Fraser Forum

November/December 2012
$3.95

A Fraser Institute review of public policy in Canada

Solving traffic congestion the European way

Canadian Publication Mail Sales Product Agreement Number 40069269.

London

Stockholm

ALSO IN THIS ISSUE:

The real cost of Canadian health care

Western Canada's petroleum investment environment

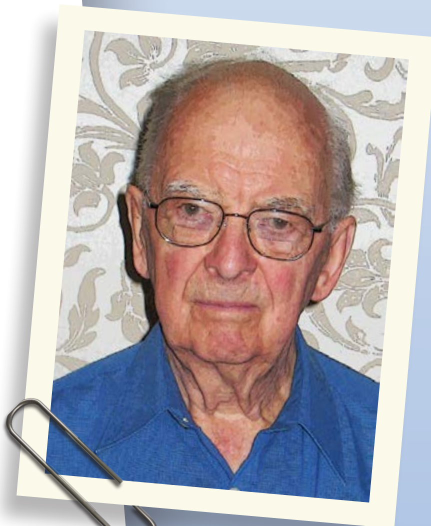
BC's oil moratorium

FRASER INSTITUTE

FRASER INSTITUTE FOUNDATION

Leave a legacy of freedom and prosperity

When Dick Sheppard was asked why he had been such a loyal supporter of the Fraser Institute and why he was also including a bequest in his Will, the answer came quickly—a lifelong belief that we all have the responsibility to give back. After living through the heavy bombing of London in the early days of WWII, Dick volunteered for aircrew in order to give back and was sent to Moose Jaw, Saskatchewan for pilot training. By 1946, released from the Royal Air Force, now married and working on educational/industrial films, Dick became very concerned at the then ongoing industrial strife in England and returned to Canada in 1950. By 1970, Dick's work in the national marketing/media/advertising agency field led to him starting his own company, Independent Media Analysis Limited.



Four years later, the Fraser Institute was established and Dick, feeling an immediate kinship, joined. He'd done well and, by supporting the Institute and a few other charitable organizations, Dick was once again giving back. Sadly, after 62 years of marriage, Dick lost his beloved wife Irene in 2008 to Alzheimer's. Their joint Will had been simple—all assets were to be shared equally between their three children.

However, after attending the announcement of a generous gift to the Fraser Institute Foundation, the seed for leaving a legacy of his own was planted—in support of the Alzheimer Society and the Fraser Institute—and with his family gathered together, Dick explained why. Knowing the first would be obvious, Dick pointed out how the Fraser Institute's activities benefited his children and grandchildren and would continue to do so when he was gone.

"You must give back! You don't need to be a Warren Buffet or a Bill Gates—each of us according to our means—it's a sound, simple idea."

—Dick Sheppard

Linda Ashton, Gift Planner
Tel: **604.688.0221** ext. **571**
Email: **linda.ashton@fraserinstitute.org**

Visit our new website: **www.fraserlegacy.org**

Fraser Forum

Publisher Fraser Institute
Chief Editor Niels Veldhuis
Managing Editor Emma Tarswell
Editorial Advisor Kristin McCahon
Contributing Editors Peter Cowley
Jason Clemens
Charles Lammam
Amela Karabegović
Art Direction and Cover Design Bill C. Ray
Cover Illustration Bigstock
Production and Layout Emma Tarswell
Media Relations Dean Pelkey
Advertising Sales Advertising In Print
Tel: (604) 681-1811
E-mail: info@advertising
inprint.com

The Fraser Institute's vision is a free and prosperous world where individuals benefit from greater choice, competitive markets, and personal responsibility. Our mission is to measure, study, and communicate the impact of competitive markets and government interventions on the welfare of individuals. Founded in 1974, we are an independent Canadian research and educational organization. Our work is financed by tax-deductible contributions from thousands of individuals, organizations, and foundations. In order to protect its independence, the Institute does not accept grants from government or contracts for research.

For additional copies, or to become a supporter and receive Fraser Forum, write or call the Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, BC V6J 3G7
Telephone: (604) 688-0221; Fax: (604) 688-8539; Toll-free: 1-800-665-3558 (ext. 580–book orders; ext. 586–development)

ISSN 0827-7893 (print version)
ISSN 1480-3690 (online version)
Printed and bound in Canada.

Return undeliverable Canadian addresses to:
Fraser Institute, 4th Floor, 1770 Burrard St., Vancouver, BC V6J 3G7

From the editor

There is little worse than getting stuck in traffic. I've been stuck in L.A. rush hour traffic, trapped on Seattle's snail paced Sea-Tac, ensnared in Toronto's 401 stop–and-go (especially bad in the summer on the way to cottage country), and I have all but given up on trying to get out of, or into, downtown Vancouver during rush hour. If there's a North American city known for traffic congestion, I've driven in it.

Luckily for me, my current daily commute is quite straightforward, but for many it is getting more and more arduous to make it into work and home again on time. The search for a way to ease traffic may be more important than ever before and, in this issue of *Fraser Forum*, Fraser Institute researcher Joel Wood discusses traffic solutions that have been tried in Canada's major cities but have failed to have a lasting impact (p.11). He suggests that London's and Stockholm's approaches to easing congestion could be successfully implemented in this country, and could lead to fewer traffic woes over the long term.

This issue also examines Canada's environment for resource development. Gerry Angevine's article, *Western Canada becoming more attractive for investment in petroleum exploration and development* (p.13), discusses the barriers to resource investment in Canada's western provinces and the ranking of those provinces in the Fraser Institute's global petroleum survey. The article *Is it time to lift the moratorium on offshore oil activity in BC?* (p.20) presents Canada's laws prohibiting offshore oil exploration in British Columbia along with an argument favouring the removal of the current ban on such activities.

You will also find articles on Canada's true health care costs, failed states and their effects on stronger states, the media's coverage of the Occupy movement compared to its coverage of corporate welfare, and much more. I hope you enjoy this issue.

— Emma Tarswell

Fraser Forum

Contents

Feature story

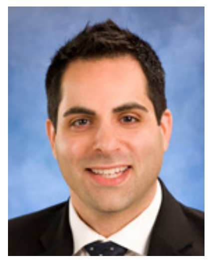
Solutions for Canadian traffic congestion
—page 11

Forum *Authors*

Gerry Angevine (gerry.angevine@fraserinstitute.org) is senior economist in The Fraser Institute's Centre for Energy Studies. He has M.A. and Ph.D. degrees in economics from the University of Michigan, an M.A. economics degree from Dalhousie University and a B.Comm. from Mount Allison 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.

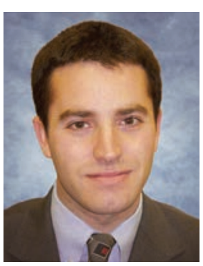
Alan W. Dowd (alan.dowd@fraserinstitute.org) is a Senior Fellow of the Fraser Institute, conducting research into defence and security, and the Senior Editor of Fraser *Insight*. He holds an M.A. from Indiana University.



Charles Lammam (charles.lammam@fraserinstitute.org) is Associate Director of the Centre for Tax and Budget Policy and the Centre for Studies in Economic Prosperity at the Fraser Institute. He holds an M.A. in public policy 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.

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



Nachum Gabler (nachum.gabler@fraserinstitute.org) is a research assistant in the Centre for Canadian-American Relations at the Fraser Institute. He has an M.A. in economics from Boston University.

Joel Wood (joel.wood@fraserinstitute.org) is the Fraser Institute's senior research economist in the Centre for Environmental Studies and the Centre for Risks and Regulation. He has a Ph.D. in economics from the University of Guelph.

Amela Karabegović (amela.karabegovic@fraserinstitute.org) is a senior economist in the fiscal studies department at the Fraser Institute. She has an M.A. in economics from Simon Fraser University.

The price of public health care insurance in 2012

iStock

Nadeem Esmail and Milagros Palacios

One consequence of the way health care is funded in this country is that Canadians often misunderstand how much universal public health insurance costs them. This lack of understanding limits Canadians' ability to assess whether they receive value for their tax dollars. Armed with a better understanding of what health care costs on a personal level, Canadians would be better equipped to judge the performance of their governments in providing quality health care. [1]

The cost of health care by family type

Universally accessible public health care in Canada is funded from general revenues. That is, provincial governments pay for health care using revenues raised through various methods of taxation (including health care premiums[2], income taxes, property taxes, profit taxes, sales taxes, etc.), intergovernmental transfers (including the Canada Health Transfer[3]), and borrowing. One way, then, of calculating Canadians' contributions to the cost of universal public health care insurance is to take the total tax bill paid to all levels of government[4] and the percentage of that total tax revenue that pays for public health care insurance (estimated to be 24.3 percent in 2011/2012).

Table 1 shows six Canadian family types, the estimated average incomes for those family types in 2012, and their estimated dollar contribution to health care. In 2012, the average unattached (single) individual, earning a little more than $37,800, will pay approximately $3,707 for public health care insurance. An average Canadian family consisting of two adults and two children (earning a little more than $113,200) will pay about $11,400 for public health care insurance.

This same calculation can be performed over several years to examine the impact the increasing cost of health care has on Canadian individuals and families. Figure 1 shows the change in the cost of health care insurance for the average Canadian family (all family types) between 2002 and 2012.[5] For perspective, this change is compared to the change in the average family's cash income, and the average family's expenditures on the necessities of life—clothing, food, and shelter. Between 2002 and 2012, the cost of public health care insurance for the average Canadian family increased more than twice as fast as the cost of shelter, roughly four times as fast as food, and more than five times as fast as clothing. Further, the cost of public health care insurance grew 1.6 times faster than the average income over the decade.

The cost of health care by income group

Table 2 divides the Canadian population into 10 income groups (or "deciles") to show what families from various income brackets will pay for public health care insurance in 2012.

