4
Ontario	4 June	26 June	22	10	12
Manitoba	1 June	14 June	13	9	4
Saskatchewan	6 June	12 June	6	7	-1
Alberta	18 May	2 June	15	9	6
British Columbia	6 June	18 June	12	10	2
Canada	6 June	22 June	16	9	7

Note: numbers may not add due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2011; 2011 Provincial Budgets.

^{*} based on total taxes as a percentage of cash income for families with two or more individuals. Cash income includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit). Source: The Fraser Institute's Canadian Tax Simulator, 2011.

lies pay. Business profits also increase during a recovery, which then increases the profit taxes businesses pay.

Unfortunately, some provinces also increased taxes in 2011, which contributed to the later Tax Freedom Day. For example, Quebec increased its provincial sales tax rate, its health tax (introduced in 2010), and gas and mining taxes; British Columbia increased its monthly Medical Services Plan premium (health tax); New Brunswick increased its fuel and tobacco tax; and both Manitoba and Prince Edward Island increased their tobacco tax.³

Tax Freedom Day by province

While all Canadians face more or less the same federal tax bill, Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden (table 1). This year, the earliest provincial Tax Freedom Day fell on May 18th in Alberta, while the latest date fell on June 19th in Newfoundland & Labrador.

Every province—save for Newfoundland & Labrador and Saskatchewan—saw its Tax Freedom Day move further in the year between 2010 and 2011, meaning that most citizens are working more for the government and less for themselves and their families this year than last (table 1).

Given that there is some debate as to whether natural resource royalties are actually a tax, we provide two sets of Tax Freedom Days for provinces with significant natural resources. If natural resource revenues are excluded, Tax Freedom Day recedes by 26 days in Newfoundland & Labrador, 10 days in Saskatchewan, 7 days in Alberta, and 3 days in British Columbia (table 1).

Balanced budget Tax Freedom Day

Canadians may rightfully be thinking about the economic and tax implications of the recent return to budget deficits. Indeed, almost all Canadian federal and provincial governments (excluding Saskatchewan and Newfoundland & Labrador) are forecasting budget deficits for 2011. The federal government budgeted for a \$29.6 billion deficit in 2011/12 while the provinces are cumulatively forecasting deficits amounting to \$24.8 billion.⁴

Of course, today's deficits must one day be paid for by taxes. Deficits should therefore be considered as deferred taxation. For this reason, we calculate a Balanced Budget Tax Freedom Day, the day on which average Canadians would start working for themselves if governments were obliged to cover current expenditures with current taxation and were not able to defer any of the tax burden by running a deficit.

Table 2 presents Balanced Budget Tax Freedom Days for Canada and its provinces. Balanced Budget Tax Freedom Day arrives on June 22nd, meaning the average Canadian family would have to work until June 21st to pay the tax bill if, instead of financing its expenditures by deficits, Canadian provincial governments had simply increased tax rates to balance their budgets. The Balanced Budget Tax Freedom Day arrives sixteen days later than Tax Freedom Day. Nine of the sixteen days are due to the federal deficit and the remainder to the provincial deficits. The latest Balanced Budget Tax Freedom Day will fall on June 26th in Ontario, over three weeks later than that province's Tax Freedom Day.

Conclusion

The Canadian tax system is complex and there is no single number that can give us a complete idea of who pays how much; that said, Tax Freedom Day is the most comprehensive and easily understood indicator of the overall tax bill of the average Canadian family. In 2011, Canadians celebrated Tax Freedom Day on June 6th—two days later than in 2010.

Notes

- 1 As is the case every year, Tax Freedom Day calculations are based on forecasts of personal income, and on federal and provincial budget tax revenue. When final revenue numbers become available at the end of each fiscal year and personal income data are updated by Statistics Canada, we revise our Tax Freedom Day calculations for previous years.
- 2 For example, tax payers benefited from the reductions in the Goods and Services Tax (GST) rate from 7% to 6% in 2006 and to 5% in 2008. In addition, provinces such as British Columbia enacted personal income tax relief; Saskatchewan reduced its corporate income and capital taxes and reduced its provincial sales tax; and Manitoba cut its middle personal income tax rate and small and large corporate income tax rate (Palacios and Veldhuis, 2011).
- 3 A complete delineation of tax changes is available in the 2011 provincial budgets.
- 4 The cumulative deficit figure only includes those provinces with forecasted deficits for 2011/12. Saskatchewan is forecasting a surplus of \$115 million. Meanwhile, Newfoundland and Labrador forecasted a small surplus of \$59 million (Palacios and Veldhuis, 2011).

