



THE Quarterly

FALL 2021

The cover image features a vertical split. The left side shows the Parliament Hill clock tower in Ottawa, Canada, under a clear blue sky. The right side shows the same tower under a dark, stormy sky with bright yellow lightning bolts striking down. A Canadian flag is visible at the top of the tower.

Federal Government Rhetoric Can't Change Canada's Reality

RHETORIC

REALITY



Niels Veldhuis
President, Fraser Institute

Dear Friends,

I'm currently reading an excellent new book entitled *Maverick: A Biography of Thomas Sowell* by *Wall Street Journal* columnist Jason Riley. This first biography of one of the great economists of our age is of a scholar who contributed to some of the Fraser Institute's cutting-edge research on discrimination, affirmative action, and equal opportunity.

In planning this issue of *The Quarterly*, I was reminded of a famous Thomas Sowell quote: "Rhetoric is no substitute for reality."

Isn't that the truth.

Unfortunately, our prime minister has been heavy on the rhetoric, and light on the facts. As my colleagues and I wrote in the *Globe and Mail*, Trudeau's rhetoric can't change Canada's fiscal reality (see page 16).

The prime minister claims his government has lowered taxes for the middle-class. As we highlight, that's simply not true.

The federal government has increased taxes on almost every working Canadian.

The prime minister claims Canada's government debt compares favourably to our international counterparts. *That's* simply not true. Canada's total government debt relative to GDP is the 5th highest amongst the industrialized world (out of 29 economically advanced countries).

The prime minister also claims that his government's policies—namely higher taxes, higher debt-financed spending, and more regulation of the economy—have led to stronger economic growth. Alas, that too is simply not true. If we compare the four years prior to the 2020 COVID recession (2016-2019) to similar periods in the past, the current government has overseen the lowest annual average economic growth rates dating back to the Mulroney government. In fact, growth was 4.8 times greater during the Chrétien era than it has been in the Trudeau era.

As you know, critically analyzing government policy and getting Canadians past the spin and rhetoric are important parts of what the Fraser Institute does. It's a job we take very seriously and our voice is more important than ever.

I hope you enjoy this edition of *The Quarterly* and that after you are finished reading it, you pass it on to your friends, family, and colleagues.

Stay safe!

A handwritten signature in blue ink, appearing to read "Niels Veldhuis".

Best,
Niels

New Research



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Ontarians Growing Poorer Compared to American Neighbours; Lags the Regional GDP per Person by \$16,607

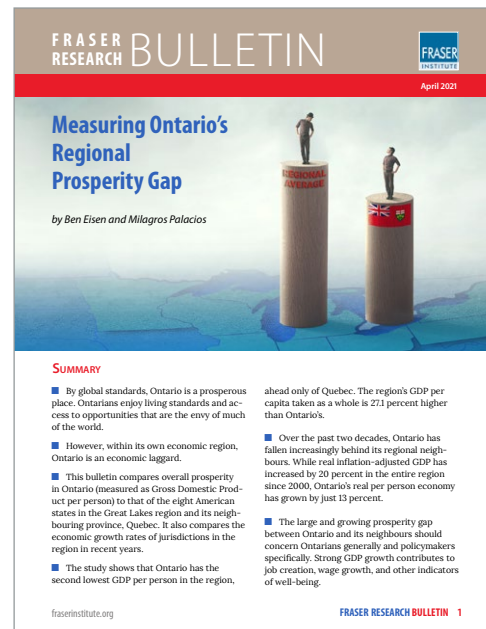
Ben Eisen and Milagros Palacios

As Ontario continues to recover from COVID-19, it's important to maintain proper perspective. Compared to most places around the world, Ontario is prosperous, with an abundance of opportunity and economic freedom. Ontarians should never lose sight of this reality or take it for granted. However, if we narrow our geographic focus, we see that the province is an economic laggard compared to many of its peers.

For example, our recent study, *Measuring Ontario's Regional Prosperity Gap*, found that every US state bordering the Great Lakes is more prosperous than Ontario. Indeed, per-person GDP—a good indicator of living standards and prosperity—is significantly higher in each Great Lakes state. And the average per-person GDP for the entire economic region (which also includes Quebec) is 27.1 percent higher than in Ontario.

“... every US state bordering the Great Lakes is more prosperous than Ontario.”

Crucially, this large prosperity gap is growing. Between 2000 and 2019, average inflation-adjusted per-person GDP growth in Ontario was the second-lowest in the region at 0.7 percent per compared to neighbouring New York (the region's top performer on this measure) at 1.5 percent annually—approximately double Ontario's rate.

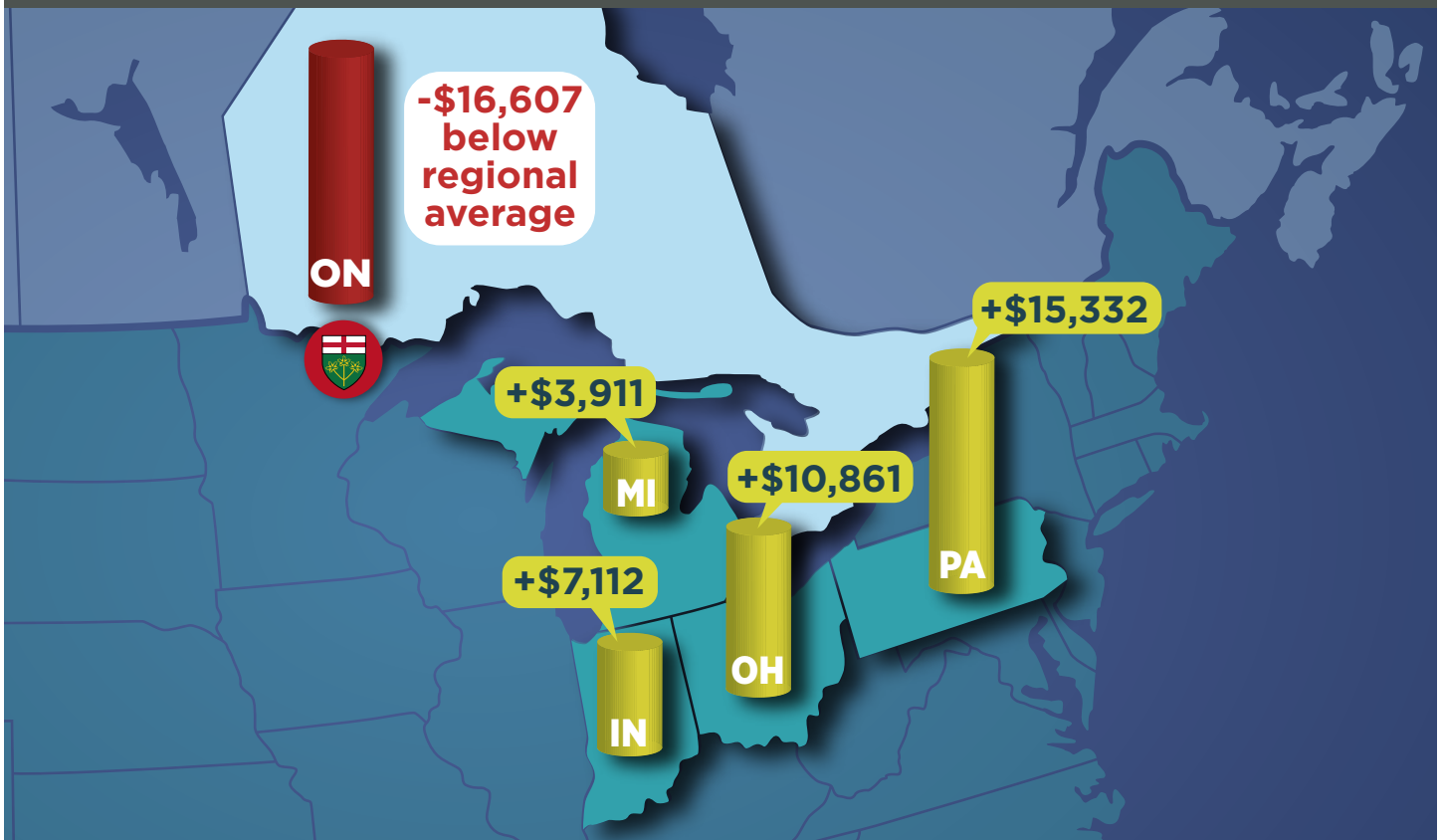


For the economic region as a whole, the inflation-adjusted per-person economic growth rate was 1.0 percent during this period—again, compared to 0.7 percent in Ontario. This might not sound like such a big difference until you consider that the effect of economic growth compounds over time, so seemingly small differences in growth rates can cause prosperity gaps to grow quickly.

Consider this. After adjusting for inflation, in 2000 the region's per-person GDP was \$12,033 higher than in Ontario. Thanks to slower growth in Ontario, that gap had grown to \$17,809 in 2019. Again, the prosperity gap between the rest of the region and Ontario, which was already substantial in 2000, has grown significantly.

It's also important to recognize that within Ontario itself, there's substantial variation between economic regions.

Income **GAPS** between Ontario and Neighbouring US States (in per person GDP, 2019)



Between 2008 and 2018, 91 percent of all net jobs in the province were created in either the Greater Toronto Area or Ottawa. While the province's overall economic performance has been weak, economic life has generally been even harder for Ontarians who live outside of the province's two largest cities.

Finally, Ontario's comparatively low GDP and weak overall economic growth compared to its neighbours are not just a matter of academic concern. Robust economic growth helps create good jobs and generally pushes wages higher. Although there's no single perfect measure of economic performance, per-person GDP, which is calculated by dividing a jurisdiction's overall GDP by its population, is widely considered the broadest single indicator of economic success.