According to this calculation, the 10 percent of Canadian families with the lowest incomes will pay an average of about $487 for public health care insurance in 2012. The 10 percent of Canadian families who earn

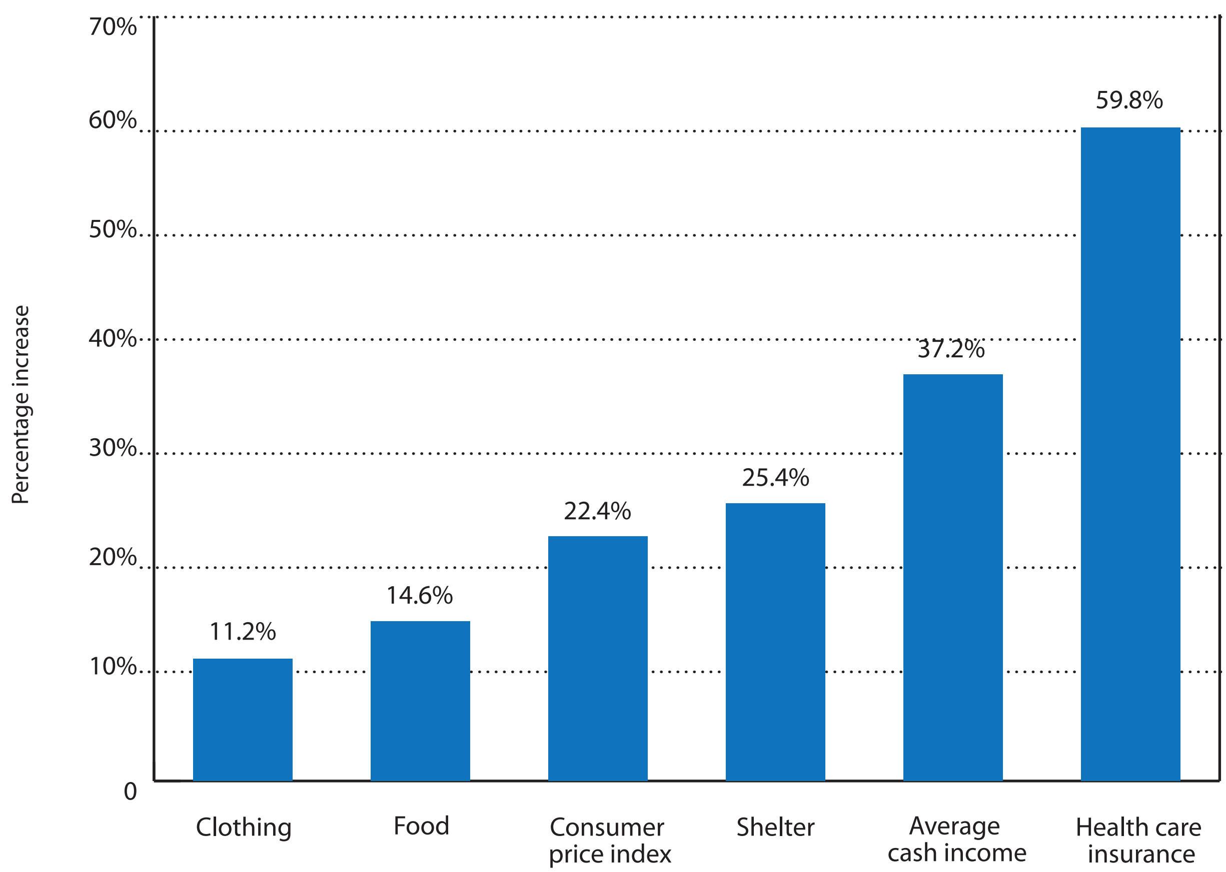
Table 1: Average income and average total tax bill of representative families, 2012*

Family type	Average cash income	Average total tax bill	Tax rate	Health care insurance
Unattached individuals	$37,812	$15,280	40.4%	$3,707
2 adults, 0 children**	$96,458	$46,814	48.5%	$11,358
2 parents, 1 child	$106,808	$43,785	41.0%	$10,623
2 parents, 2 children	$113,226	$46,990	41.5%	$11,401
1 parent, 1 child	$46,134	$14,090	30.5%	$3,418
1 parent, 2 children	$50,964	$14,133	27.7%	$3,429

* Preliminary estimates.
** "2 adults, 0 children" includes elderly couples who might have children, but those children do not live with them.

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

Figure 1: How health care insurance has increased relative to other costs, 2002-2012



Sources: Statistics Canada (various issues), *Survey of Household Spending*; Statistics Canada (various issues), *The Consumer Price Index*; Fraser Institute's Canadian Tax Simulator 2012; calculations by authors.

Table 2: Average income and total tax bill in each decile, 2012*

Decile**	Average cash income	Average total tax bill	Tax rate	Health care insurance
1	$12,369	$2,006	16.2%	$487
2	$26,659	$5,108	19.2%	$1,239
3	$36,176	$10,085	27.9%	$2,447
4	$44,960	$15,622	34.7%	$3,790
5	$55,271	$21,783	39.4%	$5,285
6	$67,272	$27,925	41.5%	$6,775
7	$81,602	$35,871	44.0%	$8,703
8	$100,360	$44,765	44.6%	$10,861
9	$128,094	$59,512	46.5%	$14,439
10	$249,495	$134,482	53.9%	$32,628

* Preliminary estimates.
** Deciles group families from lowest to highest incomes. Each group contains 10 percent of all families. The first decile, for example, represents the 10 percent of families with the lowest incomes.

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

an average income of $55,271 will pay an average of $5,285 for public health care insurance. The families among the top 10 percent of income earners in Canada will pay $32,628.

Conclusion

For Canadians seeking to better understand their family's contribution to the cost of publicly funded health care, tables 1 and 2 present compelling information. In addition, the large gaps between the growth rates of spending on the necessities of life and that of public health care insurance provide important insight into the increasing cost of health care for Canadian individuals and families. Our hope is that this information will place Canadians in a better position to decide whether they are getting a good return on the money they spend on health care insurance.

Notes

1 This article provides a brief summary of *The Price of Public Health Care Insurance*, 2012 edition, published by the Fraser Institute in September 2012. All facts and data quoted in this article come from that study.

2 Some Canadians might assume that health care premiums cover the cost of health care in those provinces that assess them. However, the reality is that these premiums cover just a fraction of the cost of health care and are paid into general revenues from which health care is funded.

3 The Canada Health Transfer is a cash transfer from the federal government to provincial governments for health care. Funding universal access health care in Canada is a provincial responsibility.

4 The total tax bill includes income taxes (personal and business); property taxes; sales taxes; profit taxes; health, social security, and pension taxes; import duties; licence fees; taxes on the consumption of alcohol and tobacco; natural resource fees; fuel taxes; hospital taxes; and a host of other levies.

5 Note that the percentage of tax revenues used to pay for public health care insurance varies from year to year.

References

Esmail, Nadeem and Milagros Palacios (2012). *The Price of Public Health Care Insurance*, 2012 edition. Fraser Institute.

Fraser Institute (2012). *Canadian Tax Simulator, 2012*. Fraser Institute.

Statistics Canada (various issues). *The Consumer Price Index*. Catalogue No. 62-001-XIB.

Statistics Canada (various issues). *Spending Patterns in Canada*. Catalogue No. 62-202-XIE.

How the media covered Occupy Wall Street—and crony capitalism

Shankbone47

Mark Milke

With the recent first anniversary of Occupy Wall Street, consider one complaint from protesters that was legitimate: "crony capitalism."

In general, Occupy Wall Street types could be described as a little too naïve about the downside of more government power, and too critical of people who exchange goods and services in markets.

But insofar as any protester was annoyed with politicians who like to subsidize specific businesses—corporate welfare in other words—which is an accurate example of abused capitalism, hand me a protest sign and give me a tent.

When taxpayer dollars are given or "loaned" to specific businesses, such taxpayer-financed subsidies are not cheap.

According to the OECD, in 2008, at least $48 billion was proposed for automotive companies alone. Annually, global taxpayer subsidies to the energy industry clock in at over $100 billion (OECD, 2010). In Canada, between 1994 and 2007, governments spent $202 billion on all types of subsidies to multiple corporations in all sorts of industries (Milke, 2009).

So here's a useful question: Given that corporate welfare is so costly, why does the media so rarely report on it?

It's not as if there isn't a problem with business subsidies. But much of the media hardly look at corporate welfare. Instead, they have been too content to spill ink on clichés, including the notion there is a "99%" on one side and a "1%" on the other. (For the record, that simplifies things. Mobility is pretty good from the lower income quintile and into higher incomes, in part because most of don't remain students forever) (See Karabegović and Lamman, 2011).

For an example of the rhetoric on Occupy Wall Street, back in October 2011, the *New York Times* argued that the tough times some Americans faced in an anemic economy helped spark Occupy Wall Street. The *Times* said the initial outrage was "compounded by bailouts and by elected officials' hunger for campaign cash from Wall Street, a toxic combination that has reaffirmed the economic and political power of banks and bankers, while ordinary Americans suffer" (*New York Times*, 2011).

In Canada, even though we've fared better than many countries during recent years, the notion that the "middle class was doomed" was popular during Occupy commentary. Chris Hume of the *Toronto Star* argued that in November 2011 "the Canadian middle class is under siege at every turn" (Hume, 2011).

To understand what I'm driving at, compare media coverage of the Occupy protests with how often the same outlets reported or commented on corporate welfare.

Using two media monitoring services for the period between September 17, 2011 (the first day of the protest in New York City's Zuccotti Park) and September 16, 2012, I entered these purposefully narrow search terms: "Occupy Wall Street" or "Occupy movement." I then compared

Table 1: Media comparisons of "Occupy Wall Street" and "corporate welfare"

	Search terms		
	"Occupy Wall Street" OR "Occupy movement"	"Corporate welfare" OR "business subsidies"	
Selected Canadian and US media	**Sept. 17, 2011 to Sept. 16, 2012**	**Sept. 17, 2011 to Sept. 16, 2012**	**Ratio of OWS hits to corporate welfare**
Canada			
Globe and Mail	212	7	30
National Post	196	37	5
Toronto Star	283	14	20
Total for 22 regional newspapers (excluding above papers)	2,458	192	19
CBC.ca News	160	0	N/A
CP-Broadcast Wire	660	5	132
CTV News and Current Affairs	91	1	91
United States			
ABC network	560	12	47
CNN	1,811	26	70
Fox News-All sources	779	39	20
National Public Radio	260	0	N/A
New York Times	1,785	39	46
Wall Street Journal	1,398	101	14
Washington Post	1,151	112	10
MSNBC	2,326	21	111

Sources: Canadian media: Financial Post Infomart (2012); US newspapers: Factiva (2012)

the same media but with "corporate welfare" or "business subsidies."

Here are some results (all following statistics from FP Infomart, 2012; Factiva, 2012). The *Toronto Star* mentioned the Occupy protests the most (283 stories); corporate welfare showed up just 14 times in the *Star*'s pages in that one-year period (using either search term). The *Globe and Mail* revealed 212 articles for the Occupy movement but just seven hits on business subsidies. The *National Post* had 196 Occupy stories and 37 mentions of corporate welfare.

There might be various explanations for the disparity. The Occupy protests took place in New York and in many other cities, so plenty of coverage would be expected relative to a more faceless issue like business subsidies. In addition, both sets of search terms are general in the sense that they cover the Occupy phenomenon and corporate welfare.

A more detailed analysis with additional search terms might ameliorate some of the differences observed. It could reveal additional coverage of some forms of business subsidies such as "agricultural supports," another term for taxpayer subsidies to the agricultural industry. Conversely though and on the other side of the "ledger," the "Occupy" counts would also certainly be higher had I included specific Occupy protests in cities other than

Media outlets usually considered more "liberal" or "left-wing" or even anti-business don't often cover corporate welfare.

New York: "Occupy Vancouver" or "Occupy San Francisco" for example.

What is revealing is a second calculation: the ratio for how each media outlet covered Occupy protests relative to corporate welfare.

Using the figures just noted, for every 30 mentions of the Occupy movement, the *Globe and Mail* had just one mention of corporate welfare. The *Toronto Star* ratio was 20 Occupy stories for every one about business subsidies. The *National Post* covered corporate welfare the most relative to the Occupy movement: five Occupy stories for every one about corporate welfare.

I also looked at 22 regional newspapers for the same period. In total, they mentioned the Occupy movement in 2,458 stories. The topic of business subsidies scored 192 stories, or a 13-to-1 ratio.

CTV News and Current Affairs reported on the Occupy protests 91 times and had just one mention of corporate welfare in an entire year.[1] The one news web connected to a TV network available for measurement, CBC.ca News, mentioned the Occupy movement 160 times. There was no mention of "business subsidies" or "corporate welfare."