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Ontario should replace age-based drug subsidies

MARK ROVERE AND BACCHUS BARUA

n recent years, provincial governments have attempted to harness health expenditures by regulating generic drug prices¹ covered by public drug programs. However, if the provinces with aged-based eligibility criteria for public drugs plans replaced their programs with means-tested eligibility for catastrophic coverage, significant savings could be achieved.

Although, on average, seniors take more medication than younger individuals (CIHI, 2010), it is incorrect to assume that all seniors need subsidized drug coverage. Instead, a better use of public funds would be to subsidize only those who require financial assistance to pay for their medications. Ontario, in particular, is a province that could take advantage of the possible savings generated by this policy reform.

Ontario's public drug programs

The Government of Ontario operates Canada's largest taxpayer-funded drug plan, covering approximately 2.8 million residents at an annual cost of over \$4 billion. The program accounts for 45% of Ontario's total drug expenditures and includes four components: the Ontario Drug Benefit [ODB] program, the Trillium Drug Program, the Special Drugs Program, and the New Drug Funding Program for Cancer Care. The majority of Ontario's public drug funding is allocated to the ODB and the Trillium Program, while the other two programs provide funding assistance on a case-by-case basis for

patients with special medical needs (Ministry of Health and Long-Term Care, 2011a).

Although Ontario's public drug plans assist individuals and families with low incomes and special medical needs, all of the province's 1.8 million (2008) residents over the age of 65 are eligible for the ODB regardless of their income (Ministry of Finance, Ontario, 2010; Ministry of Health and Long-Term Care, 2011a). While a small copayment and annual deductible may be required, patient cost-sharing is not linked to the price of the prescription or the recipient's income (see table 1).

In contrast, the Trillium Drug program assists Ontario residents who spend a significant amount of their after-tax income on prescription medicines. The program provides access to certain prescription drugs (listed on the provincial formulary) for households that spend more than 4% of their household net income on drug costs. As seen in table 1, unlike the ODB, recipients of the Trillium program are required to pay an annual deductible based on household net income (not exceeding 4% of after-tax income), and is adjusted for the number of family members per household. Importantly, the Trillium Drug Program is not intended to replace private insurance. It is meant for Ontario residents who do not have private insurance coverage and are not eligible for the province's other publicly funded programs. It also serves residents who have private insurance coverage that only partially covers drug costs (where drug costs exceed 4% of household net income) (Ministry of Health and Long-Term Care, 2011c). In other words,

Table 1: Ontario Drug Benefit Program and Trillium Drug Program: Deductible and co-payment by net income, 65 years and older

Ontario Drug Benefit Program						
Net Income Single seniors (65+)	Deductible	Co-payment				
< \$16,018		\$2				
> \$16,018	\$100	\$6.11				

Source: Ministry of Health and long-term care, 2011c; 2011e.

Trillium Drug Program						
Net Income Single Persons	Deductible	Co-payment				
\$8,000 - \$8,500	\$370	\$2				
: \$16,000 - \$16,500	\$461	\$2				
\$32,000 - \$32,500	\$1,051	\$2				



unlike the ODB where eligibility is not linked to income, the Trillium Drug Program is intended to be a safety net for Ontario residents with catastrophic drug costs that are not covered (fully or partially) by private insurance.

Do all seniors need a subsidy?

Not all seniors require financial assistance to pay for their prescription drugs. Table 2 displays the total taxable income returns (2008 tax year) for Ontario residents 65 years and older. As shown, in 2008, 84.2% of Ontario's seniors had a gross income of \$20,000 or more and 27.6% of seniors earned more than \$50,000 (Canada Revenue Agency, 2010). Although it is often assumed that seniors are low-income earners, the data indicate that it is not always the case.