Ontario is a wonderful place to live, and by global standards, remains an economic success. But this fact should not make us complacent. The data shown here clearly demonstrate that within the prosperous Great Lakes region Ontario is an economic laggard. As the

province emerges from the pandemic, changing this trend and catching up with our neighbours and trading partners should be a top priority for the Ford government and policymakers at Queen's Park. [FI](#)



BEN EISEN



MILAGROS PALACIOS

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Continued Financing of Government Debt by the Bank of Canada Poses Significant Economic Risks

Steven Globerman

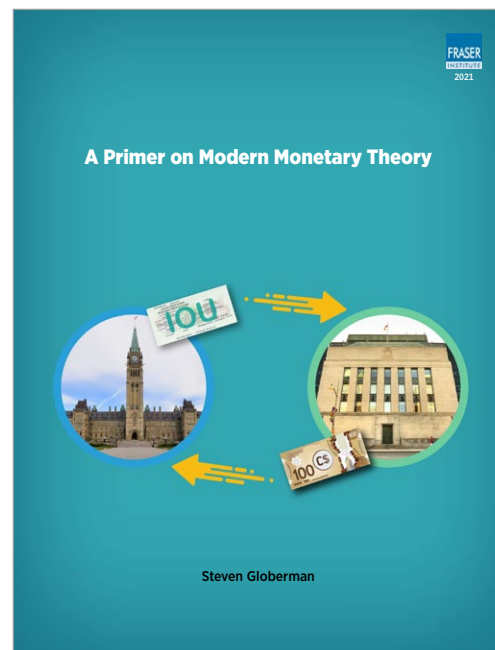
As governments in Canada and other wealthy countries continue to respond to COVID-19, many economists are warning about ballooning budget deficits and the potential for higher interest rates in the future, which would increase interest payments on outstanding debt and leave less taxpayer money for health care, education, income support for seniors, and other government services.

On the other hand, as noted in a new study published by the Fraser Institute, *A Primer on Modern Monetary Theory*, advocates of Modern Monetary Theory (MMT) say these concerns are at best misplaced and at worst economically irresponsible.

According to MMT, governments that borrow in their own sovereign currency face no financial constraint on their ability to fund expenditures. The government can sell bonds to the central bank, which can forego charging the government interest. And the central bank can effectively forgive the government debt by refinancing maturing debt while it purchases newly issued debt. MMTers are essentially calling for a consolidation of the central bank and the government's finance department.

Currently, the Bank of Canada (and the US Federal Reserve) are nominally independent agencies. But while government pressure on central bankers to implement MMT might not have *de facto* success, a sufficiently motivated Parliament or Congress might make MMT a *de jure* reality.

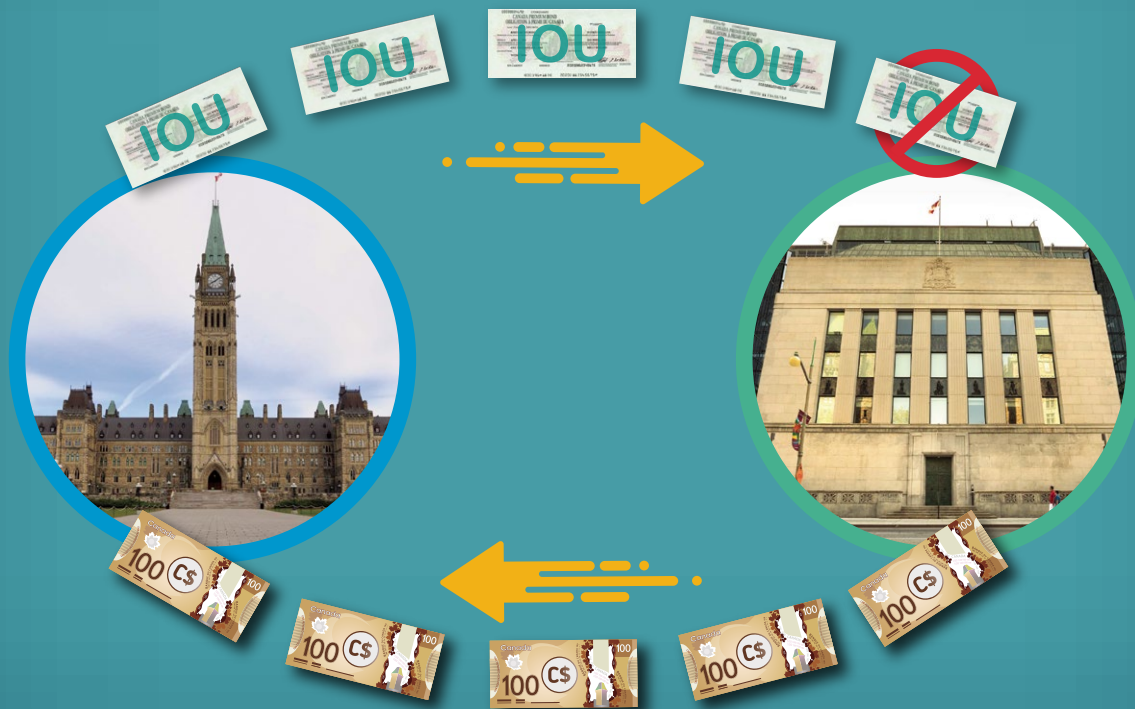
Indeed, in the MMT framework, facilitating a much larger role for government in the economy is the underlying motivation for making monetary policy the handmaiden



of fiscal policy. MMTers support increases in government spending (which may include government-guaranteed employment, free colleges and universities, universal child care, etc.) as being in the social interest.

Critics of MMT argue it will lead to inflation, perhaps even hyper-inflation, with devastating consequences for the economy. They point to the histories of Austria, Hungary, Poland, and Weimer Germany during the first half of the 20th century when printing money and monetizing government debt led to devastating inflation. They also highlight the more recent experience of Greece from 1981 to 1994 when that country's central bank was subservient to the Greek government. Indeed, the same individual held the position of finance minister and governor of the central bank. During this period, the growth of the Greece's money supply exploded, the rate

Financing of government spending by the Bank of Canada without repayment risks inflation



of inflation averaged 18 percent per year, and the country's standard of living declined dramatically. Similar recent experiences with MMT in Latin America parallel the Greek experiment.

“History ... suggests that fine-tuning the economy through fiscal policy is extremely difficult. For one thing, a rapid rise in the inflation rate can be sudden and sustained.”

While MMTers acknowledge the risk of inflation linked to central bank-financed government spending, they're not much concerned by it. They argue that government borrowing and spending have increased over the past two decades without spurring inflation. Moreover, if the prospect of inflation becomes a concern, governments can reduce their rate of spending or—preferably—increase taxes to reduce private-sector spending.

In effect, MMTers argue that historical episodes of money-printing resulting in hyper-inflation are not appropriate models of “well-practiced” MMT. But history also suggests that fine-tuning the economy through fiscal policy is extremely difficult. For one thing, a rapid rise in the inflation rate can be sudden and sustained. Also, government legislators are ordinarily reluctant to reduce spending on popular programs or raise taxes on middle-class voters.

Perhaps the most apt description of MMT was provided by Larry Summers, an economic advisor to President Obama and an advocate of increased government spending, who called MMT “voodoo economics.” [FI](#)



Steven Globerman is a resident scholar and Addington Chair in Measurement at the Fraser Institute. He is the author of *A Primer on Modern Monetary Theory*.

Canada Ranks Poorly for Testing Rates and Hospital Beds, Keys to Successful COVID Response; Prolonged Lockdowns Deemed Ineffective

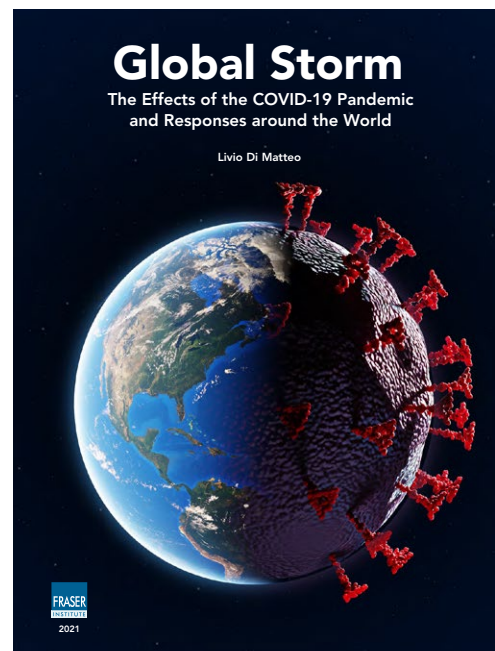
Livio Di Matteo

Currently, there have been nearly 165 million COVID-19 cases worldwide and 3.5 million deaths. Canada ranks 22nd in the world with more than 1.3 million cases and more than 25,000 deaths. Given the spread of new variants and varying vaccination rates around the world, the effects of the pandemic will be with us for some time to come.

But how does Canada compare to other advanced countries? For 2020, COVID cases per million ranged from a high of 87,000 (Czech Republic) to a low of 7 (Taiwan). Canada (approximately 19,000) ranked 24th out of 35 advanced countries. Deaths per million ranged from a high of almost 1,800 (Belgium) to 0.3 (Taiwan), with Canada in 22nd place (approximately 500 deaths per million).

However, on a crucial measure—the “case fatality rate” (total deaths from COVID-19 as a percentage of total COVID-19 cases), Canada in 2020 had the 7th highest rate (meaning 7th worst) in the developed world, due primarily to COVID’s impact on Canadians in long-term care. In 2020, 11 percent of Canada’s COVID-19 cases, and more than 70 percent of COVID-19 deaths, were in long-term care facilities. According to the Canadian Institute for Health Information, while Canada’s overall COVID-19 mortality rate was relatively low compared with rates in other OECD countries, we had the highest proportion of deaths in long-term care. If we’ve learned anything from COVID, it’s that we must do a much better job with long-term care here at home.

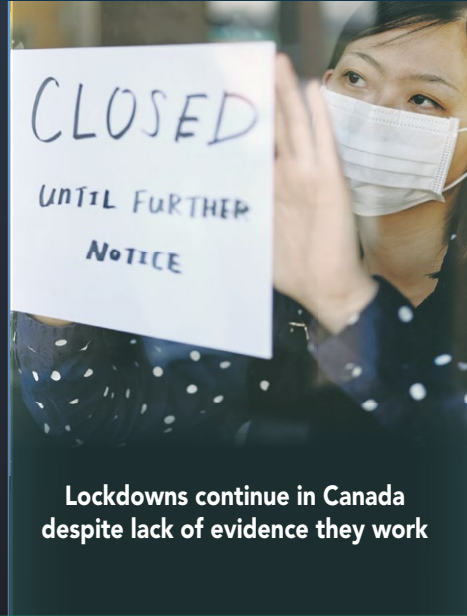
Unfortunately, lessons provided are not always lessons learned. Crucially, as shown in a new study, *Global Storm: The Effects of the COVID-19 Pandemic and Responses around the World*, Canada failed to learn from the SARS outbreak.