In the United States, Occupy Wall Street and its sister protests in other cities received much coverage from everyone. But to use ideological language for a moment, the conservative and supposedly pro-business *Wall Street Journal* showed 1,398 stories for Occupy and 101 stories for corporate welfare in the one-year period. That's a 14-to-1 ratio. The only tighter ratio was at the *Washington Post*. The *Post* had roughly 10 Occupy stories (1,151 articles) for every story on corporate welfare issues (112 articles).

In contrast, the American equivalent of our CBC, National Public Radio, discussed the Occupy protests 260 times. In a full year of chatting, NPR never once mentioned "corporate welfare" or "business subsidies."

The trend appears to be this: Media outlets usually considered more "liberal" or "left-wing" or even anti-business—the CBC, *Toronto Star*, ABC News, MSNBC, the *New York Times*, and National Public Radio—don't often cover corporate welfare.

Instead, it has been ostensible pro-business and "right wing" media outlets such as the *National Post*, *Wall Street Journal*, and Fox News that more often report or comment on corporate welfare.

Ideological tags have their limitations. They also tend to miss critical exceptions. For example, one *Toronto Star* columnist recently lavished praise on my new report on business subsidies.

Here is a useful conclusion drawn from the media numbers: If reporters and editors want to investigate actual examples of crony capitalism/corporate welfare, then handouts and loans to politically-connected businesses offer a huge and under-reported target.

Note

1 Global TV and Sun TV were unavailable in the media search engine used.

References

FP Infomart (2012). Search performed September 20, 2012.

Factiva (2012). Search performed September 20, 2012.

Hume, Christopher (2011, November 23). Round one to Occupy Toronto. *Toronto Star*. <**http://www.thestar.com/news/gta/article/1091521--hume-round-one-to-occupy-toronto**>, as of September 26, 2012.

Organisation for Economic Co-operation and Development (2010). *Competition, state aids, and subsidies*. OECD. <**http://www.oecd.org/regreform/liberalisationandcompetitioninterventioninregulatedsectors/48070736.pdf**>, as of September 21, 2012.

Milke, Mark (2009). *Corporate welfare breaks the $200 billion mark: An update on 13 years of business subsidies in Canada*. Fraser Institute.

Karabegović, Amela and Charles Lamman (2011, September 26). The Myth of Income Inequality in Canada. *National Post*. <**http://fullcomment.nationalpost.com/2011/09/26/amela-karabegovic-and-charles-lammam/**>, as of October 11, 2012.

New York Times (2011, October 8). Protesters against Wall Street. *New York Times*. <**http://www.nytimes.com/2011/10/09/opinion/sunday/protesters-against-wall-street.html?_r=1**>, as of September 26, 2012.

Canadian cities can look to London and Stockholm for traffic solutions

Joel Wood

Transport Canada estimates that traffic congestion costs Canadians around $3 billion annually (Transport Canada, 2006). Congestion costs stem from drivers being stuck in their cars rather than doing productive things such as working or spending time with family. The cities where congestion is the most costly are Montreal, Toronto, and Vancouver (see table 1). Furthermore, Metro Vancouver was recently ranked the second worst city for traffic congestion in Canada and the United States (TomTom, 2012).

The traditional response to increased traffic congestion in North American cities has been to build more roads and highways. More recently, public transit has been touted as a solution to congestion. However, neither of these approaches actually solves the congestion problem.

Recent research by Duranton and Turner (2011) suggests that building highways and transit are not effective methods to reduce traffic congestion. They analyze highway traffic and census data from major cities in the United States between 1983 and 2003 and find that neither building more highways nor building more public transit results in decreased congestion (Duranton and Turner, 2011). The logic behind their results is that building either highways or public transit may initially result in smoother commutes, but over time those smoother commutes provide incentive for other commuters to decide to drive. Eventually the congestion is back to the level it originally was at, or worse.

Canadian cities can look to Europe for solutions to their present and future traffic congestion woes. Congestion pricing has been implemented over the past decade in London, Milan, Rome, Stockholm, and Valetta with great success. Congestion pricing is implemented through tolls on all vehicles entering the downtown core during peak periods. Current technology allows tolls to be collected electronically and via camera, so there is no need for toll booths.

Congestion pricing provides an incentive for motorists to change their commuting behaviour. When faced with tolls during peak periods, many commuters will choose to flex their work hours to avoid peak periods, take public transit, telecommute, or look for work closer to home. People may also choose to commute as usual, but they will now benefit from shorter commute times. Pricing our collective resources appropriately allows us to use them more efficiently, i.e., less people trapped in traffic allowing them to do more productive things.

The London congestion charge—a daily charge for vehicle trips into central London—was implemented in early 2003. Drivers buy daily, weekly, and monthly passes which are enforced through a camera network equipped with licence plate recognition software. In the first year of implementation, vehicle traffic coming into central London dropped 27 percent (Leape, 2006). Furthermore, commute times became shorter and significantly more predictable (Leape, 2006).

Fotolia

Table 1: Total costs of congestion

Urban Area	Year	Cost
Vancouver	2003	516.8
Edmonton	2000	62.1
Calgary	2001	112.4
Toronto	2001	1,267.3
Ottawa-Gatineau	1995	61.5
Montreal	1998	854

Notes: All numbers in million 2002 Canadian dollars and are based on a 60% threshold of free flow traffic speed.
Source: Transport Canada, (2006).

The Stockholm congestion charge was implemented on a trial basis in 2006, and was made permanent in 2007. Unlike the London congestion charge, which is a flat rate, the Stockholm charge varies throughout the day, and is levied on both entry to and exit from the downtown core. The rates are displayed in Canadian dollars in table 2. Borjesson et al. found that traffic, adjusted for external factors like population growth, has decreased around 30 percent since the charge was implemented (2012). They also found that commute times became shorter and more consistent following the introduction of the congestion charge (2012).

Critics argue that congestion pricing unduly hurts low-income drivers, and therefore should not be implemented. However, other jurisdictions that have implemented congestion pricing, such as London, have used some, or all of the revenues to fund investments in improved public transit. Improved public transit along tolled routes will likely not reduce congestion, but it will provide low-income individuals with an alternative to paying tolls.

Although unpopular with some motorists, since it will either make them change their behaviour or pay a fee for something they currently have access to free of charge, congestion pricing is the best way to solve Canada's traffic problems. Drivers benefit through shorter and more consistent commute times. And the revenues raised can be used to help maintain roads, fund investments in public transit, or reduce property taxes.

Some critics argue that congestion pricing is just another policy instrument for the government to extract money from taxpayers through ever increasing road tolls. However, the Swedish experience suggests that this may not be the case, as the Stockholm rates have not been raised since the system was implemented in 2006 (Eliasson, 2009; Swedish Transport Agency, 2009).

Canadian cities can look to Europe for traffic solutions before traffic congestion gets even worse.

References

Bank of Canada (2012). *Daily Currency Converter*. Bank of Canada. <**http://www.bankofcanada.ca/rates/exchange/daily-converter/**>, as of July 16, 2012.

Borjesson, Maria, Jonas Eliasson, Muriel B. Hugosson, and Karin Brundell-Freij (2012). The Stockholm congestion charges 5 years on. Effects, acceptability and lessons learnt. *Transport Policy* 20: 1-12.

Duranton, Gilles, and Matthew A. Turner (2011). The Fundamental Law of Road Congestion: Evidence from US Cities. *American Economic Review* 101, 6: 2616-2652.

Eliasson, Jonas (2009). A cost-benefit analysis of the Stockholm congestion charging system. *Transportation Research Part A*: Policy and Practice 43,4: 468-480.

Leape, Jonathan (2006). The London Congestion Charge. *Journal of Economic Perspectives* 20, 4: 157-176.

Swedish Transport Agency (2009). *Times and amounts.* Swedish Transport Agency. <**http://www.transportstyrelsen.se/en/road/Congestion-tax/Congestion-tax-in-stockholm/Times-amounts/**>, as of July 16, 2012.

TomTom (2012). North American Congestion Index. TomTom international BV. <**http://www.tomtom.com/lib/doc/congestionindex/2012-0704-TomTom-Congestion-index-2012Q1namerica-mi.pdf**>, as of September 13, 2012.

Transport Canada (2006). *The cost of Urban Congestion in Canada*. Government of Canada. <**http://www.adec-inc.ca/pdf/02-rapport/cong-canada-ang.pdf**>, as of July 4, 2012.

Table 2: Stockholm congestion charge rate schedule

Start	End	Charge
6:30am	6:59am	$1.44
7:00am	7:29am	$2.16
7:30am	8:29am	$2.88
8:30am	8:59am	$2.16
9:00am	3:29pm	$1.44
3:30pm	3:59pm	$2.16
4:00pm	5:29pm	$2.88
5:30pm	5:59pm	$2.16
6:00pm	6:29pm	$1.44
6:30pm	6:29am	$0

Notes: The charge amounts are in Canadian dollars and were converted from Swedish Krona on July 17, 2012 using the Bank of Canada Daily Currency Converter.
Sources: Bank of Canada, (2012); Swedish Transport Agency, (2009).

Western Canada becoming more attractive for investment in petroleum exploration and development

iStock

Gerry Angevine

Oil and gas resource-rich jurisdictions around the world are competing for funds to finance investment in the upstream petroleum industry (i.e., exploration and development as opposed to so-called downstream activities such as oil refining and gas processing) and related transportation infrastructure. For this reason, how Canada's western provinces are rated by oil and gas investors compared with the other Canadian provinces and territories, and with countries (or their provinces or states), both now and in the future, will be important.

From February through April of 2012 the Fraser Institute undertook its sixth annual global survey of petroleum industry executives and managers regarding barriers to investment in upstream oil and gas exploration and production (Angevine et al., 2012). The survey responses were tallied to rank provinces, states, and countries according to the extent of the investment obstacles (such as high tax rates, costly regulatory schemes, and security threats) that the survey respondents identified.

A total of 623 respondents participated in the survey this year, providing sufficient data to evaluate 147 jurisdictions. By way of comparison, 135 jurisdictions were evaluated in the 2011 survey and 133 in 2010. The jurisdictions were assigned scores for each of the 18 questions based on the proportion of negative responses that each jurisdiction received. The greater the proportion of negative responses for a jurisdiction, the greater its perceived investment barriers and, therefore, the lower its ranking.

The questions address factors that have an impact on petroleum exploration and development investment deci-

Table 1: Survey results for selected Canadian jurisdictions' overall scores and Canadian rankings (of 7)

	2012	2011	2010	2009
Manitoba	11.1 (1)	17.5 (2)	12.5 (1)	20.1 (1)
Saskatchewan	14.6 (2)	17.5 (1)	17.6 (2)	25.1 (2)
Alberta	21.1 (3)	32.7 (5)	37.7 (6)	47.5 (6)
Nova Scotia	26.2 (4)	26.6 (3)	33.3 (5)	30.4 (3)
British Columbia	27.7 (5)	41.4 (6)	33.2 (4)	37.7 (4)
Newfoundland & Labrador	33.8 (6)	32.3 (4)	32.4 (3)	40.1 (5)
Northwest Territories	39.6 (7)	64.8 (7)	44.1 (7)	62.8 (7)

Source: Angevine et al., (2012).