More importantly, the data show that in general, seniors typically do not spend a significant amount of their net income on medication. As table 3 indicates, in 2008, the median-after tax income of families 65 years and older in Ontario was \$51,600 (Statistics Canada, 2010). At the same time, seniors spent approximately \$1,8172 on prescription drugs (Morgan et al., 2008).

Notably, this is only slightly above the \$1,699 "catastrophic" drug cost threshold proposed by the 2002 Romanow Commission (\$1,500 in 2002 adjusted for inflation),3 and close to the 3% catastrophic drug cost threshold recommended by the Kirby Report⁴ (Romanow, 2002; Kirby, 2002).⁵ Moreover, the average annual drug expenditure for seniors (\$1,817) accounts for only 3.5% of the median after-tax income of elderly families in Ontario (\$51,600), which is still below the catastrophic threshold of 4% defined by the Trillium Drug Program. Albeit, this represents 5.5% and 7.6% of their net incomes for unattached males and females respectively (table 3).

Table 2: Total taxable income returns for Ontario residents 65 years and older, by income class and sex, 2008 tax year

Income Class	Males	Females	All seniors	Total distribution among income classes
Under \$10,000	\$730	\$3,890	\$4,620	0.4%
\$10,000-\$15,000	\$7,360	\$17,660	\$25,020	2.1%
\$15,000-\$20,000	\$49,160	\$108,350	\$157,510	13.3%
\$20,000-\$25,000	\$51,780	\$80,550	\$132,330	11.2%
\$25,000-\$30,000	\$54,660	\$60,750	\$115,410	9.8%
\$30,000-\$35,000	\$67,080	\$72,460	\$139,540	11.8%
\$35,000-\$40,000	\$56,500	\$66,000	\$122,500	10.4%
\$40,000-\$45,000	\$46,890	\$41,540	\$88,430	7.5%
\$45,000-\$50,000	\$39,910	\$30,890	\$70,800	6.0%
\$50,000-\$100,000	\$153,200	\$103,420	\$256,620	21.7%
\$100,000 and over	\$46,180	\$24,040	\$70,220	5.9%

Source: Canada Revenue Agency, 2010; calculations by authors.

Table 3: Median after-tax income and average prescription drug spending for Ontario seniors (65 and older), 2008

	_				
Median after-tax income	2007 average Rx spending for seniors, adjusted for inflation	% of median after-tax income on Rx spending	Romanow's catastrophic threshold (\$2002)	Romanow's catastrophic threshold (\$1,500 in 2002) adjusted for inflation (\$2008)	Romanow's catastrophic threshold as a % of median after-tax income
\$51,600	\$1,817	3.5%	\$1,500	\$1,699.13	3.3%
\$33,200	\$1,817	5.5%	\$1,500	\$1,699.13	5.1%
\$24,000	\$1,817	7.6%	\$1,500	\$1,699.13	7.1%
	\$51,600 \$33,200	after-tax average Rx spending for seniors, adjusted for inflation \$51,600 \$1,817	after-tax income spending for seniors, adjusted for inflation spending spending spending shaped shap	after-tax income spending after-tax income spending for seniors, adjusted for inflation spending spend	after-tax income spending for seniors, adjusted for inflation spending spending for seniors, adjusted for inflation spending spen

Sources: Statistics Canada, 2010; Morgan et al., 2010; Romanow, 2002; calculations by authors.

Means-testing and catastrophic threshold

It is clear that although some seniors do require government assistance because their drug costs are very high relative to their net income, taxpayers should not be responsible for providing comprehensive drug coverage for everyone over the age of 65. In contrast, if seniors received public funding for drug coverage based on their household income, with an annual deductible based on a pre-determined "catastrophic" drug cost threshold,6 the Ontario government could save taxpayers a significant amount of money while still providing financial support to seniors who require it. Under this scenario, the majority of seniors could purchase private drug insurance or pay for drug costs out-of-pocket, and subsequently apply for public coverage if the cost of their medication becomes "catastrophic."