Between 2002 and 2004, some 30 countries reported SARS cases, with only eight countries reporting more than 10 cases and only five (China, Hong Kong, Taiwan, Singapore, and Canada) reporting more than 100 cases. Fast-forward to 2020 and these five countries combined reported about 18,000 fewer COVID-19 cases (per million) than countries that did not experience SARS. Apparently, countries heavily hit by SARS learned something about how to prevent viral spread during a pandemic. Except Canada. While Hong Kong, Singapore, China, and Taiwan in 2020 saw COVID-19 deaths (per million) range from 22 to 0.3, Canada reported nearly 500 deaths per million. In this key five-country group, Canada was an outlier.

Why? Post-SARS, governments in Canada studied and planned for future pandemics and increased spending on

International experience shows testing and hospital beds key to successfully responding to COVID-19



public health measures. Yet we were still unprepared for COVID-19. For example, in the years before the pandemic, the federal government seemingly (and quietly) deactivated its pandemic early warning system, failed to maintain stockpiles of personal protective equipment (e.g. masks), and once the pandemic began often moved slowly to deal with its impact. On the other hand, following its SARS epidemic, Taiwan established a National Command Centre in 2004, which helped coordinate and map out its current—and significantly more successful—pandemic response.

As for other lessons from around the world, high rates of testing remain an important factor, with each additional 100,000 tests per million associated with 21 fewer COVID-19 deaths per million. Last year Canada ranked 26th out of 35 advanced economies for COVID-19 tests per million.

Another important factor was the number of hospital beds per 1,000, with each additional bed associated with 31.5 fewer COVID-19 deaths per million. Among 35 advanced countries, Canada ranked 32nd for the number of hospital beds. What does that look like? Again, among advanced countries, hospital beds per 1,000 ranged from 13.1 (Japan) to 2.2 (Sweden), with Canada near the bottom at 2.5.

In summary, key deficiencies in Canada's pre-pandemic preparation and response capability (even after the les-

sons of SARS), combined with low rates of testing, low numbers of hospital beds, and an inadequately prepared and protected long-term care sector, have produced relatively poor results, particularly on certain measures of mortality. As a result, Canada was forced to rely on lockdowns and other stringent measures, which—while effective during the first wave—were less effective as time wore on and Canadians grew tired and confused with the shifting rules. And it's the restrictions imposed by government, not the pandemic's death rates, which caused the economic disruption that will continue until a sufficient proportion of the population has been vaccinated and we reach some level of herd immunity.

In light of the suffering we've witnessed across the country, let's hope we actually learn more this time around. **FI**



Livio Di Matteo is a professor of economics at Lakehead University and senior fellow at the Fraser Institute. He is the author of *Global Storm: The Effects of the COVID-19 Pandemic and Responses around the World*.

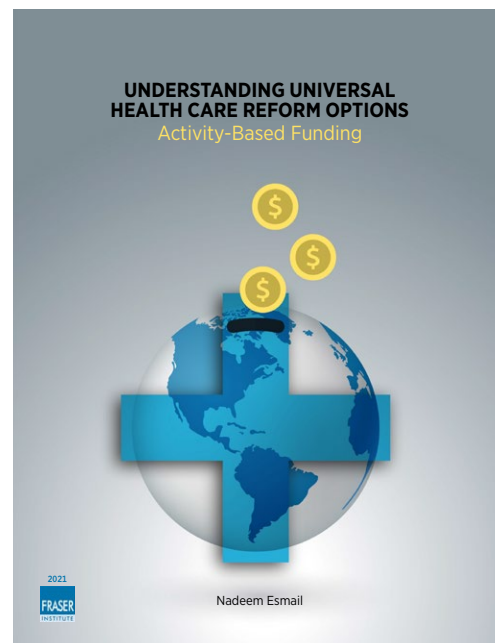
Funding Hospitals Based on Patient Services Means Better Health Care for Canadians

Nadeem Esmail

Hospital care in Canada's provinces today is predominantly funded on a global budget or block-grant basis, under which hospitals receive an allocation of funds each fiscal year to look after patients. An alternative approach—one that has been adopted by nearly all of world's developed nations with universal access health care systems—is activity-based funding or having money follow the patient. Under activity-based funding, hospitals are paid a pre-defined amount of money for each patient they care for, based on the patient's particular condition and important factors that may add complexity or expected cost to their care.

Funding through global budgets is not without its advantages: block-grants are simple to administer and predictable, and provide provincial governments a simple and direct means to control hospital expenditures and hospitals a level of autonomy over the allocation of resources. By disconnecting funding from the volume and quality of services delivered to patients, however, global budgets encourage hospitals to reduce activity levels to avoid exceeding the budget, discharge higher-cost patients earlier to reduce expenditures, and engage in risk-selection where lower-cost patients are preferred and not discharged as readily. Further, since global budgets do not provide hospitals additional funding for treating additional patients, there is a lack of incentives to provide a higher volume of services or treatment of superior quality, or to function in a patient-focused manner.

Activity-based funding, on contrast, by changing patients from cost centres and a drain on the budget



to a source of additional financial resources, creates powerful incentives to deliver a greater volume of services and may also promote an improved quality of services and more efficient hospital operations. These benefits are not just theoretical: a wealth of evidence from across the developed world shows that a change to activity-based funding would generate meaningful improvements in the access to, and cost efficiency of, health care in Canada. Canadians could reasonably expect a greater volume of services delivered using the existing health care infrastructure, reductions in waiting times, reductions in excessive hospital stays, improved quality of care, more rapid diffusion of medical technologies and best practices, and a reduction in waste.

Reform of hospital funding could also be expected to provide greater transparency for hospital spending with opportunities for further improving access by increasing competition among providers for the delivery of care. The introduction of activity-based funding does not imply or require a larger role for the private sector. By clearly identifying the costs of services and substituting patient-driven funding for governmental planning decisions, however, activity-based funding simplifies and makes transparent the process by which access to care can be expanded for all patients in the universal scheme through private competition in the delivery of hospital and surgical services.

This is not to say that activity-based funding may not have drawbacks, including increased administrative complexity for governments and providers. Activity-based funding has also theoretically been associated with risks to the quality of care provided and might create opportunities for providers to inappropriately classify patients in search of additional revenues. Fortunately for Canadians, both pitfalls have been well studied in nations that have undertaken funding reform, providing many effective protections against misuse that could be readily adopted in Canada.

“ ... by changing patients from cost centres and a drain on the budget to a source of additional financial resources, [activity-based funding] creates powerful incentives to deliver a greater volume of services and may also promote an improved quality of services and more efficient hospital operations.”

It is noteworthy that Canada’s provincial health care systems are in a distinct minority in the developed world for not having adopted activity-based funding for hospital care in a meaningful way. Despite at least two major governmental reports recommending reform, Canada’s current experience with money following patients for acute hospital care amounts to an experiment in British Columbia between 2010 and 2013, an attempt at activity-based funding in Ontario begin-

ning in 2012 that has evolved into a complex blended approach dominated by budgets, and a now seven-year-old commitment to reform in Quebec. Decades after reforms were undertaken in other developed nations with universal-access health care systems, and at a time when some nations are embracing even more sophisticated approaches to money following patients, no Canadian province has embraced a whole-hearted shift to activity-based funding.

“ Money following patients is a sensible, evidence-based approach that is likely to generate marked improvements in access and quality for patients, alongside greater value for money for the taxpayers that fund their care.”

Canada’s health care system provides remarkably poor value for money to taxpayers and leaves patients with relatively poor access to medical services despite its high price tag. Part of the reason for that poor performance is likely Canada’s commitment to an out-dated method of paying for universally accessible hospital care. Money following patients is a sensible, evidence-based approach that is likely to generate marked improvements in access and quality for patients, alongside greater value for money for the taxpayers that fund their care. [FI](#)



NADEEM ESMAIL

Nadeem Esmail is a Fraser Institute senior fellow and author of *Understanding Universal Health Care Reform Options: Activity-Based Funding*.

25 Percent of Canadian Workforce Could Be Working from Home after COVID, but **Labour Laws are Outdated for Remote Work and Telecommuting**

Morley Gunderson

Many of our labour laws and regulations were established in an earlier era when the economy was vastly different than it is today. Just as technological change has made many of our production procedures and skills obsolete, it is not surprising that many of our labour policies would be obsolete. And just as there is resistance to technological change, there will be resistance to changes in labour policies. Luddism can apply to policy change just like it applied to the Luddites who resisted technological change in the early 1880s.

A major change that has been spurred on by the pandemic is teleworking or working remotely from home. For Canada, about 40 percent of the workforce has the potential to work entirely from home, and this corresponds to the proportion that was working from home during the early part of the pandemic. An additional 10 percent could work partially at home, so that around 50 percent of the workforce could work entirely or partially from home. The rate of working from home will likely drop, but only to about half those rates after the pandemic as both employers and workers have experienced the benefits including:

- reduced commute times with social benefits from reductions in traffic congestion, air pollution, and energy consumption;
- savings in house prices and rents if they can move to cheaper locations and connect online;
- productivity gains, or at least not the productivity losses that were often anticipated;
- fostering work-family balance that can benefit females who have a disproportionate share of household work;



- better control over one's work environment with respect to such factors as temperature, lighting, music, and colleagues dropping by;
- improved worker satisfaction and hence improved recruitment and retention;
- accommodating disability limitations;
- providing a cushion against future contagions that are likely to reoccur.

Furthermore, those working from home have generally invested in their home working environment as well as technology and are familiar with the new arrangements that are also rapidly improving. Employers will likely use hybrid models—mixtures of working from home and at the workplace—to deal with such factors as team-building and corporate culture, as well as training and career development, that benefit from personal interac-

Canada's labour laws are increasingly outdated as telecommuting and remote work grows



tion. And they will adjust to the concerns that can arise if working from home involves 24/7 constant availability with little opportunity to disengage. Working from home is not for everybody or for every workplace.