Table 2: How the western provinces ranked worldwide

	2012 (of 147)	2011 (of 135)	2010 (of 133)	2009 (of 140)
Manitoba	5	12	8	21
Saskatchewan	13	11	17	38
Alberta	21	51	60	92
British Columbia	39	69	52	71

Source: Angevine et al., (2012).

sions, including fiscal terms (i.e., government requirements pertaining to royalty payments, production shares, and licensing fees); general taxation; uncertainty concerning environmental regulations; uncertainty regarding the administration and enforcement of existing regulations; the cost of regulatory compliance; uncertainty concerning protected areas; socioeconomic agreements (e.g., commitments to fund community infrastructure, such as schools and hospitals or agreements to give priority to local workers); trade barriers; labour regulations; quality of infrastructure; quality of geological data; labour availability and skills; disputed land claims; political stability; security; regulatory duplication and inconsistencies; legal system fairness and efficiency; and corruption of government officials.

An "All Inclusive Index" gives equal weight to each question. Jurisdictions are ranked on the index according to their relative attractiveness for investment. The jurisdiction with the worst score (i.e., the highest percentage of responses indicating that the factors addressed are either a deterrent to investment or that the respondent simply "would not invest due to that factor") is assigned an index value of 100. A low index value indicates that the obstacles to investment are low.

Table 1 indicates that the four western provinces ranked within the top five of Canada's seven significant oil- and gas-producing jurisdictions in 2012. The results indicate that barriers to investment fell to some extent throughout the region, but especially in Alberta and British Columbia.

Manitoba achieved better marks on the survey this year, retaking the top position among Canadian provinces and territories after being edged out by Saskatchewan in 2011. While Saskatchewan outperformed Manitoba with regard to some important investment drivers (e.g., fiscal terms), Manitoba's improved scores on general taxation, the cost of regulatory compliance, and uncertainty over environmental regulations propelled the province to the top of the Canadian rankings.

Alberta moved up to third place in Canada from fifth last year. The province's improved performance is due to some progress in its commercial environment and, more so, to factors reflecting the uncertainty and cost of regulation. In particular, respondents expressed less concern than a year ago about uncertainty over regulatory administration and enforcement (including environmental regulation), the cost of regulatory compliance, and regulatory duplication and inconsistency. This may reflect the announcement by the provincial government in May 2011 of plans to simplify regulatory processes and procedures surrounding the procurement of drilling permits, site remediation, and other regulations.

British Columbia achieved a much improved survey score this year compared with 2011 and moved from sixth to fifth place in Canada (of the seven jurisdictions included in the table). The improved assessment is partly due to better marks on the general taxation question. But the province achieved better ratings on a number of issues including fiscal terms, regulatory uncertainty, the cost of regulatory compliance, labour availability, and disputed land claims.

As table 2 illustrates, the improved scores achieved by the western provinces allowed all of them except Saskatchewan to move up in the global rankings this year—indicating improvements in their relative attractiveness for upstream petroleum investment. Furthermore, Manitoba, Alberta, and BC each ranked higher in 2012 than at any time since 2009.

The improvements were most remarkable in Alberta and British Columbia, each of which climbed a full 30 positions to the rank of 21st and 39th (of 147), respectively. While Saskatchewan's ranking didn't improve, the province continues to place highly on the global scale and, like Manitoba, achieved an enviable first quintile (0 to 19.9) score for the third successive year. This indicates that investors consider only a relatively small number of jurisdictions to be more attractive for upstream petroleum investment than those provinces. Alberta, with a score of 21.1 is also very close to being among the prestigious group of first quintile performers while, as indicated, British Columbia has made significant gains.

As a group, Canada's westernmost provinces now appear to be preferred locations for investment in petroleum exploration and development. While some challenges remain, considerable improvements are reflected in the results of this year's survey.

References

Angevine, Gerry, Miguel Cervantes, and Vanadis Oviedo (2012). *Global Petroleum Survey 2012*. Fraser Institute. <**http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/global-petroleum-survey-2012.pdf**>, as of September 24, 2012.

Freedom *and failed states*

Alan W. Dowd

Since 1996, the Fraser Institute has used its Economic Freedom of the World (EFW) studies to illustrate the positive impact of economic freedom. Specifically, "countries with institutions and policies more consistent with economic freedom have higher investment rates, more rapid economic growth, higher income levels, and more rapid reductions in poverty rates," and "out-perform non-free nations in indicators of well-being" such as per-capita GDP, life expectancy, and political and civil liberties (Gwartney et al., 2012).

Since 2005, *Foreign Policy* magazine and the Fund for Peace, an independent, non-profit research organization devoted to conflict prevention and sustainable security, have monitored the world's broken countries by maintaining a Failed States Index (FSI), where the likes of Somalia and Sudan rank at the top by being the worst. Failed states face refugee and demographic pressures such as disease, scarcity, and mortality issues; "uneven economic development" between ethnic groups and/or regions; "human flight and brain drain"; and a range of political problems, such as human-rights violations, deteriorating public services, and/or unchecked internal security machinery (Fund for Peace, 2012). (See table 1 for the FSI's worst of the worst and other focus countries that command the West's attention and resources.)

What these failed and failing regimes have in common is a freedom problem. Indeed, the connection between a lack of freedom and state failure comes into sharp focus when the FSI is overlaid against various measures of freedom, including the EFW.

Failure in focus

It's a paradox that failed states can be places dominated by tyranny, which is another word for too much government, or places where there is anarchy, which is another word for no government at all. In either case, liberty—the freedom to own property, build wealth, move about, or simply live in peace—is in short supply.

Consider how our 28 FSI focus countries rate on the EFW study, which measures "the degree to which the policies and institutions of countries are supportive of economic freedom," defined as "personal choice, voluntary exchange, freedom to compete, and security of privately owned property" (Gwartney et al., 2012). The EFW takes into account government size, the legal system and property rights, access to sound money, freedom to trade, and regulation (Gwartney et al., 2012).

Somalia, Sudan, Iraq, Afghanistan, Yemen, North Korea, and most of the ex-Soviet Central Asian states aren't even ranked on the 144-nation EFW index due to lack of data. Zimbabwe is ranked 142nd, the Democratic Republic of Congo (DRC) 139th, and Pakistan 111th, while Colombia, Haiti, Egypt, and Iran are in the bottom half of the survey (Gwartney et al, 2012).

A similar picture emerges in the International Property Rights Index (IPRI). As the inputs for the EFW survey underscore, property rights are an integral part of freedom. "Private property is the most important guarantee of freedom," as 20th-century economist Friedrich Hayek argued, "not only for those who own property but scarcely less for those who do not" (1944). John Locke, the Enlightenment thinker who is considered the father of classical liberalism, wrote that it should be every person's right to "preserve his property, that is, his life, liberty, and estate against the injuries and attempts of other men" (1690/2008).

The IPRI ranks 130 countries. Not surprisingly, among those not included are the worst of the failed states: Somalia, Sudan, Iraq, Afghanistan, Haiti, and North Korea. Iran (107th), Pakistan (113th), and Zimbabwe (124th) are all IPRI cellar-dwellers, while Colombia (69th), Egypt (72nd), and Syria (81st) languish near the bottom (Property Rights Alliance, 2012).

Freedom House offers a pair of helpful surveys: The Freedom in the World survey measures freedom relating to political rights and civil liberties (Freedom House, 2012a). On this measure, countries scoring between 5.5 and 7 are considered "not free." Countries scoring between 3.0 and 5.0 are considered "partly free." A "partly free" country is one where there is "limited respect for political rights and civil liberties," while a "not free" country is one where "basic political rights are absent, and basic civil liberties are widely and sys-

Table 1: Focusing on failed states

FSI Rank		EFW Rank	IPRI Rank	Political Rank	Press Rank	GDP
1	Somalia	NR	NR	7	182	$600
2	Congo (DR)	139	NR	6	179	$400
3	Sundan	NR	NR	7	170	$2,800
	South Sudan*	NR	NR	6	130	NA
4	Chad	136	115	7	166	$1,900
5	Zimbabwe	142	124	6	172	$500
6	Afghanistan	NR	NR	6	164	$1,000
7	Haiti	97	NR	4	104	$1,300
8	Yemen	NR	130	6	179	$2,300
9	Iraq	NR	NR	5	155	$3,900
10	C. African Republic	130	NR	5	139	$800
11	Ivory Coast	129	123	6	158	$1,600
12	Pakistan	111	113	4	144	$2,800
13	Nigeria	120	122	4	104	$2,600
14	Ethiopia	131	97	6	175	$1,100
17	North Korea	NR	NR	7	197	$1,800
22	Eritrea	NR	NR	7	194	$700
23	Syria	119	81	7	189	$5,100
28	East Timor	NR	NR	3	75	$8,800
31	Egypt	99	72	6	123	$6,600
34	Iran	111	107	6	192	$13,200
39	Uzbekistan	NR	NR	7	195	$3,300
41	Kyrgyzstan	88	NR	5	155	$2,400
46	Tajikistan	NR	NR	6	171	$2,100
48	Angola	140	126	6	150	$6,000
50	Libya	NR	129	7	132	$14,100
52	Columbia	97	69	3	117	$10,400
53	Djibouti	NR	NR	6	167	$2,700

* South Sudan became independent from Sudan in 2011. Although the FSI and other surveys list the two countries separately—and the UN categorizes peacekeeping missions in each country separately—it did not receive a formal rank on the 2012 FSI because the data available since South Sudan's independence were insufficient.

Sources: Fraser Institute, Economic Freedom of the World: 2012 Annual Report; Fund for Peace, 2012 Failed States Index; Property Rights Alliance, 2012 Internation Property Rights Index; Freedom House, Freedom of the Press 2012; Freedom House, Freedom in the World 2012; CIA World Factbook, Country Comparison: Per Capita GDP (in US dollars).

tematically denied" (Freedom House, 2012a). Somalia, Sudan, Eritrea, Libya, Syria, North Korea, and Uzbekistan are consigned to the very lowest category. South Sudan, DRC, Zimbabwe, Egypt, Yemen, Iraq, Iran, and Afghanistan are just a shade better but still fall into the "not free" category. Finally, Haiti, Colombia, and Pakistan are considered only "partly free."

The other Freedom House measurement, the Freedom of the Press survey, measures press freedoms in the context of the UN Declaration of Human Rights, which declares, "everyone has the right… to seek, receive, and impart information and ideas through any media regardless of frontiers" (Freedom House, 2012b). North Korea (197th) is dead last on the press index. Uzbekistan (195th), Iran (192nd), Syria (189th), Somalia (182nd), Yemen (179th), Kazakhstan (175th), Zimbabwe (172nd), Sudan (170th), and Afghanistan (164th) aren't much better. And Iraq (155th), Pakistan (144th), Colombia (117th), and Haiti (104th) all rank low. In fact, with the exception of East Timor, all of our FSI focus countries rate in the triple digits on this measure.

Breathtaking disparity

What this survey of surveys suggests is that failed and failing states are not free—and countries that embrace freedom are, by and large, not failed states. To be sure, there may be exceptions on the margins, but the overlay of these various surveys reveals that the path toward freedom generally carries nation-states away from failed-state status.

Failed states cannot blame their problems on ethnic diversity (see the US or Canada), size (see Israel), geographic isolation (see Australia), geopolitical isolation (see Taiwan), dangerous or unstable neighbours (see India or Estonia), a lack of natural resources (see Japan), or a troubled history (see South Korea).

In fact, there is no more exquisite proof of what makes a failed state and what makes a successful state than the Korean peninsula. After all, here is one nationality divided into two countries, two forms of government, and two economic systems. One is free and connected to the world; the other is isolated, its people under the yoke of oppression. The difference is breathtaking (see table 2).