Savings

A basic estimate of the potential savings Ontario could experience by moving away from aged-based eligibility for drug coverage can be made based on the experience of British Columbia. In 2003, BC replaced its aged-based public drug program with Fair PharmaCare, an incomebased plan. The program provides financial assistance to any BC resident who has catastrophic prescription drug costs relative to his or her net income. In addition, it provides partial assistance for residents incurring costs below that level but above an income-based deductible⁷

(Ministry of Health, 2011). A 2006 study (Morgan et al.) shows that substituting the province's age-based program with Fair PharmaCare likely resulted in a 16.9% decrease in public spending. Further, the study concluded that the change did not reduce access to prescription drugs for seniors or for residents with different income levels.

Assuming that similar savings could be generated for Ontario if a comparable program were implemented, the Ontario government could save a minimum of approximately \$710 million (16.9% of Ontario's \$4.2 billion public drug program) (Ministry of Health and Long-Term Care, 2011d; authors' calculations). In fact, if the catastrophic threshold was placed at 4% in accordance with the Trillium program, the savings would likely be even higher.

Conclusion

It is unnecessary for taxpayers to subsidize the cost of drugs for those who can afford it, and the data show that very few seniors actually require financial assistance to pay for their medications. Notably, as more baby-boomers become seniors, more money will be required to fund drug coverage for this growing population. The optimal policy is to provide means-tested subsidies to those with low incomes, regardless of age, to purchase catastrophic drug insurance in a private, competitive, insurance market, where recipients would have the choice of selecting the drug plan that meets their individual medical needs and financial abilities (Skinner, 2005). However, at the

very least, Ontario, which spends over \$4 billion annually on public drug expenditures, should take note of BC's experience and move away from automatic public drug coverage based on age alone.

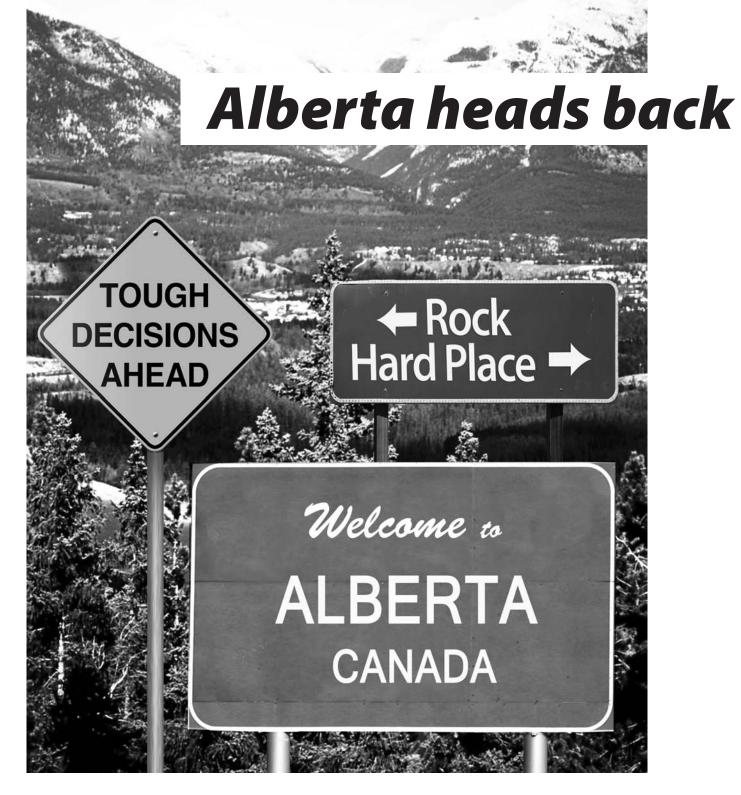
Notes

- 1 Following Ontario's lead, a number of provincial governments have regulated the price of generic drugs as a percentage of their brand-name equivalents.
- 2 Averaged across Canada with 2007 data adjusted to 2008 dollars for inflation (Morgan et al., 2008).
- 3 The 2002 Romanow report proposed a federal catastrophic drug transfer to the provinces for drug costs that exceeded \$1,500 per person per year. Although the federal transfer was never implemented, the report found that annual personal drug expenditures above \$1,500 should be considered "catastrophic" (Romanow, 2002). Provincial public drug programs continue to be provincially funded.
- 4 Senator Kirby recommended that public drug coverage be provided to Canadians that spend over 3% of their net annual income on prescription drugs (catastrophic coverage) (Kirby, 2002).
- 5 The Romanow (2002) and Kirby (2002) Reports provide the most commonly cited recommendations for catastrophic drug costs threshold in Canada.
- 6 As defined (for example) by either the Kirby Report (3%) or the Trillium Drug Program (4%). 7 Lower deductibles and catastrophic thresholds are used for families that include an individual born in 1939 or earlier.