Many of our existing labour laws are ill-fitted for working from home. Employment standards legislation on hours of work and overtime, for example, is difficult for government to monitor and enforce for persons working from home. The same applies to regulations for break times. Minimum wage legislation will be difficult to enforce because employers may respond to a higher hourly minimum wage by simply expecting longer worktime in a day. Workers' compensation requirements will be complicated by the difficulty of determining whether the accident or injury occurred while conducting work for an employer or doing personal activities at home, especially because most injuries have now shifted from physical injuries to repetitive strain and musculoskeletal injuries that are difficult to diagnose and have long latency periods, multiple causes, and complex interactions. Health and safety regulations will also be extremely difficult if not impossible to enforce for working from home and this is already recognized in some jurisdictions. Pay equity legislation will be complicated by the difficulty of evaluating the working conditions component of jobs when some work at home.

Because of these difficulties, this paper outlines various policy considerations and issues to be wary of in extending our labour regulations to where they do not fit. Rather than extending our labour regulations, the emphasis should be on removing barriers that inhibit working from home. Such practices include extending broadband infrastructure, flexibility in zoning to enable market adjustments to the new reality, and providing information on best practices in this area to facilitate market adjustments to such best practices. Reducing rather than extending regulation in teleworking should foster the growth and competitive markets that facilitate employers and workers making the mutually beneficial choices that can come from this growing workplace arrangement. [FI](#)



MORLEY GUNDERSON

Morley Gunderson is a professor at the Centre for Industrial Relations and Human Resources and the Department of Economics at the University of Toronto. He is the author of *Are Our Labour Laws Still Relevant for Teleworking?*

Saskatchewan's Fiscal Crisis Reforms in the 1990s Provide a Roadmap for Atlantic Canada Now, which Faces Similar Problems

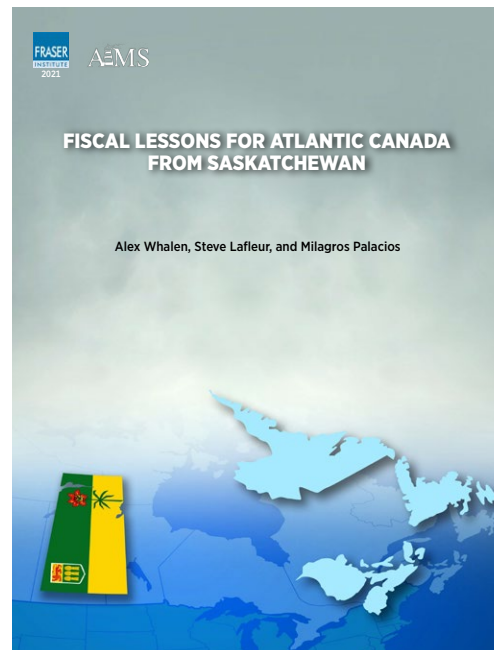
Alex Whalen, Steve Lafleur,
and Milagros Palacios

COVID-19 and the related economic recession have thrown governments across Canada into varying degrees of fiscal peril. In Newfoundland & Labrador, the challenges of rapidly increasing debt and large deficits have created perhaps the largest fiscal challenge in the country. The Maritime Provinces are in somewhat better shape, but still face challenging deficits and rising debt.

While COVID-19 has added to these challenges, it did not create them. The Atlantic Provinces have long had economic and fiscal challenges. Fortunately, governments in Canada have overcome these types of fiscal challenges before. Even Newfoundland & Labrador's severe fiscal challenges aren't unprecedented. Lessons from previous deficit reduction efforts in Canada can be useful for the Atlantic Provinces as they chart their respective fiscal paths to financial stability.

Atlantic Canada's fiscal precariousness has a number of underlying sources. First, a long-term tendency to run budget deficits more often than surpluses has resulted in perpetually rising debt-to-GDP ratios, a situation that is unsustainable. Second, the Maritime Provinces in particular are heavily reliant on the federal government, with over a third of their program spending coming from federal programs such as equalization. All four Atlantic Provinces are vulnerable to changes in federal programs, changes over which they may have little control. Finally, the Atlantic Provinces have high rates on personal, corporate, and sales taxes, which leaves little room to raise taxes in an effort to tackle budget deficits.

At the time of writing, Newfoundland & Labrador is facing a budget deficit exceeding \$1.8 billion, with Nova Scotia



at \$585 million, New Brunswick at \$245 million, and Prince Edward Island at \$112 million. As a result, net debt will rise in all four provinces. In particular, Newfoundland & Labrador will add \$2 billion to its net debt this year, which is already the highest per-person in Canada.

Several Canadian governments found themselves in similar difficulties during the 1990s. While the fiscal turnaround of the Chrétien government during the 1990s is well documented, similar lessons were applied at the provincial level. Saskatchewan provides a strong comparison case for Atlantic Canada in general, and Newfoundland & Labrador specifically, due to its size and the relatively similar nature of its economy. Saskatchewan's budget deficits peaked at over six percent of GDP causing the province to have difficulty selling provincial bonds, a challenge similar to that which Newfoundland & Labrador currently faces.

Saskatchewan faced similar challenges to Atlantic Canada but solved them

SOLUTIONS

Reduced and reformed government spending and taxes

CHALLENGES

- Persistent deficit
- Rising debt
- Lack of economic opportunity

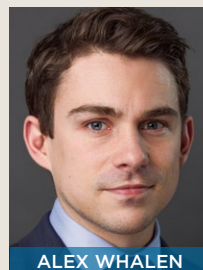


Prudent fiscal choices in the years that followed this fiscal crisis allowed Saskatchewan to go from the brink of insolvency to relative fiscal health in a few short years. A detailed program review focused on the role of government and the elimination of programs that were unaffordable or inefficient. Fifty-two hospitals were closed, education spending was cut by 19 percent, and 500 government positions were eliminated.

While difficult, the result of these reforms was a reduction in program spending from a peak of \$9,098 per person to \$6,963 per person in less than five years. The ultimate result was a remarkable turnaround from a deficit of \$1.53 billion to a surplus of \$184 million in just three years.

Having brought spending under control, the province was able to later reduce taxes on personal income, corporations, and investment. As a result of the spending reforms first, and tax reforms later, the province was able to come full circle from its fiscal peril over the course of about a decade. There is perhaps no better evidence of this than the debt-to-GDP ratio, which peaked at 37.2 percent in 1992-93, was lowered to 30.7 percent in just five years, and continued to decline thereafter as government largely spent within its means and enjoyed strong economic growth.

Saskatchewan's remarkably fast fiscal turnaround—and the lasting nature of that turnaround—provides a template for current fiscal challenges in the Maritimes, especially Newfoundland & Labrador. While no two situations are entirely alike, the case of Saskatchewan's spending and tax reforms does provide Canada's Atlantic Provinces with a hopeful path out of their daunting fiscal situation. [FI](#)



ALEX WHALEN



STEVE LAFLEUR



MILAGROS PALACIOS

Alex Whalen is a Policy Analyst, Steve Lafleur is Senior Policy Analyst, and Milagros Palacios is the Director for the Addington Centre for Measurement at the Fraser Institute. They are co-authors of the study *Fiscal lessons for Atlantic Canada from Saskatchewan*.

Canadians Wait more than 450 Days Longer for Access to New Medicines than Americans and Europeans

Bacchus Barua

The rapid development, testing, and approval of COVID-19 vaccines was observed with unprecedented attention around the world. Everyone from patients to policymakers waited with bated breath for news of regulatory approval of these innovative vaccines in their respective countries. Although Canada kept pace with international counterparts in this particular race for vaccine approval (much to the chagrin of Donald Trump), it historically lags far behind on other innovative pharmaceuticals.

In fact, a new study, *Timely Access to New Pharmaceuticals in Canada, the United States, and the European Union*, estimates that Health Canada only approves new life-improving (and potentially, life-saving) drugs more than 450 days after the United States and the European Union. Specifically, of the 218 drugs (not including vaccines) approved in both Canada and the US between 2012 and 2018, approval was granted an average 469 days earlier in the US and 468 days earlier in Europe for 205 drugs.

While it may be tempting to simply blame bureaucratic inefficiency, the real reason for this delay actually stems from differences in the dates that manufacturers submitted new drugs to Health Canada for approval. In fact, once a drug has been submitted, all three agencies are fairly comparable in terms of efficiency—however, differences in submission account for more than 95 percent of the differences in dates of ultimate approval.

Why?

Although the present data don't pinpoint a direct cause, other researchers suggest drug companies may be reluctant to launch new drugs in Canada because of a number



of factors including Canada's smaller market size and weaker intellectual property protections.

Another reason may be the federal government's strict pricing policies via the Patented Medicine Prices Review Board (PMPRB), which are expected to intensify on July 1. To the extent that restrictive price controls may have historically contributed to international differences in drug submissions, it's likely these regulations will further exacerbate such delays in Canada. It's notable that approved COVID vaccines were effectively exempt from regular PMPRB pricing oversight, which suggests the federal government is aware of the discouraging effect such price restrictions have on innovation in the pharmaceutical industry. So what can be done?

While there's a case to be made for stronger intellectual property protection and less restrictive price controls, it's also important to understand that Health

Canadians wait much longer to access new medicines compared to their American and European peers



Canada's role in approving new pharmaceuticals is arguably redundant.

Just about every drug reviewed by Health Canada has already been approved by a comparable international agency. In fact, if Canada simply agreed to recognize the approval of new drugs by either the US Food and Drug Administration (FDA) or the European Medicines Agency, patients could have received access to 223 new pharmaceutical therapies (of the 224 in our sample) a median 383 (average 742) days earlier.

Of course, the potential for harm that accompanies any new medicine provides clear justification for regulatory approval in general. However, given that the procedures and requirements of these agencies (specifically the FDA) actually served as the framework for Canada, such duplication seems unnecessary.

It's also important to acknowledge the possibility of danger even after regulatory approval. For example, Vioxx, a painkiller for arthritis, was approved by both the FDA and Health Canada in 1999 and soon became a sales blockbuster. However, a follow-up study by Merck led the company to voluntarily withdraw the drug in 2004 due to increased risk of heart attacks and strokes in patients. Another drug for arthritis, Prexige (approved by Health Canada in 2006) was withdrawn from the market at the request of Health Canada—but only after it was pulled from the Australian market following reports of serious adverse liver events in some patients.