We sometimes overlook the real-world impact of such disparity. But consider some of the facts of daily life in North Korea: Of its 24 million people, 16 million depend on government rations of cereals like barley, corn, and rice (UN, 2012a). The results, as James Morris observed when he was director of the World Food Programme (WFP), are as tragic as they are avoidable: "The average seven-year-old North Korean boy is eight inches shorter, 20 pounds lighter, and has a 10-year-shorter life expectancy than his seven-year-old counterpart in South Korea" (Kelemen, 2007).

The WFP has shipped millions of metric tons of food into North Korea in the past decade, but Pyongyang often blocks food shipments for political reasons and sometimes behaves in such a way that donor nations decide not to send food. Earlier this year, for example, North Korea spent a healthy portion of its miniscule GDP conducting a long-range rocket test in defiance of UN resolutions, causing the United States to halt a shipment of 240,000 metric tons of food (Lee, 2012).

In short, the Korean peninsula's man-made disparities are a function of the political-economic systems of North and South Korea. While North Korea's political-economic system bars the individual from owning property, starting business enterprises, or accessing markets, South Korea's economic institutions promote investment and trade, both internally and internationally; safeguard

Table 2: The benefits of freedom

	North Korea	South Korea
EFW	Not ranked	37th
GDP (globally)	$40 billion (99th globally)	$1.57 trillion (13th globally)
Per capita GDP	$1,800	$32,000
Exports	$2.5 billion	$556.5 billion
Life expectancy	69	79.3
Infant mortality rate/1,000 births	26.2	4

Source: CIA, (2012).

private property rights; provide incentives that encourage individuals "to exert effort and excel in their chosen vocation;" and "encourage participating by the mass of people in economic activities that make best use of their talents and skills" (Acemoglu and Robinson, 2012).

Modern problems

The Korean example reminds us that economic freedom and political freedom are not abstractions or academic debating points. They are real forces with real-world implications. Their presence makes a positive difference in the lives of individuals and in the health of nations, and their absence sentences individuals to hopeless futures and corrodes the nation-states in which they live.

Acemoglu and Robinson blame state failure on "extractive economic institutions"—state-run industries, high levels of state employment, regulation of the market and market intervention, and "insecurity of property rights." These extractive institutions "are structured to extract resources from the many by the few" and often "lead to the collapse of the state" (Acemoglu and Robinson, 2012). As these extractive institutions smother the incentive to produce, people create less wealth, and the state is drained of its legitimacy. Some regimes then resort to coercion and control (North Korea); some rely on corruption and self-dealing (Pakistan or Zimbabwe); some succumb to collapse (Somalia).

What these failed and failing states have in common is that the government has lost the ability to fulfill its central purpose: namely, performing basic functions like enforcing contracts internally and making good on contracts externally, maintaining public order and essential infrastructure, controlling borders, and ensuring that what happens within their borders does not adversely impact neighbouring states. This is where failed states begin to affect the United States and Canada. Consider Somalia, where the al Shabab movement merged with al Qaeda in 2011. This jihadist terror group—responsible in 2011 for 1,000 deaths, for attacks in Somalia and Uganda, for training and deploying suicide bombers, and for blocking food deliveries—thrives because there is no viable state structure to police Somalia (US State Department). According to a report produced by the US House of Representatives Committee on Homeland Security, al Shabab "has an active recruitment and radicalization network inside the US;" "at least 20 Canadians of Somali descent… are believed to have joined Shabab;" 15 Americans and three Canadians have been killed fighting for al Shabab in Somalia; and al Shabab has sent fighters to Yemen to fight alongside al Qaeda's Yemeni affiliate (Committee on Homeland Security, 2011). Noting that the first confirmed suicide bomber in US history was a former Minneapolis resident who joined al Shabab and blew himself up in a 2008 attack in northern Somalia, the committee warned that "there is a looming danger of American Shabab fighters returning to the US to strike or helping al Qaeda and its affiliates attack the homeland" (Committee on Homeland Security, 2011).

This recalls something Adam Smith observed in the 18th century. "In ancient times, the opulent and civilized found it difficult to defend themselves against the poor and barbarous nations," he wrote. "In modern times, the poor and barbarous find it difficult to defend themselves against the opulent and civilized" (Smith, 1776/1991).

The 21st century, it would seem, is more ancient than modern. We can virtually plot intervention by the United Nations and leading peacekeeping states like Canada—and by power-projecting states like the US—by glancing at the FSI. The UN has conducted/authorized major peacekeeping or stability operations in 13 of our 28 FSI focus countries over the past 17 years, including multiple missions in Somalia and the Central African Republic; ongoing missions in the DRC, Ivory Coast, South Sudan, Sudan/Darfur, and East Timor; multiple interventions in Haiti; missions in Ethiopia and Eritrea; the nation-building effort in Afghanistan; and the civilian-protection mission in Libya.

That's just the tip of the iceberg, however. Given the role the US plays as global first responder and last line of defence, it only makes sense to append to this list US military operations in failed and failing states. The United States has engaged in significant military operations in six of the bottom 15 failed states over the past 17 years: Somalia, Afghanistan, Haiti, Yemen, Iraq, and Pakistan. In addition, the US is still technically at war with North Korea. (Recall that the 1953 armistice represents only a cessation of hostilities, not a peace treaty.) Plus, the US military has conducted airstrikes against targets in Sudan; is waging a low-profile war against the Lord's Resistance Army in the DRC, South Sudan, the Central African Republic, and Uganda (Straziuso); and participated in NATO's air war in Libya.

These countries are not failing or broken because outside powers intervened. Rather, outside powers intervened because these countries were failing or broken. For instance, when not one foreign soldier was deployed within their borders, Somalia, Afghanistan, Pakistan, and Iraq were already failed or failing states (See Hadar, 2002; Gurr, et al., 2000; and Ajami, 2006).

Today and tomorrow

This survey of surveys is by no means scientific, but it is a revealing exercise.

First, it gives us a glimpse of what may be on the horizon. Not only do failed states shock the conscience; they often serve as a magnet for general lawlessness, terrorists, pirates, drug traffickers and narco-armies, and other trans-national threats—threats that when fully formed have an impact on Canadians, Americans, and our allies.

Second, this survey of surveys reminds us that efforts to promote economic freedom, political freedom, property rights, and the like—efforts such as the Fraser Institute's phalanx of economic freedom studies—are crucially important in equipping reform-minded policy makers, opposition movements, NGOs, and individual citizens at home and abroad. Indeed, by supporting movements and organizations that embrace economic freedom and the rule of law—in other words, by doing more freedom-building today—the United States, Canada, and others in the West may be able to save treasure and blood spent on military interventions and peacekeeping operations tomorrow.

References

Acemoglu, Daron and James Robinson (2012). *Why Nations Fail*. Crown Business Press.

Ajami, Fouad (2006). *The Foreigner's Gift*. Free Press.

CIA (2012). *World Factbook*. CIA. <**www.cia.gov**>, as of September 5, 2012.

Committee on Homeland Security (2011). *Al Shabaab: Recruitment and Radicalization within the Muslim American Community and the Threat to the Homeland*. United Statues Government. <**http://homeland.house.gov/sites/homeland.house.gov/files/Investigative%20report.pdf**>, as of September 7, 2012.

Freedom House (2012a). *Freedom in the World 2012*. Freedom House. <**http://www.freedomhouse.org/report/freedom-world-2012/methodology**>, as of September 7, 2012.

Freedom House (2012b). *Freedom of the Press 2012*. Freedom House. <**http://www.freedomhouse.org/sites/default/files/FOTP%20Methodology%202012.pdf**>, as of September 7, 2012.

Fund for Peace and Foreign Policy (2012). *Failed States Index 2012*. Fund for Peace and Foreign Policy. <**http://www.fundforpeace.org/global/library/cfsir1210-failedstatesindex2012-06p.pdf**>, as of September 7, 2012.

Gwartney, James Robert Lawson and Joshua Hall (2012). *Economic Freedom of the World 2012: Annual Report*. Fraser Institute.

Gurr, Ted Robert, Barbara Harff, and Monty G. Marshall (2000). *State Failure Task Force Report: Phase III Findings*. Center for International Development and Conflict Management. <**www.cidcm.umd.edu/publications/publication.asp?pubType=paper&id=9**>, as of as of September 7, 2012.

Hadar, Leon T. (2002, May 8). *Pakistan in America's War against Terrorism*. Cato Policy Analysis. <**http://www.cato.org/pubs/pas/pa436.pdf**>, as of September 7, 2012.

Hayek, Frederic (1944). *The Road to Serfdom*. University of Chicago Press 2007.

Kelemen, Michele (2007, May 14). *Departing UN Food Chief Reflects on World Hunger*. NPR. <**http://www.npr.org/templates/story/story.php?storyId=7543055**>, as of August 29, 2012.

Lee, Jean (2012, July 5). N. Korea a Grim Picture of Deprivation. *Washington Times*. <**http://www.washingtontimes.com/news/2012/jul/5/n-korea-a-grim-picture-of-deprivation/?page=all**>, as of August 29, 2012.

Locke, John (1690/2008). *Of Civil Government: The Second Treatise*. Wildside Press.

Londono, Ernesto (2012, July 13). In Egypt's Sinai Desert, Islamic Militants Gaining New Foothold. *Washington Post*. <**http://www.washingtonpost.com/world/middle_east/in-egypts-sinai-desert-islamic-militants-gaining-new-foothold/2012/07/13/gJQAlqeZiW_print.html**>, as of September 7, 2012.

NATO (2012). *NATO and Libya*. NATO. <**http://www.nato.int/cps/en/natolive/topics_71652.htm**>, as of September 7, 2012.

New York Times (2012, July 7). Al Shabab. *New York Times*. <**http://topics.nytimes.com/top/reference/timestopics/organizations/s/al-shabab/index.html**>, as of September 7, 2012.

Property Rights Alliance (2012). *International Property Rights Index 2012*. Property Rights Alliance. <**http://www.internationalpropertyrightsindex.org/ranking**>, as of September 7, 2012.

Straziuso, Jason (2012, February 22). *US Troops Fighting LRA in Four African Countries*. Associated Press. <**http://news.yahoo.com/us-troops-now-4-african-countries-fight-lra-170955126.html**>, as of September 7, 2012.

US State Department (2012). *The United States Response to Piracy off the Coast of Somalia*. US State Department. <**http://www.state.gov/t/pm/ppa/piracy/c32662.htm**>, as of September 7, 2012.

United Nations (2012a). *Overview of Needs and Assistance the Democratic People's Republic of North Korea*. UN. <**http://www.wfp.org/sites/default/files/DPRK%20Overview%20Of%20Needs%20And%20Assistance%202012.pdf**>, as of October 23, 2012.

United Nations (2012b). *United Nations Operations in Somalia I (UNOSOM I) Facts and Figures*. UN. <**http://www.un.org/en/peacekeeping/missions/past/unosom1facts.html**>, as of September 7, 2012.

United Nations (2012c). *United Nations Operations in Somalia II (UNOSOM II) Facts and Figures*. UN. <**http://www.un.org/en/peacekeeping/missions/past/unosom2facts.html**>, as of September 7, 2012.

United Nations (2012d). *United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO) Facts and Figures*. UN. <**http://www.un.org/en/peacekeeping/missions/monusco/facts.shtml**>, as of September 7, 2012.