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MARK MILKE

Petween 1985/86 and 1993/94, the province of Alberta ran nine consecutive deficits, the consequences of which were long lasting (Department of Finance, 2000 and 2010). First, Canada's wealthiest province—with significant net assets in the mid-1980s—saw its financial position deteriorate into net debt by the end of that deficit era. Second, the costs of the continual "red ink" extended beyond even the period of return of the surplus years. That's because, obviously, debts last lon-

ger than annual deficits and create a significant, ongoing diversion of tax dollars from other purposes in order to finance interest costs; the cost of the red ink also has a long "shelf life" as newer taxes are also used to pay down old debt. Third, to finance the growing provincial debt, existing taxes were raised and new taxes imposed, which increased barriers to investment, income growth, and job creation in Alberta. Simultaneously, the provincial government ceased transfers entirely to the Alberta Heritage

to the 1980s

Savings and Trust Fund (AHSTF)—a fund originally set up to preserve some of the province's resource wealth for future generations—in an attempt to keep more revenue.

History is not guaranteed to repeat, but recent signs and actions contradict present optimistic expectations about the province's finances. After all, in 1987, the province's net financial position (i.e., assets minus liabilities) was still healthy; it was the trend—a continuous deterioration in Alberta's finances—that was worrying:

The history of Alberta's fiscal ground has been wellcovered by others.1 From this research, it is already clear that fiscal history is repeating itself, and it appears that Alberta's rhetorical history is also repeating itself. Here are some similarities between the two deficit eras:

Parallel #1: "Alberta is not in debt"

Both in the 1980s and recently, the political rhetoric initially emphasized that Alberta could "afford" deficits given its overall net asset position, i.e., the value of Alberta's assets was higher than the value of its liabilities.

In 1985, Treasurer² Lou Hyndman noted the net asset position of the province: "There are few governments in the world that can match the financial strength of the province of Alberta," said Hyndman in his March 1985 budget speech (Alberta, 1985: 12).

Similarly, in early April 2009, Premier Ed Stelmach rejected a University of Calgary report that warned the provincial government was facing a 1980s-style quagmire on public finances; Stelmach called it "nonsense." He stated: "Look at our balance sheet. We're the only jurisdiction in North America that has cash in the bank-liquid" while referring to the province's net asset position (Fekete, 2009: A10).

Parallel #2: Promises of a balanced budget in four years

In his March 1988 budget speech, Treasurer Dick Johnston proclaimed that a "solid recovery" had begun the year previous with oil prices rising (Alberta, 1988: 5). The treasurer forecasted a deficit for the upcoming year but insisted a balanced budget would occur by 1990/91 (Alberta, 1988: 10; 30)—the original four-year target assumed by Budget 1987 (Alberta, 1987: 13).

In 2009, Finance Minister Iris Evans predicted a balanced budget by 2012/13, and thus four years of deficits in the interim (Alberta, 2009: 3). Similarly, in February 2010, the newest Alberta finance minister, Ted Morton, repeated the previous year's pledge from Evans on a surplus after four years of deficits (Alberta, 2010).

Parallel #3: The four-year budget target is missed

By June 1989, the Alberta government admitted its earlier forecasts of a balanced budget would be delayed one year. Treasurer Dick Johnston informed a newspaper reporter that the four-year target would be missed and insisted the deficit would be eliminated by 1991/92, a year later than projected (Geddes, 1989: A10).