If anything, these examples highlight the importance of active post-market surveillance and rapid sharing of information; a role Health Canada could increasingly assume instead of its current approach, which simply duplicates efforts elsewhere. Moreover, accepting approvals through international agreements could be combined with also accepting international decisions regarding withdrawals and discontinuations by the same agencies.

Although the negative consequences of approving products that are later pulled from distribution are clear and relatively straightforward to measure, it's much more difficult to measure the lost benefits of delaying a safe drug due to regulatory hurdles. Despite this difficulty, one recent attempt suggested that more than 5,000 patients could have been adversely affected by delayed federal regulatory and provincial reimbursement approval for just five oncology drugs between 2003 and 2011. Imagine how many lives could have been improved if Canadian patients had earlier access to the 223 drugs already approved by the FDA and the EU, that would ultimately be approved by Health Canada much later.

The recent increased attention to differences in international regulatory approval of vaccines underscores the importance of early access to innovative new pharmaceuticals. Though Canada provided speedy approval to vaccines in the midst of a pandemic, its approach to pharmaceutical approval pre-COVID resulted in significant delays for Canadian patients. In the absence of international agreements to recognize drug approvals and prevent unnecessary duplication, policymakers should carefully consider how Canada's drug policies attract or discourage drug companies from entering the Canadian market. Canadian lives depend on it. [FI](#)



BACCHUS BARUA

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Trudeau Rhetoric Can't Change Canada's Fiscal Reality

**Jason Clemens, Milagros Palacios,
and Niels Veldhuis**

It's imperative that Canadians distinguish between convenient political rhetoric and reality when it comes to the country's finances, particularly as we approach a potential fall election. The Trudeau government continues to promulgate three assertions that must be clarified.

First, that the government lowered personal income taxes for the middle-class. While the Trudeau government in 2016 reduced the middle-income tax rate from 22.0 percent to 20.5 percent, it simultaneously eliminated a number of tax credits such as children's fitness, public transit, and income-splitting for couples with young children. By eliminating these tax credits, the government increased personal income taxes for all Canadians who previously claimed these credits.

A 2017 analysis of these tax changes, which included both the tax rate reduction and the elimination of the tax credits, found that 81 percent of middle-income families paid (on average) \$840 more in income taxes.

And a follow-up study found that 61 percent of low-in-

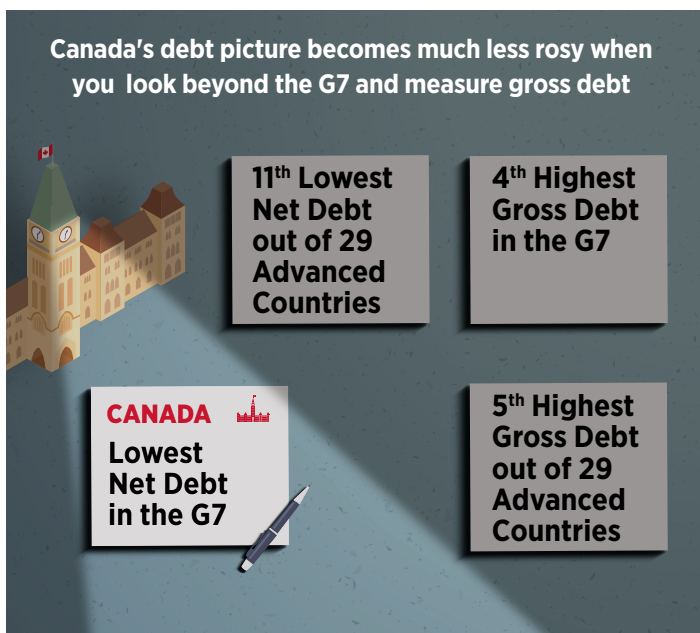
come families faced higher personal income taxes due to these tax changes.

Finally, due to a 2016 agreement by the federal government and nine participating provincial governments, which expanded the Canada Pension Plan (CPP), 98.8 percent of middle-income families will experience a tax increase once the CPP reforms are fully implemented in 2025.

Simply put, the Trudeau government has increased taxes on almost every working Canadian.

Second, the Trudeau government continues to use Canada's comparative government debt position as a rationale for more debt-financed spending. Specifically, the government notes that Canada has the lowest net debt as a share of the economy (GDP) among G7 countries. Net debt is a measure of total debt minus financial assets such as cash, gold deposits, and other securities held by government.

But a recent study, *Caution Required When Comparing Canada's Debt to that of Other Countries*, found that alternative debt measures paint a very different picture of Canada's government debt. For instance, if you



expand the group of comparator countries to 29 industrialized countries (mainly in the OECD) rather than just the G7, Canada falls to 11th in terms of net debt as a share of the economy.

Using net debt, however, turns out to favour Canada in a way that fundamentally misrepresents our indebtedness because it includes the assets of the Canada and Quebec Pension Plans to adjust total debt when calculating net debt. Those assets are required to finance the promised benefits to current and future retirees. Therefore, it's misleading to offset government debt with these pension assets.

This is one of the main reasons why Canada's total debt ranking is so different from its ranking on net debt. When we compare total government indebtedness as a share of the economy among 29 industrialized countries, Canada falls to 25th with only Japan, Italy, Portugal, and the United States having higher levels of indebtedness. At the very least, this complicates the federal government's assertion that Canada is a relatively low debt country and should raise concerns about continued debt-financed spending.

The third and final clarification relates to rates of economic growth. The prime minister continues to reiterate his government's commitment to improving the economy, the inference being that Trudeau government policies—namely higher taxes, higher debt-financed spending, and more regulation of the economy—have led to stronger economic growth.

But if we compare the four years prior to the 2020 COVID recession (2016 to 2019) to similar periods in the past, the Trudeau government experiences the lowest annual average rates of economic growth (2.1 percent) dating back to Brian Mulroney. Indeed, the Chrétien government (4.6 percent), the Mulroney government (3.2 percent) and even the Harper government (2.5 percent) all experienced average growth rates that exceeded the Trudeau government's growth rate.

Similar results hold if we measure changes in per-person GDP or narrower measures of income growth for households and individuals. Simply put, economic growth has been weaker during the Trudeau era compared to the previous four prime ministers.

“The Trudeau government increased taxes, has overseen a marked increase in government indebtedness, and recorded comparatively weak economic growth. Rhetoric can't change that reality.”

One of the differences between being on the opposition and government benches is that the government must be held accountable for actual performance. The evidence is quite clear that the Trudeau government increased taxes, has overseen a marked increase in government indebtedness, and recorded comparatively weak economic growth. Rhetoric can't change that reality. [FI](#)



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Does Climate Change Affect Economic Growth?

UNITED NATIONS



Ross McKittrick

It has long been observed that global poverty tends to be concentrated in hot tropical regions. But persistent poverty in African and South American countries has political and historical roots, especially their embrace of Soviet-backed communism in the 20th century. In places where economic reforms were adopted (South Asia, for example), growth took off and they quickly converged on the west despite having tropical climates. So the connection to climate may be coincidental.

But in recent years a strand of economic literature has argued that warming not only negatively affects the level of economic activity, but also the rate of income growth. This matters because when conducting an analysis over a 100-year time span, small changes in the

growth rate can compound over a century and result in large total changes.

A 2012 study led by Melissa Dell of Harvard University presented evidence that warming had insignificant effects on income growth in rich countries but in poor countries the effect was negative and statistically significant. Another team used this result in a policy model to argue that the “social cost of carbon” was at least 10 times higher than previously thought.

This was followed up by several studies led by economists Marshall Burke of Stanford and Solomon Hsiang of Berkeley who reported evidence that warming had significant negative effects on wealthy and poor countries alike. Suddenly a picture emerged that warming is much more harmful than we thought, so it should be full steam ahead on aggressive climate policy. Global policy-

makers have embraced this belief, in part at the urging of the 2018 UN Intergovernmental Panel on Climate Change Special Report on 1.5 degrees warming, which highlighted this new research.

But other research has come out that tells a different story. One of the challenges in climate economics is that climate data are collected on a grid cell basis (organized in latitude-longitude boxes) while economic data is collected at the national level. To match them up the Dell group averaged the climate data up to the national level. There are different ways of doing the averaging, however, and the results are sensitive to the chosen method. Other teams have begun trying to build economic data sets at the local and regional level so the averaging step can be omitted. One group from Northern Arizona University used grid cell-level economic data from around the world and found, like Dell, that temperature had no warming effect on growth in rich countries, but they found it has also a positive effect in poor countries up to an average temperature of about 17.5 degrees, which is above the sample average temperature of 14.4 degrees.

Then a team from Germany developed a regional economic database that lets them account for what economists call “country fixed effects,” namely, unobservable historical and institutional factors specific to each country that are unrelated to, in this case, the climate variables. When they apply this method the climate effects on growth and output vanish for rich and poor countries alike.

More recently a group led by Richard Newell of Resources for the Future raised the issue that the econometric modelling can be done many different ways. Given the same data set there are lots of decisions to make, such as how many lagged effects to include, whether to use linear or nonlinear equations, and whether to use time trends. Altogether they counted 800 different ways the same data could be analyzed, and they wondered if the results depend on the model choice. They obtained the data set used by the Burke team and used the same country-level averaging method employed by Dell’s team. Then they ran a meta-analysis in which they evaluated all the possible models and evaluated how well each one fit the data to identify the best-performing models to reach their conclusions.

Dozens of different models all fit the data about equally well, and they could not rule out that the best ones do not include any role for temperature in economic growth.

There was some evidence that warming is good for growth up to 13.4 degrees Celsius, but the positive and negative effects were not statistically significant. Across the entire range of temperatures in the sample there was no significant influence of climate on either output or growth. Under the highest-warming scenario the Burke team had projected a 49 percent global GDP loss from climate change by 2100, but Newell found the model variant that fits their data best implied a slight global GDP gain. The best growth models as a group project an effect on GDP by 2100 ranging from -84 percent to +359 percent with the central estimates very close to zero; in other words, the effects are too imprecise to say much of anything for certain.