United Nations (2012e). *United Nations Mission in the Republic of South Sudan (UNMISS) facts and figures*. UN. <**http://www.un.org/en/peacekeeping/missions/unmiss/facts.shtml**>, as of September 7, 2012.

United Nations (2012f). *African Union/United Nations Hybrid operation in Darfur (UNAMID) Facts and Figures*. UN <**http://www.un.org/en/peacekeeping/missions/unamid/facts.shtml**>, as of September 7, 2012.

United Nations (2012g). *United Nations Stabilization Mission in Haiti (MINUSTAH) Facts*. UN. <**http://www.un.org/en/peacekeeping/missions/minustah/facts.shtml**>, as of September 7, 2012.

United Nations (2012h). *United Nations Mission in Haiti (UNMIH) Facts*. UN. <**http://www.un.org/en/peacekeeping/missions/past/unmihfacts.html**>, as of September 7, 2012.

United Nations (2012i). *United Nations Mission in the Central African Republic and Chad (MINURCAT) Facts*. UN. <**http://www.un.org/en/peacekeeping/missions/minurcat/facts.shtml**>, as of September 7, 2012.

iStock

Is it time to lift the moratorium on offshore oil activity in British Columbia?

Joel Wood

Unbeknownst to many Canadians, just off the beautiful and rugged coastline of British Columbia are significant deposits of oil and gas resources. An assessment of this resource potential by the Geological Survey of Canada provides estimates of 9.8 billion barrels (bbl) of oil and 43.4 trillion cubic feet of natural gas in the Tofino, Winona, and Queen Charlotte Basins (Hannigan et al., 2001). Although no reserves have been officially discovered yet, the report expects 97 significant gas pools and two significant oil pools. All oil potential is located in the Queen Charlotte Basin, with the best potential for hydrocarbon discovery being in Queen Charlotte Sound and Hecate Strait. However, research suggests that at current low natural gas prices offshore gas development is uneconomic (Schofield et al., 2008). The expected oil pools would be larger than the Terra Nova, White Rose, and North Amethyst fields off the coast of Newfoundland and similar in size to the Hibernia field in the same area.

Currently offshore exploration for oil on the west coast is prohibited by an informal federal moratorium. Since 1972 the federal government has refused to issue permits for any activity related to offshore oil and gas activity including basic scientific testing. However, in the past 10 years the BC government has commissioned much research into the scientific, economic, and social implications of lifting the moratorium and commencing oil exploration and development off the coast (e.g., JWEL, 2001; Strong et al., 2002; GSGislason and Associates Ltd, 2007; Schofield et al., 2008; Locke, 2009). Many of these studies have conditionally recommended that the moratorium be discontinued. A federally commissioned report by the Royal

Table 1: Expected net benefits (millions)

Expected benefits	
Revenues	21,140.8
Expected costs	
Direct costs	4,809.3
Regulatory costs	808.1
Greenhouse gas damage	3,954
Medium spill costs	15.6
Large spill costs	1,948.3
Expected net benefits	9,606

Notes: All values are in millions of 2010 Canadian dollars in net present values (assuming a real social discount rate of 3.5%). A $90/bbl oil price is assumed. The calculations consider a large spill of 1,294,660 bbls occurs with a 13.8% chance over a 25 year project timeline. Large spills costs include clean-up and containment costs, lost use value, lost nonuse value, and the value of spilled oil. The offshore project is assumed to extract 577.7 million bbls if no large spill occurs and 288 milliion bbls if a large spill occurs.

Source: Wood, (2012).

Society of Canada argues that many scientific and economic questions relevant to whether BC should develop its offshore resources cannot be answered without lifting the moratorium and commencing exploration activities (Addison et al., 2004).

While offshore exploration and development was stopped in BC, other jurisdictions including Norway, the United Kingdom, and Newfoundland & Labrador, have developed their offshore oil resources resulting in tremendous economic benefits. These jurisdictions have benefited substantially from offshore development through increased energy related investment, massive positive impact on the economy, and significant government revenue. For example, Newfoundland & Labrador has averaged $1.155 billion in annual industrial benefits from the offshore oil sector between 1990 and 2009 (CNLOB, 2010b). Also, the offshore oil sector in Newfoundland & Labrador generated $43 billion in gross domestic product (GDP) between 1997 and 2007; around 25% of Newfoundland & Labrador's total GDP over that period (Statistics Canada, 2011; author's calculations).

Alongside the tremendous economic potential of offshore oil there are also inherent risks of damage to human health and the environment. "Black swan" events, low probability catastrophic events, such as the BP Deepwater Horizon oil spill in the United States and the Piper Alpha rig explosion in the United Kingdom, are major concerns that are currently prevented in BC by the moratorium.

A new Fraser Institute study, *Lifting the Moratorium: The Costs and Benefits of Offshore Oil Drilling in British Columbia*, calculates the net benefits that are expected to accrue if limited exploration and development were to occur on the west coast. The study takes into account the potential costs and damages if a significant oil spill occurred. Table 1 displays a summary of the estimated benefits and costs. Even when considering the possibility of a large spill, the expected net benefits, assuming a $90/bbl oil price, are greater than $9 billion (2010 CA$) in net present value.

The potential environmental damages in the analysis are likely overestimated since the probability of a spill was based on the experience of the US Gulf of Mexico, which has had significantly higher spill rates than have Newfoundland & Labrador or the United Kingdom. Despite producing over a billion barrels of oil, there has only been a single oil spill greater than 50 barrels since offshore oil production began in Newfoundland & Labrador in 1997. Furthermore, the number of oil spills from maritime traffic in Canadian waters has decreased substantially since the 1980s, and none have occurred in the past decade (John, 2012).

Learning from the experiences of Newfoundland & Labrador, the United Kingdom, Norway, and the United States, the government of British Columbia, in

Having waited to develop its offshore fossil fuel resources leaves BC in the enviable position of learning from regulatory improvements in other jurisdictions.

iStock

partnership with the federal government, can design and implement a world-class regulatory regime for offshore exploration and development. Having waited to develop its offshore fossil fuel resources leaves BC in the enviable position of learning from regulatory improvements in other jurisdictions. A well-funded and well-designed regulatory regime paired with appropriate liability laws can help mitigate the risks involved with offshore oil activity. In order for this to happen though, the federal government needs to reconsider the moratorium on offshore exploration and development on BC's coast.

References

Addison, Richard, John Dower, Jeremy Hall, and Ian Jordan (2004). *Report of the Expert Panel on Science issues Related to Oil and Gas Activities, Offshore British Columbia*. Royal Society of Canada. <**http://www.rsc.ca/documents/fullreportEN.pdf**>, as of August 11, 2011.

Canada-Newfoundland & Labrador Offshore petroleum Board [CNLOPB] (2010). *Offshore Area Historical Program Expenditures (1966-2009)*. CNLOPB. <**http://www.cnlopb.nl.ca/pdfs/historical_offshore_exp.pdf**>, as of August 12, 2011.

GSGislason and Associates Ltd (2007). *Economic Contribution of the Oceans Sector in British Columbia*. Government of British Columbia.<**http://www.empr.gov.bc.ca/Mining/Geoscience/MapPlace/thematicmaps/OffshoreMapGallery/Documents/BC_Ocean_Sector-Final_Report.pdf** >, as of October 15, 2012.

Hannigan, P.K., J.R. Dietrich, P.J. Lee, and K.G. Osadetz (2001). *Petroleum resource potential of sedimentary basins on the Pacific margin of Canada*. Geological Survey of Canada, Bulletin 564.

Jacques Whitford Environment Limited [JWEL] (2001). *British Columbia Offshore oil and Gas Technology Update*. Government of British Columbia. <**http://www.empr.gov.bc.ca/Mining/Geoscience/MapPlace/thematicmaps/OffshoreMapGallery/Pages/TechnologyUpdate.aspx**>, as of October 15, 2012.

John, Philip (2012). Consequences of Banning Oil Tankers in Western Canada: Safety and Environmental Considerations. MacDonald-Laurier Institute. <**http://www.macdonaldlaurier.ca/files/pdf/OilTankerBan-FINAL.pdf**>, as of October 15, 2012.

Locke, Wade (2009). An Expanded Estimate of the Oil and Gas Revenue in the Queen Charlotte Basin. Wade Locke Economic Consulting. <**http://www.em.gov.bc.ca/OG/offshoreoilandgas/ReportsPresentationsandEducationalMaterial/Reports/Documents/Wade%20Lock%20%20Expanded%20Estimate%20of%20Oil%20and%20GAs%20Revenue%20in%20the%20QCB.pdf**>, as of August 11, 2011.

Schofield, John, Wade Locke, Gurmit S. Sandhu, and Mark Shrimpton (2008). *Potential Benefits of Offshore Oil and Gas Development in Queen Charlotte Basin, British Columbia*. Government of British Columbia. <**http://www.em.gov.bc.ca/OG/offshoreoilandgas/ReportsPresentationsandEducationalMaterial/Reports/Documents/Potential%20Benefits%20of%20Offshore%20Oil%20and%20Gas%20Development%20in%20the%20QCB.pdf**>, as of August 11, 2011.

Statistics Canada (2011). *Provincial gross domestic product (GDP) at basic prices in current dollars, System of National Accounts (SNA) benchmark values, by sector and north American Industry Classification system (NAICS, annually (Dollars)*. v41894236, v41695593, v41695594, v41695597, v41695620, v41695629.

Strong, David, Patricia Gallagher, and Derek Muggeridge (2002). *British Columbia Offshore Hydrocarbon Development: Report of the Scientific Review Pane*l. Government of British Columbia. <**http://www.em.gov.bc.ca/OG/offshoreoilandgas/ReportsPresentationsandEducationalMaterial/Reports/Pages/BCHydrocarbonDevelopmentReport.asp**x>, as of August 11, 2011.

Wood, Joel (2012). *Lifting the Moratorium: The Costs and Benefits of Offshore Drilling in British Columbia*. Fraser Institute.

tax policy

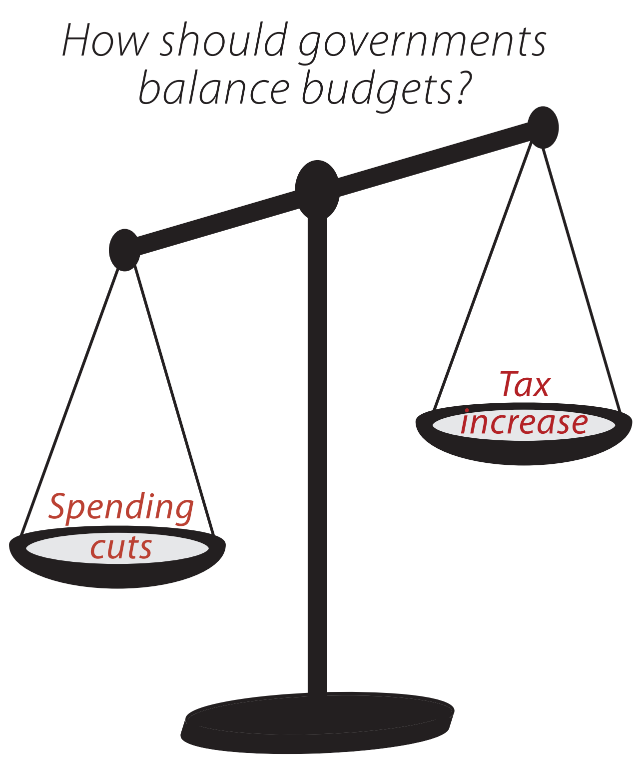
Alberto Alesina, Carlo Favero, and Francesco Giavazzi (2012). *The Output Effect of Fiscal Consolidation.* NBER Working Paper No. 18336. National Bureau of Economic Research.