Similarly, in the newest deficit era, in a late-2010 interview, Premier Stelmach announced a four-year balanced budget deadline would be pushed off further into the future (Fekete, 2010: A1). In his 2011 budget speech, the newest Finance Minister, Lloyd Snelgrove, also confirmed the previous four-year balanced budget target would not be met (Alberta, 2011a: 12).

Parallel #4: (Another) false start on balanced books?

In 1990 and 1991, a fiscal "head-fake" rise in energy prices due to the Gulf War led the politicians of the day to think a balanced budget might be accomplished within the original four-year period. At budget time in 1991, where a \$33-million surplus was forecast for the next budget year, the premier said that "Albertans shouldn't be surprised if a projected budget surplus of \$33 million ends up being a lot larger" (Laghi, 1991: A1). The premier turned out to be overly optimistic: the projected surplus turned into a \$2.6 billion deficit (Alberta, 2001: 58).

More recently, in May 2011, in a speech to the Alberta Weekly Newspaper Association, Alberta's current premier, Ed Stelmach, hinted the off-again four-year target for balanced books might be "on" again, citing higher oil and gas prices (Henton, 2011: A4).

The province tried to balance the books with tax increases and ended transfers to the Heritage Fund

In the 1980s, attempts were certainly made to balance the books before expenditure cuts were considered. The provincial government reduced and then entirely stopped resource revenue transfers to the Alberta Heritage Savings Trust Fund (AHSTF or "Heritage Fund")3. The province also re-directed investment income earned on the fund to general revenues (Alberta, 1986: 11; Alberta, 1987: 14).

The second significant attempt to eliminate the deficit came in the form of tax increases. "We will increase taxes substantially at the outset of this deficit reduction

plan," said Treasurer Dick Johnston in his March 1987 budget address (Alberta, 1987: 13). In total, the increased and new taxes were expected to bring in extra revenue of \$1 billion in 1987/88 (Alberta, 1987: 20-22), or about 12.5% of all own-source revenues4 the province had accrued in the year previous (Alberta, 2001: 58). However, the province still incurred deficits until 1994/95.

Deficits were only banished with attention to the over-spending

The recent political rhetoric in Alberta mimics the mid-1980s and early 1990s. In both eras, the fact that program expenditures outpaced revenues in most years made deficits inevitable once energy prices declined. For example, between 1980/81 and 1985/86—before any significant (later) decline in revenues—revenues rose by 49%, but program spending increased by 85% (Department of Finance, 2000). In the newer deficit era, there was an actual 4.4% decrease in revenue while program spending rose by 43.4% between 2005/06 and 2010/11 (Alberta, 2011b).

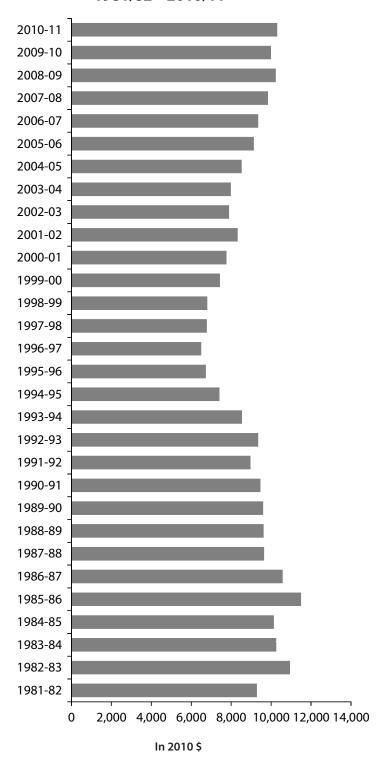
In Alberta's previous deficit era, chronic deficits were only addressed once rhetorical change took place and real per capita program spending was cut significantly.

In the 1980s, real per capita program spending hit a high of \$11,496 in 1985/86 and took significant reductions to bring the books into balance. Real per capita program spending declined to a low of \$6,498 in 1996/97. Since then, the trend-line has been mostly upward. Real per capita program spending hit \$10,237 in 2008/09, dipped slightly in the next year, and rose again to \$10,303 in 2010/11 (Department of Finance 2000 and 2011; Alberta 2011b; Statistics Canada 2011; calculations by Milagros Palacios).