Now we come up against the challenge that policymakers seem to find it easier to deal with gloomy certainty than optimistic uncertainty. In the blink of an eye a handful of studies in a new research area had become the canonical truth, based on which governments swung into a much more aggressive climate policy stance. But as time has advanced, new data sets, and even reanalysis of the old data sets, has called those results into question and has shown that temperature (and precipitation) changes likely have insignificant effects on GDP and growth, and the effects are as likely to be positive as they are to be negative. This does not mean there aren’t specific regions and specific industries within those regions (such as agriculture in tropical countries) where there are potential losses especially if the countries don’t adapt. But for the world as a whole, there is no robust evidence that even the worst-case warming scenarios would cause overall economic losses.

It now falls to advisory groups like the IPCC to tell this to world leaders, before they enact any more disastrous climate policies that will do all the harm (and more) that the evidence says climate change itself will not do. [FI](#)



ROSS MCKITTRICK

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Ottawa and Others Provide Comfort for Cuban Regime



Fred McMahon

Long before the current protests in Cuba, the Cuban people's distaste for their dictatorship showed as many shifted from the old revolutionary slogan "Hasta la victoria siempre" (on to victory, always) to "Hasta cuándo?" (how much longer).

The protests are a moment of hope and foreboding. Since the mid-1990s, not one protest movement has replaced a repressive dictatorship with a stable democracy, with the interesting exception of Tunisia. And many high-profile groups, Canadian ones included if the past is any guide, will jump to the defense of the Cuban regime.

Tyrants of all stripes have learnt their power can endure if they don't mind massacring their people. Regimes that once accepted conventional wisdom that violence ferments more opposition, are now unrestrained, bolstered by the success of blood suppression in Myanmar, Syria, Belarus, Venezuela, Iran, and others.

The Internet was shut down in Cuba, but reports of regime brutality have still emerged. President Miguel Diaz-Canel has none-too-subtly demanded violence against protesters, asking "all the revolutionaries of the country, all the communists, to take to the streets." Former vice-president Ramiro Valdes called protestors "delinquents in the service of empire, carrying out the instructions given by their owners."

Ottawa has taken a “good people on both sides” approach. Global Affairs Canada, the federal department responsible for foreign relations, released a statement encouraging “all parties involved in the crisis to engage in peaceful and inclusive dialogue.” No condemnation of violent suppression and decades of dictatorship. This is a pattern. When Fidel Castro died in 2016, Prime Minister Trudeau hailed him as a “legendary revolutionary and orator” and praised his “significant improvements to the education and health care of his island nation.” Again, no mention of human rights.

“Some Canadians have been too ready to side with authoritarian regimes. Just a couple years ago, a slew of activist groups and **Canada’s biggest unions including the Canadian Union of Public Employees, Unifor, and the Canadian Labour Congress rose up to defend the “duly elected” Venezuelan President Nicolás Maduro.”**

In contrast, US President Joe Biden announced his support for people of Cuba. “We stand with the Cuban people and their clarion call for freedom and relief from... decades of repression and economic suffering to which they have been subjected by Cuba’s authoritarian regime.”

Some Canadians have been too ready to side with authoritarian regimes. Just a couple years ago, a slew of activist groups and Canada’s biggest unions including the Canadian Union of Public Employees, Unifor, and the Canadian Labour Congress rose up to defend the “duly elected” Venezuelan President Nicolás Maduro.

Never mind that Maduro was not “duly elected,” was murdering, imprisoning, and torturing protesters, and that his kleptomaniac regime created famine, medical shortages, and one of the world’s greatest refugee and humanitarian crises as millions fled his dictatorship. Corrupt elites pocketed billions while people starved. The daughter of former dictator Hugo Chavez, for example, is worth more than \$2 billion

and Maduro’s relatives are famous for foreign luxury spending sprees.

If Canada’s activists and unions can support the murderous and corrupt Maduro, what’s not to like about the successors of Fidel Castro? Many of the same unions and activist groups, including former foreign affairs minister Lloyd Axworthy, bizarrely demanded Cuba receive the 2021 Nobel Peace Prize for its COVID aid to poor nations, which “eclipses all other front-line efforts from industrialized nations,” according to the Council of Canadians.

Again, never mind that the ruling elite used Cuban medical squads for profit and hard currency, that at home Cubans suffer severe shortages of food and common drugs, and that the neglect of COVID in Cuba—better to get international recognition and dollars than protect Cubans and feed them—led to the deadly surge now gripping the island.

The Cuban dictatorship, other authoritarian regimes, and their western friends, will blame the US embargo for food and medicine shortages, though both are mostly exempt from the embargo. Besides, if global capitalism enslaves and impoverishes, Cubans should be prosperous, free, and celebrating the embargo.

Instead, the Cuban regime impoverishes and enslaves Cubans. The island is one of the most fertile places on Earth. The word “Cuba” likely comes from the Spanish “cubao” meaning “fertile land.” But the regime can’t feed its own people, importing two-thirds of the food supply.

Brutal times may lie ahead for the people of Cuba. Castro apologists will provide excuses and support the regime. But those who recognize freedom will stand with the people of Cuba (and Venezuela) and demand democratic governments do the same and provide whatever support they can. If recent history is a guide, the outlook may be bleak, but that’s the least we can do while countering with facts tyranny’s defenders who comfort the regime and weaken the international response. [FI](#)



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Bill C-10 Threatens Freedom of Expression in Canada



Bruce Pardy

You make a video and post it on YouTube. Nobody watches it. It does not pop up on searches or on “recommended” lists. YouTube has buried your video, not on its own initiative, but at the direction of the Canadian Radio-television and Telecommunications Commission (CRTC)—perhaps because your video was not “Canadian” enough or because its message offended government policy. If Bill C-10—which authorizes the CRTC to regulate online media platforms such as YouTube, Facebook, and Spotify—becomes law, this is a scenario Canadians could face in the not-so-distant future.

Bill C-10 will not directly regulate individual Canadians who use those services but will regulate the content they post and thus empower the CRTC to require tech companies to do the dirty work. The companies will regulate their users and manipulate the “discoverability”

of content in accordance with CRTC policies. Bill C-10 will not supervise online speech directly, but indirectly threatens to strangle it.

In its original form, C-10 would not have regulated the speech of ordinary Canadians at all. The bill excluded “programs that are uploaded to... a social media service by a user of the service,” meaning that the CRTC would not have had the power to supervise the content of individual users.

However, in April, the heritage committee removed this exception from the bill. And in early June, the Liberal, NDP, and Bloc Québécois members of the committee defeated a Conservative motion to put it back. On June 4th, the Liberals, backed by the Bloc, moved to limit debate on the bill.

According to Internet law guru Michael Geist, Bill C-10 is an unconscionable attack on the online free expression of Canadians, but government lawyers have dismissed

constitutional concerns with a shrug. An updated “charter statement” from the Department of Justice acknowledges that the effect of removing the carve-out for individual users does indeed mean that their content will be subject to regulation under the act, but says that “unaffiliated users of social media services would not be subject to broadcasting regulation in respect of the programs they post.”

That’s technically correct, according to University of Calgary law Professor Emily Laidlaw who said, “The government does not propose to regulate users directly. But it does propose to regulate the platforms that then must regulate users... In other words, by outsourcing the obligation to private companies, the state does indirectly what it can’t do directly.”

“The charter has become not so much a bulwark against government interference as a flexible judicial instrument for managing the priorities of the pervasive administrative state.”

That used to be a constitutional no-no. For instance, in 1928, the Supreme Court of Canada struck down a section of the federal Fisheries Act that prohibited operating a fish cannery without a federal licence. Section 91 of the Constitution Act, 1867, gave the feds jurisdiction over fisheries. However, regulating canneries—whether fish, fruit, or vegetable—is a matter of “property and civil rights” reserved for the provinces.

Therefore, the court said the federal government has no power to regulate putting fish into cans under the guise of regulating taking fish out of water. According to Justice Edmund Leslie Newcombe, writing for the court, and quoting a Privy Council judgment, “What cannot be done directly cannot be done indirectly.”

Yet governments have become adept at getting around the Constitution by doing exactly that. Under the Charter of Rights and Freedoms, the state cannot lock you away without due process, even for public safety, yet has been quarantining asymptomatic people in the

name of public health. The state cannot discriminate against religious beliefs, but the law societies of Ontario and British Columbia refused to accredit the graduates of a private religious university because they disapproved of its Christian beliefs.

Moreover, provinces have jurisdiction over natural resources, lands, mines, minerals, property and civil rights, but the federal government can impose carbon levies on a province in the name of “peace, order and good government.” The state cannot prevent citizens from entering or leaving Canada, or impose medical procedures without consent, yet now requires returning travellers to submit to invasive tests when they cross the border. Under Section 121 of the Constitution Act, 1867, goods from any province shall be admitted freely into any other, but provinces can erect barriers that inhibit trade if that’s not their primary purpose. The Constitution does not mean what it appears to say.

Since its inception in 1982, the charter has been less a constitutional bedrock than a political and judicial plaything, its roster of rights having been compromised by its own text. Section 1 says charter rights are guaranteed subject to “reasonable limits prescribed by law as can be demonstrably justified in a free and democratic society,” which the Supreme Court has said means governments can infringe rights if they do so “proportionately”—that is, no more than necessary to achieve their pressing objectives. The charter has become not so much a bulwark against government interference as a flexible judicial instrument for managing the priorities of the pervasive administrative state.

Bill C-10 is an autocratic piece of legislation. As Michael Geist put it, “Is there any reason for Canadians to trust that their online speech will be safeguarded?” Worse still, the Liberals promise to introduce another bill that will police online “hate speech.” Directly or indirectly, Canadians’ freedom of expression is in peril. [FI](#)



BRUCE PARDY

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Canada Should Reject International Corporate Tax Rate



Steven Globerman

Recently, the G7 countries including Canada agreed to support a global minimum corporate tax rate of at least 15 percent with the revenues shared globally among all participating countries, although the agreement still requires support from another 135 countries.

Supporters of the policy, including US Treasury Secretary Janet Yellen, argue that a minimum international corporate tax rate will end the global “race to the bottom” whereby some countries (most notably Ireland) lower their domestic corporate tax rates, which allegedly obliges other countries to follow suit lest their own domestic companies relocate to lower-tax jurisdic-

tions. This technical argument also typically includes the populist call for “rich” companies to pay their “fair share” of taxes.