With governments around the world being forced to rein in large deficits and growing public debt, a hotly debated issue is whether "fiscal adjustments" should be driven by spending cuts or tax increases. This study suggests the spending cut approach is less economically harmful. The authors examine the fiscal adjustment plans of 15 highly developed countries (including Canada) over the period 1980 to 2005. Specifically, they analyze how gross domestic product (GDP) and other economic variables such as private investment and business confidence respond to a tax increase or spending cut that is announced in some year and then implemented or revised in later years. The main result is that fiscal adjustments based on spending cuts are much less economically damaging than tax-based ones. In particular, spending-based adjustments are associated with mild and short-lived recessions, and in some countries, with no recession at all. On the other hand, tax-based adjustments are followed by prolonged and deep recessions in all countries. Moreover, private investment and business confidence recover much sooner after a spending-based adjustment than after a tax-based one.

— Milagros Palacios

Michael Keane and Richard Rogerson (2012). Micro and Macro Labor Supply Elasticities: A Reassessment of Conventional Wisdom. *Journal of Economic Literature* 50, 2: 464–476.

The authors reassess the existing literature that estimates how changes to individual tax rates induce changes in people's willingness to work (their "labour supply") with the goal of reconciling seemingly divergent empirical estimates (earlier studies have estimated larger changes in labour supply than more recent research). The authors suggest that the divergence is driven by several factors. First, they stress that the effect of changing tax rates on labour supply—typically measured by weekly working hours—depends on one's age, sex, geographic locale, educational attainment, and income bracket. They also attribute part of the divergence to differences in researchers' estimation methods and particularly the use of individual level data (data on a single person or family unit) versus methods that use aggregate data for an entire economy. Estimates using individual level data tend to be smaller than those that use aggregate data. Specifically, studies using individual level data have estimated that a 10% increase in the wage rate workers receive after taxes are deducted can increase the amount of labour supplied by between 0.9% and 3%. Conversely, estimates based on aggregate data typically find higher magnitudes of responsiveness: a 10% increase in the after-tax wage rate results in an increase in aggregate labour supply of between 10% and 20%. The authors attribute some of the divergence to an incomplete understanding about the ways in which workers respond to changes in after-tax wages. Workers not only adjust their labour supply, but may also adjust the amount of income they report when filing personal income taxes, opt to receive a greater share of their compensation in the form of fringe benefits (or alternative forms of financial compensation like executive stock



options), or change their effort level and diligence while on the job. The authors conclude that the higher estimates using aggregate data more accurately reflect the broader ways individuals respond to changing after-tax wages.

— Nachum Gabler

Marco Da Rin, Marina Di Giacomo, and Alessandro Sembenelli (2011). Entrepreneurship, Firm Entry, and the Taxation of Corporate Income: Evidence from Europe. *Journal of Public Economics* 95, 9-10: 1048-1066.

When entrepreneurs pursue business opportunities, it helps propel economic growth through such tangible benefits as increased innovation, job growth, and higher living standards. Public policies that foster entrepreneurship are therefore a focus of many governments worldwide. This study explores how one particular policy lever—corporate income taxation—can affect entrepreneurial decisions. Specifically, the authors examine the effect of corporate income taxation on the entry of new firms, as measured by incorporation rates (the rate at which new corporations are legally formed). They analyze data on firms operating in a group of 17 Western European countries between 1997 and 2004. After accounting for other economic policies that may affect entrepreneurship—including various institutional factors such as regulations on business activity and international trade—the authors find that corporate income taxation has a "statistically significant" and "economically relevant" effect on entry rates. For example, they estimate that a corporate tax rate reduction from 30.1% to 27.8% implies a 0.9 percentage point increase in the entry rate. The authors note that the impact of corporate tax cuts is more effective in countries with high quality accounting standards where profits cannot be hidden from taxation.

— Charles Lammam

labour market policy

Lorenzo Bernal-Verdugo, Davide Furceri, and Dominique Guillaume (2012). *Crises, Labor Market Policy, and Unemployment*. IMF Working Paper No.12/65. International Monetary Fund.

An important feature of any healthy labour market is its ability to produce and maintain employment, especially after periods of economic and financial distress. In this study, the authors measure the effects of various labour market regulations—such as minimum wage laws and regulations governing the hiring and firing of employees—on the overall level of unemployment in the aftermath of financial crises. Using data from 97 countries between 1980 and 2008, the authors find that greater labour market flexibility (fewer regulations) can lead to slightly higher unemployment rates immediately after a financial crisis but lower unemployment rates over the longer term. Specifically, the authors find that a 10% increase in labour market flexibility (a 1 point increase on a 10 point scale) results in a 0.4% increase in the average unemployment rate immediately following a financial crises (1-3 years) and an average unemployment rate in the medium term (6 years) that is 0.6% lower—and potentially up to 2.5% lower. The authors suggest that while lightly regulated labour markets might expose vulnerable workers to possible unemployment in the wake of a financial crisis, the lack of rigidity in the regulatory environment helps labour markets respond nimbly to financial crises and recover quickly and more effectively over extended periods. Conversely, heavily regulated labour markets, which curtail dynamic and robust responses to financial crises, are prone to higher average unemployment over extended periods.

— Nachum Gabler

David Amirault, Daniel de Munnik, and Sarah Miller (2012). *What Drags and Drives Mobility: Explaining Canada's Aggregate Migration Patterns*. Working Paper No. 2012-28. Bank of Canada.

This study examines why some Canadian regions and provinces attract migration and others do not. The authors examine migration data within and across provinces using census data from 1991 to 2006. They find that jobs and better living standards attract migration. Specifically, regions and provinces with higher employment rates—measured by the number of employed as a percentage of the population 15 years of age and over—and higher household incomes attract people from regions and provinces with lower employment rates and lower levels of household income. The authors also find that inter-provincial borders, language differences, and the distance between jurisdictions have an adverse impact on migration. With regard to inter-provincial borders, the authors suggest that there might be "implicit and explicit barriers created by provincial borders, such as occupational licensing differences and set-up costs related to changing provinces" (like getting a new driver's licence) that discourage migration.

— Amela Karabegović

economic policy

Paola Giuliano, Prachi Mishra, and Antonio Spilimbergo (2011). ***Democracy and Reforms: Evidence from a New Dataset.*** **NBER Working Paper No. 18117. National Bureau of Economic Research.**

The study examines whether countries with higher levels of political freedom adopt more reforms that lead to economic liberalization than countries with lower levels of political freedom. Political freedom is measured on a scale: nations with lower levels of political freedom are closer to an autocracy and those with a higher level of political freedom are closer to a democracy. Using data on economic liberalization in six sectors (financial, capital, banking, agriculture, trade, and product markets) from a mix of 150 developed and developing countries from 1960 to 2004, the authors find that increased political freedom has a positive effect on the adoption of reforms that lead to economic liberalization. However, they find "scarce evidence" of the obverse—that adopting such reforms fosters increased political freedom.

— Amela Karabegović

environmental policy

Bigstock

Overall results suggest that US air pollution regulations have produced a 4.8% decrease in the productivity of US firms, which corresponds to an annual economic cost of approximately $21 billion.

Michael Greenstone, John A. List, and Chad Syverson (2012). ***The Effects of Environmental Regulation on the Competitiveness of US Manufacturing.*** **NBER Working Paper No. 18392. National Bureau of Economic Research.**

Environmental regulations generally impose costs on firms, but the impact of these regulations on firm productivity is unclear. One notable theory (the "Porter hypothesis") suggests that more stringent environmental regulations increase productivity over time because the regulations provide firms with an incentive to restructure their operations more efficiently. Using data on firms operating in the United States manufacturing sector between 1972 and 1993, the authors estimate the effect of air pollution regulations on firm productivity. Productivity is measured by the efficiency with which firms transform their capital and labour inputs into output. Contrary to the Porter hypothesis, the overall results suggest that US air pollution regulations have produced a 4.8% decrease in the productivity of US firms, which corresponds to an annual economic cost of approximately $21 billion. The authors speculate that the decline in productivity is due to higher production costs imposed on firms for complying with regulations (i.e., installing expensive pollution control equipment). While the overall impact is negative, the authors find mixed results for individual air pollution regulations. For example, regulations on carbon monoxide were associated with an increase in firm productivity. The mixed results suggest air pollution regulations may have two conflicting effects on productivity, but the negative effect dominates in most instances.

— Joel Wood

Bigstock

Canadian labour markets in 2012: An assessment

Nachum Gabler

In the late 18th century, Adam Smith astutely pointed out in *The Wealth of Nations* that "It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased" (1776). Over 200 years later, work, human toil, and labour constitute the backbone of any modern economy, and remain among the key resources that enable economic development.

Labour markets are the mechanisms through which Canadians allocate their effort, creativity, and ingenuity. They match human skills (supplied by individuals) with the demand for labour in both the private and public sector. Consequently, robust labour markets are critical for Canada's economic prosperity. However, restrictive regulations that curtail nimble responses to possible changes in economic conditions can encumber labour markets. As such, labour market performance depends on both the regulatory and economic environment.

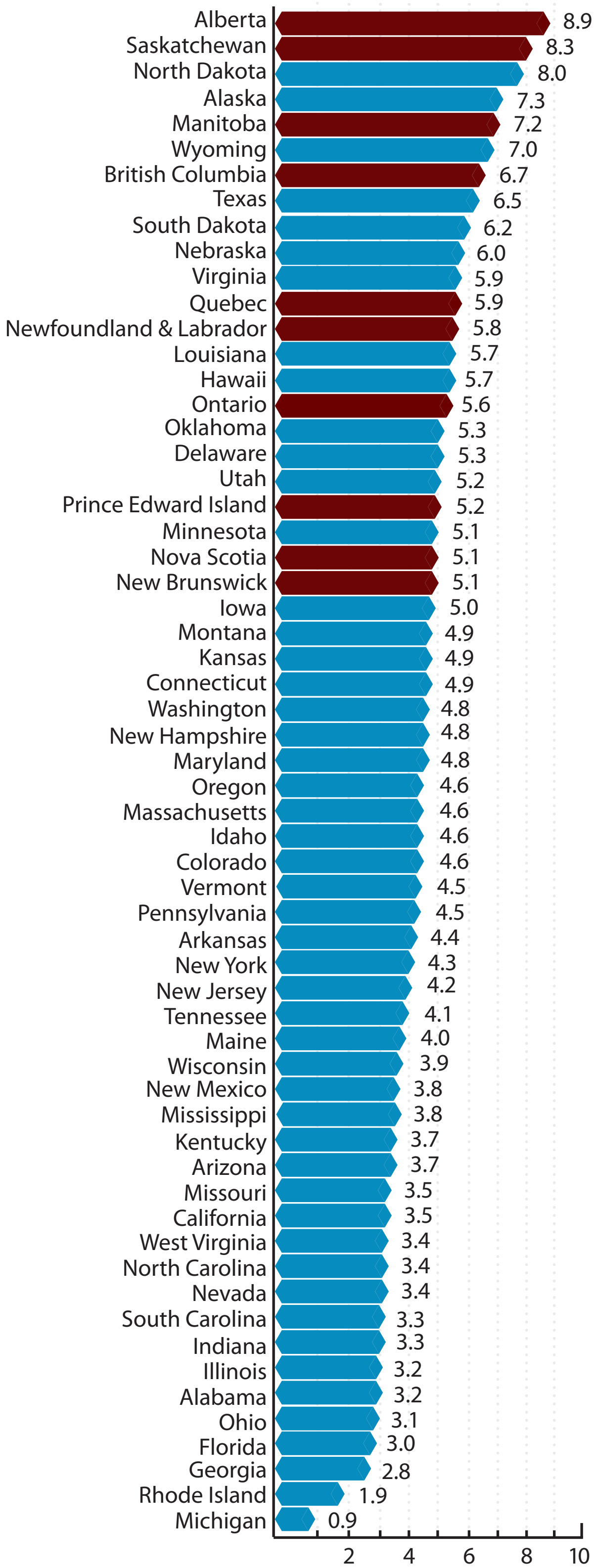
The key to high-performing, efficient labour markets characterized by strong job creation, low unemployment, short durations of unemployment, and a highly productive workforce is flexibility: the ease with which workers and employers are able to adjust their efforts to changes in the marketplace. For employees, flexibility allows them to supply their labour as they wish and shift their efforts to earn the greatest return or benefit. For employers, flexibility allows them to adjust the mix of labour and capital in response to market changes (Karabegović et al., 2012).