Needed: A reversal in rhetoric and Alberta's actions

Here is where the parallels between the two eras diverge: By 1993, the provincial government decided a balanced budget would not occur unless a determined effort was made to rein in program expenditures. In 1993, then Finance Minister Jim Dinning said that in retrospect, while 1986 was the year it became apparent that Alberta had a spending problem, spending continued even though the bottom had fallen out of oil and gas revenues. "It was at a time when we believed a problem could be solved by spending more money on it. We've learned, painfully, that that thinking was never very accurate," said Dinning (Alberts and Pommer 1993, A1). That was then. Now, in the newer deficit era, neither the rhetoric nor the actions have changed to deal with Alberta's newest deficits.

Figure 1: Alberta per capita program spending (adjusted by inflation), 1981/82 - 2010/11



Sources: Canada, Department of Finance 2000, 2010; Alberta 2011b; Statistics Canada, CANSIM Table 326-0021 and 051-0005; calculations by Milagros Palacios.

Notes

- 1 In particular, see Bruce et al., 1997; Booth, 1995; Kneebone, 2002; Kneebone, 2006; Alberta, 2007; Emery and Kneebone,
- 2 The official title of finance ministers in Alberta before 1993 was treasurer.
- 3 Previously, beginning with the fund's creation in 1976/77, the province transferred 30% of all resource revenues annually into the fund, then gradually reduced that percentage, ending such transfers entirely in 1987 (Alberta, 2011c).
- 4 Own-source revenue is revenue raised by the province and not transferred from the federal government.

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Taxing pop and butter won't necessarily make Canadians skinny

NADEEM ESMAIL



ecently, the BC Medical Association -recommended that government tax sugarsweetened beverages, the Canadian Medical Association recommended Parliament place higher taxes on "junk food," and a number of organizations recommended to the standing committee on health in Ottawa that certain types of food should be taxed. Internationally, Denmark introduced a levy on a range of fatty dairy products on July 1st, 2011, while Norway and Sweden are both considering their own selective food taxes.

This idea—to tax food that some nutritionists and researchers don't want individuals to consume—is increasingly accepted. Proponents of the so-called "fat tax" not only offer it as a way to improve diets, but also treat it as an assumed key component of a regulatory strategy to shrink the waistlines of Canadians. However, the truth is that a "fat tax" or "junk food tax" is merely a blunt instrument that doesn't directly deal with the problem (the number of overweight and obese Canadians) about which so many politicians and pundits are concerned.

Taxing less healthful food options, such as fatty dairy products or sugar-sweetened beverages is often compared to the taxation of cigarettes: a public health measure intended to improve a population's health and wellbeing. This misleading comparison ignores a simple reality: consuming cigarettes is directly linked to smoking-related illnesses. The same is not true of less healthful or fattier food options. They not only have some nutritional value, but are also not directly linked to excess weight.

Fundamentally, for most people, being overweight or obese is the result of an excess of caloric intake over caloric output. The consumption of less healthful and/or fattier foods when balanced with other foods and exercise will not lead to a person being overweight or obese, nor will it necessarily lead to poorer health. This absence of a direct connection reveals another serious problem with the idea of a "fat tax": everyone has to pay it regardless of their girth.

Consider the case of a Canadian who runs three times a week, plays sports from time to time, eats a well-balanced diet, and is in excellent physical condition. If she desires a chocolate bar every day with her lunch, wants to cook her meals with butter, or likes to relax with a pop and watch a movie on the weekend, why should she pay more to do so?

Notably, in 2010, 52.3% of Canadians aged 18 and older, and 20.0% of Canadian youth (aged 12 to 17) reported themselves to be overweight or obese (Statistics Canada, 2011a and 2011b). In other words, flip those statistics over, and a sizable portion of the adult popula-

tion and the majority of the youth population are neither overweight nor obese by body mass index (the common metric of overweight and obesity) standards.

A "fat tax" not only fails to distinguish between overweight/obese Canadians and those who are not, but it is also a regressive form of taxation. A number of studies have found that diets of less healthy food options are less expensive than diets of healthier food options (Drenowski and Darmon, 2005; Drenowski et al., 2004; BCPHO, 2006; and CIHI, 2006).1 Further, lower socioeconomic classes are typically more dependent on fast foods for their nutrition (Eisenberg et al., 2011). Both suggest that a tax on less healthful/fattier food options will have a disproportionate effect on lower-income Canadians.