Some large multinational companies, including Amazon, publicly support the proposal, arguing that a minimum international tax rate is preferable to a patchwork of national taxes (and the many disparate fees companies pay to tax lawyers and accountants), even if it means an overall increase in the tax rates that Amazon and other multinationals pay.

But it’s a bad idea. In fact, countries should not tax corporations at all.

Why? Because corporations don’t not bear the burden of

taxation. Corporations are simply the legal governance structure for investors and workers to pool their money and skills to produce and distribute output. A corporate tax is therefore a tax on shareholders and workers. Specifically, the shareholder portion of the tax is the difference between their company's before-tax profit and after-tax profit. Workers pay indirectly with lower wages than they would otherwise earn, as higher corporate taxes discourage capital investment and a lower capital-to-labour ratio means lower labour productivity and therefore lower worker compensation. In fact, the evidence suggests that workers pay more than half of any corporate tax.

“A corporate tax is ... a tax on shareholders and workers. Specifically, the shareholder portion of the tax is the difference between their company's before-tax profit and after-tax profit. Workers pay indirectly with lower wages than they would otherwise earn, as **higher corporate taxes discourage capital investment and a lower capital-to-labour ratio means lower labour productivity and therefore lower worker compensation.”**

This also means that any increased government revenue from the corporate tax is partially offset by lower revenues from the personal income tax as workers earn less money. And to the extent the corporate tax discourages innovation, entrepreneurship, and investment in equipment and other infrastructure, the subsequent foregone productivity gains accentuate the tax's negative effect on labour productivity and wage growth.

Of course, some will argue that Canada will benefit from the G7's proposal given the popular view that a minimum international corporate tax rate will only affect American “Internet companies” such as Amazon, Facebook, and Google. But in 2020, Canada's outward

foreign direct investment (that is, money invested by Canadians in countries other than Canada) was almost twice as large as our inward foreign direct investment, which suggests that Canadian companies might well experience higher net tax obligations under a more punitive international tax regime while the gains to the Canadian government from increasing the effective tax rate on foreign companies doing business in Canada will be modest by comparison.

“While the precise impact of a minimum international corporate tax rate on tax revenue remains difficult to predict, it's fair to say that **higher corporate tax rates will slow productivity growth and lower living standards for many Canadian workers.”**

While the precise impact of a minimum international corporate tax rate on tax revenue remains difficult to predict, it's fair to say that higher corporate tax rates will slow productivity growth and lower living standards for many Canadian workers. [FI](#)



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Red Tape—Not Greedy Companies— Drives Canada’s Housing Crisis



Steve Lafleur

As Canada emerges from the COVID recession and our cities come back to life, there’s a certain dread lingering in the background. While it’s nice to see people enjoying life once again, it’s clear by now that urban housing markets are tightening again, and we’re about to return to the bad old days of low rental vacancy rates and pricey condos. And rather than addressing the root cause of the problem, it looks like critics are going back to the same old well to find villains rather than solutions.

News that a real estate developer plans to spend up to a billion dollars purchasing detached homes in Canada caused a flurry of outrage. But this type of thing isn’t new. Wall Street firms bought up detached houses after the global financial crisis, and have become significant landlords in the United States. Of course, it’s easy to paint these firms as villains capitalizing on tight housing markets, but the real problem is the tightness of the markets. And it’s largely due to policy choices, not “corporate greed.” These “villains” simply assume that government regulations will continue to prevent

the housing supply from responding to housing demand in North America, and they're probably right.

A recent Scotiabank report showed that Canada has fewer housing units per capita than any other G7 country, slightly behind the US (which is in the middle of its own housing boom). With Canada and the US likely to continue leading the G7 in population growth, the gap will widen without a commensurate increase in the rate of home construction. So the fundamentals suggest that investments on single detached houses make a lot of sense for these firms.

And here's the main point. Instead of worrying that a small proportion of detached homes will be converted from ownership to rental units, we should address the underlying factors that motivate these investments.

There's also a fundamental contradiction to the popular "villain" narrative. If greed drives housing prices upward, shouldn't profit-seeking companies respond to higher prices by building more housing units? Surely profits motivate developers as much as landlords.

“Red tape is strangling housing development in much of Canada and the US. And not only in Toronto and Vancouver where the Greenbelt and Agricultural Land Reserve limit sprawl and restrictive zoning and arbitrary building codes limit density.”

In reality, red tape is strangling housing development in much of Canada and the US. And not only in Toronto and Vancouver where the Greenbelt and Agricultural Land Reserve limit sprawl and restrictive zoning and arbitrary building codes limit density. In other metropolitan areas large and small, minimum lot sizes reduce the number of houses that can be built, minimum parking requirements add tens of thousands of dollars to construction costs, and zoning regulations prohibit anything other than single detached homes. It's death by a thousand cuts.

“... reducing barriers to housing construction should be the overarching focus for policymakers looking to increase housing affordability. Fundamentally, we must end artificial housing scarcity. We should care about whether or not there are enough homes, rather than who owns them.”

Rather than chasing villains, we should seek solutions. There are many policy proposals that could help, but reducing barriers to housing construction should be the overarching focus for policymakers looking to increase housing affordability. Fundamentally, we must end artificial housing scarcity. We should care about whether or not there are enough homes, rather than who owns them. [FI](#)



STEVE LAFLEUR

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Plastics Help Green the Earth Despite Trudeau Government Plans

Pierre Desrochers and Joanna Szurmak

According to many environmentalists, coal, petroleum and natural gas—and the fuels, lubricants, and various products made possible by these fossil fuels—help drive widespread environmental problems. As journalist and activist Murray Dobbin put it a few years ago, the “ever-increasing production and use of fossil fuels will, over time, kill billions of us and irreversibly change all life on the planet.” Taking its cue from the likes of Dobbin, the Trudeau government wants to designate all plastic manufactured items—not just straws!—as “toxic.” Surely such a bold move is justified,

in light of how terrible things have become for humans and their planet.

Yet, one has to wonder.

As many people have pointed out, plastic materials have many benefits. They’re versatile, cheap, lightweight, and resistant. They protect our food, reduce food waste, and help produce a lot more food a lot more efficiently—and therefore more cheaply—than was possible a few decades ago. And crucially, plastic pollution is not a problem in advanced economies such as Canada as

we're pretty good at burning and recycling plastics, either into energy or other products.

“Plastic materials ... protect our food, reduce food waste, and help produce a lot more food a lot more efficiently—and therefore more cheaply—than was possible a few decades ago. And crucially, plastic pollution is not a problem in advanced economies such as Canada as we're pretty good at burning and recycling plastics, either into energy or other products.”

Indeed, plastics and fossil fuels benefit both humanity and our environment. We are born and live surrounded by plastics and countless machines created with and powered by fossil fuels. There's now nearly eight billion of us, with the vast majority of people living much longer and more prosperous lives than the one billion people that were around when coal use took off two centuries ago. Moreover, the richer we are, the greener most parts of the planet become.

More people, more industry, more food, more consumption, AND a greener planet? How can this be? Easy. We've gotten better and better at substituting resources produced on the surface of the planet with resources dug or pumped from underground. Before 1850, approximately three-quarters of all products used by human beings came from living plants or animals competing for resources on the Earth's surface. As the late Harvard geologist Kirtley Fletcher Mather observed in 1944: “Today only about 30 percent of the things used in industrialized countries come from things that grow; about 70 percent have their sources in mines and quarries.”

Indeed, refined petroleum products (fuels, lubricants), synthetic products (plastic, fibre, cloth, rubber, sweeteners, vitamins, medicines), metals, sand, clay, silicon, potash, and phosphate have gradually reduced the demand for wild fauna such as whales (whale oil, baleen,

perfume base), birds (feathers), elephants, polar bears, alligators, and other wild animals (ivory, fur, skin), trees and other plants (lumber, firewood, charcoal, rubber, pulp, dyes, green manure), agricultural products (fats and fibres from livestock and crops, leather, dyes, and pesticides from plants), work animals and the large quantities of food they consume (horses, mules, oxen) and human labour in various forms (lumbering, agricultural work).

This large-scale substitution process allowed our ancestors to, in the words of historical demographer E.A. Wrigley, “break free from photosynthesis” and become independent from the soil. These advances, in turn, made marginal agricultural land, sometimes cultivated through environmentally damaging methods such as slash-and-burn, available for spontaneous reforestation, rewilding, and tree plantations while sparing many non-cultivated marginal wetlands, grasslands, and forestlands from the plow. In North America, Europe and other parts of the world, there are more forested areas now than in the 1850s and 1950s.

Plastics are not perfect, but if handled properly they are better and greener than substitute products made of plants and animals. Turning our back on plastic will make us and our planet worse off. [FI](#)



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Horgan Government Should Protect Low-Income Students from Ideological School Boards



Paige MacPherson

In the pursuit of a one-size-fits-all school system, the Vancouver School Board (VSB) is eliminating honours courses in math and science. This decision, based purely on ideology, will disproportionately affect lower-income teens.

First, consider this. The VSB cites “equity” as the reason for the decision. Of course, all students should have equal opportunity to learn and to thrive. But every student is unique, and no ideology can change that.

When the VSB ignores reality—that is, that different students thrive in different subjects at different academic levels—it actually eliminates the diversity it should embrace and prevents students from pursuing their interests in a welcoming environment of peers. It’s hard to imagine a worse way to prepare students for our increasingly globalized and competitive world.

Moreover, the policy does not stand the test of logic. Would the VSB eliminate French classes because not all students excel in languages? Or gym class, because every student isn’t athletically inclined? Of course not.

And again, this new policy will disproportionately hurt lower-income students who can't afford to leave the public school system for another type of school. Indeed, families have already noted this policy has effectively shut them out of enriched academics.

Why?

Because the BC government only provides up to 50 percent of the operating costs for independent schools, which emphasize subjects such as science, math, the arts, and even athletics. That's better than some other provinces, but still effectively excludes BC families who can't afford the other 50 percent of the tuition cost. So when the VSB eliminates honours classes, many lower-income kids won't have the option to take honours courses—at a public school or independent school.

The Horgan government can change that.

In Australia and Sweden, the government provides funding for students attending independent schools, but unlike BC, their programs better assist low-income families. For example, in Australia's scaled funding system, independent schools in lower-income neighbourhoods receive more direct funding from the government. In Sweden, the government fully funds the vast majority of independent schools and charges parents no tuition.