Extensive research has confirmed that flexible labour markets lead to better labour market performance: strong job creation, low unemployment, and relatively strong productivity. Studies published by the Organization for Economic Co-operation and Development (OECD) in 1994 and 2006, for example, concluded that countries with more flexible labour markets enjoyed better records of job creation and higher rates of economic growth; the policy recommendations culled from the OECD's work consistently tout greater labour market flexibility (1994a, 1994b, 2006a, 2006b). Numerous other studies have corroborated these conclusions (Alonso et al., 2004; Di Tella and MacCulloch, 2005; Nickell et al., 2005; Bande and Karanassou, 2008; Bartelsman et al., 2011).

Index of Labour Market Performance

A recent Fraser Institute study, *Measuring Labour Markets in Canada and the United States 2012 Edition* (Karabegović et al., 2012), assessed the performance of provincial and state labour markets. The study calculated an index score in order to evaluate the relative performance of labour markets across 10 Canadian provinces and 50 American states.

Figure 1: Index of labour market performance, 2007-2001



Source: Karabegović et al., (2012).

The analysis incorporates five equally weighted indicators: average total employment growth, average private-sector employment growth, the average unemployment rate, average duration of unemployment, and average labour productivity. Higher values for total and private sector employment growth as well as average labour productivity improve labour market performance and positively affect the index score, while higher values for the unemployment rates and duration of unemployment negatively affect the performance index score.

Alberta topped the list of Canadian provinces and US states, by demonstrating the strongest labour market performance over the five years covered by the study (see figure 1). The province's strong performance in total employment growth (ranked 1st out of 60 jurisdictions), private sector employment growth (ranked 2nd), low duration of unemployment (ranked 4th), low unemployment rate (ranked 6th), and high labour productivity (ranked 6th) enabled it to achieve the highest overall score of 8.9 out of 10. Three other Canadian provinces are in the top 10—Saskatchewan (2nd), Manitoba (5th), and British Columbia (7th).

New Brunswick (21st) and Nova Scotia (21st) ranked the lowest among Canadian provinces. The remaining four Canadian provinces' rankings ranged from 11th place (Quebec, tied with Virginia) to 19th (Prince Edward Island).

In the US, two states from the West—Alaska and Wyoming—and three from the Midwest—North Dakota, South Dakota, and Nebraska—were among the top 10.

Among the bottom 12 jurisdictions were four Midwestern states (Indiana, Illinois, Ohio, and Michigan) (three were tied for the 49th place), six Southern states (North Carolina, West Virginia, South Carolina, Alabama, Florida, and Georgia), one state from the Northeast region (Rhode Island), and one from the West (Nevada). Michigan had the worst labour market performance out of the 60 jurisdictions, having a score of 0.9.

The Recent Recession and Labour Market Performance in Canada and the US

Of particular interest to relative labour markets performance during the period covered by the study is the effect of the severe global recession that took hold in 2008.

In early 2007, both Canada and the US enjoyed relatively robust economies, with GDP growth rates of 2.2% and 1.9% per year respectively.[1] The situation changed dramatically in the fall of 2007 (Statistics Canada, 2012a; US Dept. of Commerce, Bureau of Economic Analysis, 2012a) as economic growth declined precipitously throughout 2008 (0.7% in Canada and −0.3% in the US) and worsened further in 2009, as economic activity (as measured by GDP) contracting by 2.8% in Canada and 3.1% in the US.

Typically, strong economic growth translates into robust performances for labour markets, and weak economic conditions tend to result in poor labour market performance. The recent economic downturn was no exception. The recessions in both Canada and the US led to declines in employment, as reflected in higher unemployment rates. However, labour market performance in Canada did not weaken on account of the 2008 recession to the same extent as in the US, where unemployment rates more than doubled from 4.6% in mid-2007 to as high as 10.0% by late 2009 (US Department of Labor, Bureau of Labor Statistics, 2012a).

During 2009, employment in Canada declined by just 1.6% (in 2008, employment had grown by 1.7%) while the unemployment rate increased from 5.2% in 2007 to 7.3% in 2009 (Statistics Canada, 2012b, 2012c). Canadian employment rebounded to its pre-recession level by late 2010, though unemployment remained above its 2007 pre-recession level. The US has regained many of the jobs lost, but has not yet returned to its pre-recession level of employment. In other words, not only was the recession in the US deeper than in Canada, as measured by the contraction in GDP and job losses, but also that the recovery is taking longer than in Canada.

Conclusion

While Canada's labour market has not suffered as much as the United States during the recent recession and recovery, Canadians should not become complacent. Flexibility is essential for a vibrant labour market. While most Canadian provinces have performed relatively well in the most recent index, Alberta's strong labour market should provide an example for other provinces to emulate. Canadian provinces should devise labour market regulations that are not overly rigid, and thus promote superior outcomes.

Note

1 GDP (gross domestic product) is defined as the value of all goods and services produced in a given period of time.

References

Alonso, Alberto, Cristina Eschevarria, and Kien Tran (2004). Long-Run Economic Peformance and the Labor Market. *Southern Economic Journal* 70, 4: 905–919.

Bande, Roberto, and Marika Karanassou (2008). Labour Market Flexibility and Regional Unemployment Rate Dynamics: Spain 1980–1995. *Papers in Regional Science* 88, 1 (July): 181–207.

Bartelsman, Eric, Pieter A. Gautier, and Joris de Wind (2011). *Employment Protection, Technology Choice, and Worker Allocation*. DNB Working Paper No. 295. De Nederlandsche Bank.

Di Tella, Rafael, and Robert MacCulloch (2005). The Consequences of Labor Market Flexibility: Panel Evidence Based on Survey Data. European Economic Review 49: 1225–1259.

Karabegović, Amela, Nachum Gabler, and Niels Veldhuis (2012). *Measuring Labour Markets in Canada and the United States: 2012 Edition*. Fraser Institute.

Nickell, Stephen, L. Nunziata, and W. Ochel (2005). Unemployment in the OECD since the 1960s. What Do We Know? *Economic Journal* 115, 500: 1–27.

Organisation for Economic Co-operation and Development [OECD] (1994a). *OECD Jobs Study: Facts, Analysis, Strategies*. OECD.

Organisation for Economic Co-operation and Development [OECD] (1994b). OECD Jobs Study: Part 1. OECD.

Organisation for Economic Co-operation and Development [OECD] (2006a). *Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Jobs Strategy*. OECD.

Organisation for Economic Co-operation and Development [OECD] (2006b). *OECD Employment Outlook: Boosting Jobs and Incomes*. OECD.

Smith, Adam (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*.

Statistics Canada (2012a). *National Income and Expenditure Accounts: Data Tables*. <**http://www.statcan.gc.ca/pub/13-019-x/2012001/f1a-eng.htm**>, as of July 30, 2012.

Statistics Canada (2012b). *Labour Force Survey Estimates (LFS), by Sex and Detailed Age Group, Annual (persons unless otherwise noted)*. CANSIM Table No. 282-0002.

Statistics Canada (2012c). *Labour Force Survey Estimates (LFS), Supplementary Unemployment Rates by Sex and Age Group, Annual (rate)*. CANSIM Table No. 282-0086.

United States Department of Commerce, Bureau of Economic Analysis [BEA] (2012a). *National Income and Product Accounts Tables*. United States Department of Labor.

United States Department of Labor, Bureau of Labor Statistics [BLS] (2012a). *Labor Force Statistics from the Current Population Survey*. United States Department of Labor.

Thank You...

FRASER INSTITUTE T. PATRICK BOYLE FOUNDER'S AWARD

The Fraser Institute congratulates the five 2012 T. Patrick Boyle Founder's Award honourees. Also, a special thank you to our sponsors and 1,800 guests without whom these events would not have been possible.

Ned Goodman

DIAMOND: DUNDEE

SILVER:
The S. Schulich Foundation
Dynamic Funds – Invest with advice.
DREAM – Dundee Real Estate Asset Management
Canaccord Genuity
The Buchan Family Foundation
Barrick
IAMGOLD Corporation
Scotiabank

COPPER:
RBC Wealth Management
CIBC
Dundee Precious Metals Inc.
Sun Life Financial
Franco Nevada
Osler, Hoskin & Harcourt LLP

MEDIA: National Post

Jonathan Wener

SILVER:
Banque Laurentienne
RBC Capital Markets
CIBC
Canderel
Bell
Proment
mcmillan
Banque Nationale

BRONZE:
David Forest Financial Services
Davies
Dollarama
BMO
RSM Richter
Cadillac Fairview
Ernst & Young

MEDIA: National Post

Special thanks to the Donner Canadian Foundation

Thank You...

FRASER INSTITUTE — T. PATRICK BOYLE FOUNDER'S AWARD

The Fraser Institute congratulates the five 2012 T. Patrick Boyle Founder's Award honourees. Also, a special thank you to our sponsors and 1,800 guests without whom these events would not have been possible.

George Melville   Jim Treliving

PLATINUM: Molson Canadian

DIAMOND: Sysco (Good things come from Sysco); T&M Group of Companies®

GOLD: RBC Capital Markets®; Teck; Canaccord Financial; PepsiCo Foodservice

SILVER: Heinz Food Service; TAXI; GFS gordon food service; Dixon Mitchell Investment Counsel

MEDIA: National Post

SPECIAL THANKS TO: *The Donner Canadian Foundation*; be branded experiences; Starbucks (We proudly serve / Fiers de vous servir)

Clay Riddell

DIAMOND: BMO Capital Markets

GOLD: Tourmaline Oil Corp.

SILVER: RBC Capital Markets®; Canadian Natural; encana natural gas; Werklund Foundation; Paramount resources ltd.; Trilogy Energy Corp.; Newalta; Pembina; Calfrac Well Services

COPPER: Calgary Flames; Twin Eagle™; FirstEnergy Capital; TransCanada (In business to deliver); BD&P Burnet, Duckworth & Palmer LLP Law Firm; McDaniel & Associates Consultants Ltd.

MEDIA: National Post

Special thanks to the Donner Canadian Foundation