"Fat taxes" are also not guaranteed to reduce overall caloric intake, as some hope. Importantly, fast-food consumption (a likely target for a "fat tax") may be relatively unresponsive to price changes because individuals may simply switch to other non-taxed, but still energy-dense foods2 (Eisenberg et al., 2011). Then there is the issue of defining which foods should be taxed and the difficulties therein (Eisenberg et al., 2011; Leicester and Windmeijer, 2004). Targeting only one food group, such as sugarsweetened beverages, does not necessarily resolve these issues or those outlined above; such targeting entirely ignores the complex and manifold causes of obesity.3

There is, of course, little debate about the fact that obesity does result in costs including negative health consequences, reduced life expectancies, negative effects on mental and emotional wellbeing, lost productivity, restricted activity, and poorer educational performance and skill attainment (Raine, 2004; Olshansky et al., 2005; Ding et al., 2006; BCPHO, 2006; and Cawley and Spiess, 2008).4 However, what is important for public policy is the distribution of those costs (or, who actually bears the burden of them). Upon closer examination, it seems that the majority of the costs listed above are borne directly by the obese individual in terms of lower income, reduced enjoyment of life, and a potentially shorter life span. The only area where the individual does not bear these costs directly is the increased burden on Canada's tax financed health system. These costs transpire because the obese have an increased likelihood of diabetes, stroke, and other illnesses. Notably, many of the debates and discussions about policies to combat obesity in Canada begin with the health costs imposed on society through Medicare-costs then used to justify government intervention.

Thus, if there is an area of the obesity epidemic where governments have a legitimate role to intervene, it is to resolve the costs imposed by the obese on all taxpayers by reducing the cross-subsidization from non-obese



Canadians to obese Canadians. Since obesity is in many cases controllable, and since the public burden of obesity is borne almost entirely through the Medicare program, it makes most sense to scale the Medicare premiums of obese individuals by the publicly borne medical costs of being obese⁵. Of course, appropriate reductions in the charge for low-income families (to a non-zero level) and for those who are less able to control their weight because of an underlying medical condition should be a part of this plan.

Such a scaled health premium not only gives individuals and parents the incentive to lose their own or their children's extra pounds, but is also sensitive to the existence of controllable obesity. Unlike a "fat tax" to which governments will likely become addicted, the premium would abate entirely with the elimination of controllable obesity. Equally importantly, it allows people to choose for themselves whether they wish to lose weight through a better diet, through more exercise, or not at all—a choice individuals should be free to make as long as they do not impose costs on others by doing so.

Most importantly, however, a scaled health premium imposes the cost of controllable obesity on those responsible for it. It also does not negatively affect those who choose a healthier lifestyle (and in fact offers them a benefit for doing so), but who on occasion do snack on the occasional chocolate bar or fast-food hamburger.

"Fat taxes" are simply too blunt a policy tool to deal with the rising prevalence of overweight/obesity and poor diet. Targeted solutions that require the obese to take responsibility for the health costs created by their lifestyle choices are a far smarter solution.

Notes

- 1 This has been found to be true both in terms of dietary energy per dollar and in terms of absolute diet costs per day.
- 2 Foods that have a high caloric count per unit of mass.
- 3 These include reductions in the rate of smoking (Rashad, 2006; Rashad et al., 2005; Chou et al., 2002; Ostbye et al., 1995; Le Petit and Berthelot, 2006), increased labour-force participation by women (Rashad and Grossman, 2004), increases in the availability of labour-saving devices, and increased sedentary time/reductions in activity, among many others.
- 4 There is, however. some debate and discussion about the number of people adversely affected as well as the magnitude of these costs.
- 5 This solution applies to the current government-run health insurance scheme. Were Canada to move to a competitive private insurance model of universal health insurance, insurance com-



insurance model of universal health insurance, insurance companies should be freed to adjust insurance premiums on the basis of controllable individual health risks such as overweight/obesity.

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