“In the pursuit of a one-size-fits-all school system, the Vancouver School Board is eliminating honours courses in math and science... Would the VSB eliminate French classes because not all students excel in languages? Or gym class, because every student isn't athletically inclined? Of course not.”

If BC increased funding for independent schools to increase affordability for lower-income families, students would have access to more opportunities (and a safe

harbour from exclusionary school board policies such as the VSB's latest move). BC could equitably fund independent schools like they do public schools or offer “vouchers” like Australia, which helps lower-income kids. And by aligning school funding with the pace of enrolment, the province would keep this policy change affordable for taxpayers.

“If BC increased funding for independent schools to increase affordability for lower-income families, students would have access to more opportunities (and a safe harbour from exclusionary school board policies such as the VSB's latest move).”

This isn't the Vancouver School Board's first ideological policy whim, and it won't be the last. The VSB would rather prevent students from reaching their potential than see a gap in student performance. This does nothing to improve the experience of all students—it simply hurts students who want to pursue advanced academics. The board should reverse this perverse decision. But crucially, the BC government should empower lower-income students by giving all families the ability to choose other schools. [FI](#)



Paige MacPherson is the Associate Director of Education Policy at the Fraser Institute

Alberta Needs New (Old) Rule to Stabilize Government Resource Revenues



Tegan Hill and Jason Clemens

The Alberta government once again faces budget deficits and mounting debt, which started well before COVID, due in part to the treatment of non-renewable resource revenue in the budget. With an expected rebound in the energy sector, now is the time to introduce new rules to stabilize this volatile source of revenue and prevent the ongoing boom-and-bust cycle in provincial finances.

Since 1970/71, Alberta's non-renewable resource revenue (hereafter referred to simply as resource revenue), adjusted for inflation, has ranged from a low of \$1.6 billion (1970/71) to a high of \$19.0 billion (2005/06). As a share of provincial revenue, it's ranged from 77.4 percent (1979/80) to a projected 4.7 percent in 2020/21.

This volatility creates a problem when, during times of high resource revenue, governments increase spending to levels that are unsustainable once resource revenue inevitably declines—which produces periods of routine deficits.

Consider this. Alberta's per-person spending (adjusted for inflation, excluding debt interest costs) increased from \$8,012 in 1999/00, when resource revenue began increasing, to \$12,740 by 2008/09. Once resource revenue declined, the province had to borrow money (i.e. incur deficits) to pay for spending that could only be sustained without deficits when resource revenues were high.

To prevent this boom-bust cycle in government finances and restore discipline to government spending, the Kenney government can revisit some old rules. First, Alberta should reinstitute the Alberta Sustainability Fund (ASF).

Established in 2003, the fund's main idea was to "stabilize" a specific amount of resource revenue for the budget with any excess money saved in the ASF, which could be withdrawn when resource revenue fell below the stabilized amount. In other words, save during good times to finance a stabilized amount of resource revenue in the budget during bad times.

The ASF, however, was based in statutory law, which meant its rules were easily changed and the fund was discarded entirely in 2013. If the government creates a new sustainability fund, it should learn from this lesson

New fiscal rules help governments avoid the resource revenue roller coaster



and establish the fund as a “constitutional rule,” which would make it more difficult to change in the future.

“If Alberta had followed rules similar to those used in Alaska [which has experience with the Permanent Fund], the Heritage Fund would have a balance of approximately \$91.6 billion instead of the actual \$16.2 billion (2019/20).”

Second, Alberta should impose a fiscal rule requiring that a portion of resource revenue be deposited in the Heritage Fund. This would help temper the pressure for governments to increase spending during times of high resource revenue.

When the province created the Heritage Fund in 1976, it imposed a rule that 30 percent of resource revenue be saved. Critically, though, this requirement was also statutory, so it could be easily changed. When resource revenues declined in 1982, the province lowered the contribution rate to 15 percent and then ceased contributions entirely in 1987 following an oil price collapse.

Finally, Alaska’s experience with its Permanent Fund, also established in 1976, provides some important insights for Alberta. Alaska requires at least 25 percent of mineral revenues to be deposited—but its requirement is constitutional, which makes it more difficult to change. If Alberta had followed rules similar to those used in Alaska, the Heritage Fund would have a balance of approximately \$91.6 billion instead of the actual \$16.2 billion (2019/20).

Alberta needs a new approach to resource revenue. A combination of constitutional rules, which would establish a predictable level of resource revenue for the budget, and a requirement that a share of resource revenue be saved, would help end the recurring boom-and-bust cycle in Alberta. **FI**



TEGAN HILL



JASON CLEMENS

Tegan Hill is an economist and Jason Clemens is executive vice-president of the Fraser Institute. They are co-authors, along with Joel Emes, of *A New (Old) Fiscal Rule for Non-Renewable Resource Revenue in Alberta*.

ENGAGING STUDENT LEADERS

In the first six months of this year the Institute's webinar series engaged over 3,000 Canadian post-secondary students eager to expand their knowledge of pressing policy issues and economic freedom. Speakers for these webinars included renowned economist Deirdre McCloskey, 19-time Emmy-award winner John Stossel, and many more.

All past recordings can be found at: freestudentseminars.org

From their participation in these webinars the Institute identified 30 students who displayed a

true passion for government policy and economics and are believed to be most likely to become future leaders. These students were invited to attend our annual Student Leaders Colloquium, which we hosted over Zoom this year, to learn and debate complex public policy issues and trends with some of Canada's leading public policy professionals.

Here is what some of these students had to say about the Colloquium:

- *“Over the course of four days, policy experts joined us [students] in a relaxed online atmosphere where free, open, and thoughtful discussions were encouraged.*

Twenty-nine student leaders discuss the difference between income inequality and consumption inequality with Professor Don Boudreaux of George Mason University.





Twenty-nine student leaders representing 18 different Canadian universities and colleges joined the institute's 2021 Student Leaders Colloquium.

We were given an opportunity to engage directly with the policy experts in discussions and Q&As as well as the opportunity to connect with them afterward. The colloquium was incredibly worthwhile for me.

- *"The colloquium was fantastic! I enjoyed the perspectives each attendee had to bring to the table. It didn't matter if they were from BC, Alberta, or Quebec, everyone had something to talk about and something to enlighten me with. I had a lot of fun participating in it, and it has definitely helped shape my perspectives of many Canadian public policy issues."*

OVER 300 TEACHERS ATTENDED OUR SPRING WORKSHOPS

In addition to our post-secondary programming, the Institute has continued to offer teacher workshop webinars for Canadian educators that cover key economic concepts like trade, opportunity cost, economic inequality, and much more.

Here is what some teachers are saying about our webinars:

- *"I have become a more effective economics teacher because of the many applications I have learned in these workshops!"*
- *"Please keep offering these webinars! The choices have expanded so much since the first workshop that I enrolled in years ago. I have used different activities in my class and they have been very effective at helping students understand the concepts."*
- *"Economic and business-minded thinkers are underrepresented in secondary schools. It is so refreshing to hear outside perspectives through the Fraser Institute workshops. Thank you for making these available to Canadian teachers!"*

Please visit us at:
fraserinstitute.org/education-programs



Paige MacPherson

What's your role at the Institute?

I am excited to lead the Institute's education policy research as the Associate Director of Education Policy. Measuring the success and innovation of Canadian education is critical for ensuring our children have the brightest futures ahead of them.

How did you arrive at the Institute?

After completing my Master of Public Policy Capstone Project research measuring the success of Alberta's charter schools, which was awarded the school's Capstone Project of the Year, my interest in education policy grew. Throughout my career I have contributed research and commentaries on education policy and innovation to research organizations and media outlets across Canada. The Fraser Institute's Education Policy department was a natural fit and I am delighted to be a part of the team.

Tell us something exciting you're working on now for the immediate future.

Ensuring the quality of Canada's education systems will be critical in the years ahead as we begin to transition back to normal life for our children. All Canadian students deserve high quality education that meets their diverse learning needs. I am excited to advance research looking at how students from all income levels can have access to educational options that are best suited to them.

What do you enjoy doing in your spare time that your colleagues many not be aware of?

Most of my time is spent chasing after one preschooler, one toddler, and two dogs, but I also love exploring Canada to take in all its beauty, quirks, and diverse ways of life. I have traveled to all 10 provinces and one territory (two to go), and lived in cities and small towns from coast to coast and in between. I love meeting new people and hearing their stories; developing a firsthand understanding of the policies and their impacts in many different provinces has helped my understanding immensely. I am always keen to hop in the car for a long road trip to check more places off my Canadian travel bucket list.

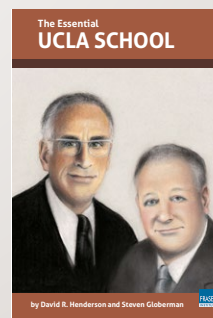
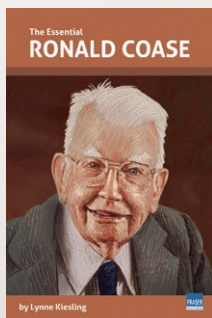
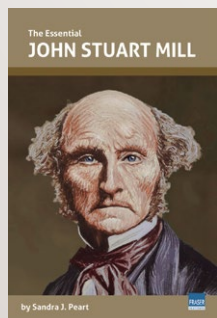
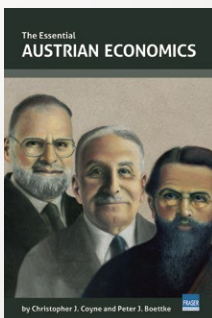
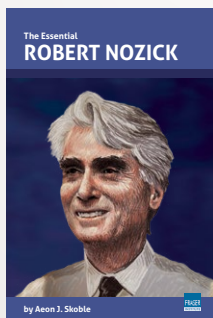
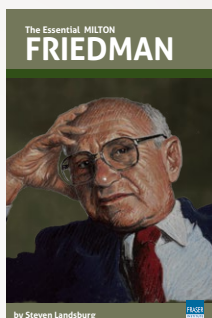
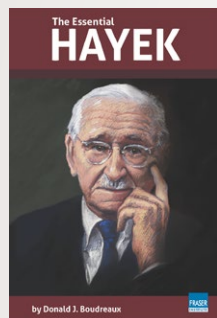
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