

# THE Quarterly

FALL 2022

## Policy U-Turn Needed to Avoid Inflation & Energy Crisis





**Niels Veldhuis**  
President, Fraser Institute

**Dear Fraser Institute Friends and Supporters,**

I hope you all had a wonderful summer despite the highest inflation rate in decades. It sure has made it more difficult for Canadians to enjoy a summer vacation, whether a road or camping trip.

As I write this, inflation in Canada just reached 8.1 percent a year, the highest since January 1983! Furthermore, gas prices are up 55 percent since last year, and food prices are up 8.8 percent. Is it any wonder that inflation is among the top concerns for Canadian families who have to cut back on expenditures to absorb rising costs?

While the Bank of Canada is increasing its interest rate to help bring inflation down, let's not forget that the Bank contributed significantly to the inflation rates we're dealing with by purchasing government debt with new money, which helped the Trudeau government massively increase spending. And remember that it was just a year ago, in August 2021, when Prime Minister Trudeau said that he didn't think about monetary policy but rather about families. Just a year later, Canadian families are having to deal with an inflation crisis.

As my colleagues Jason Clemens and Steve Globerman ask in their commentary on page 14, "Canada and the US Must Make Policy U-Turns to Mitigate Recession," does our government have the humility to admit its mistakes and recognize that it needs to make an about-face in policy? As they note, the policies needed the most are those that will promote longer-run economic growth. In a similar vein, see "Federal Government Should Help Increase Productivity to Tame Inflation" on page 20.

As my colleagues and I have been saying for many years, our government needs to focus on improving Canada's competitiveness, reducing regulations, constraining government spending, and reducing taxes on personal, business, and capital gains. That is, we must make it more attractive to work hard, invest, and take entrepreneurial risks in Canada.

In discussing inflation today, many people dismiss our government's role by pointing to our experience during the 2008 recession when the Bank of Canada also increased the money supply and the federal government ran significant deficits. Fraser Institute senior fellow Ross McKittrick's commentary, "Inflation—Why Now and Not Post-2008?" (page 24) explains the difference.

Finally, with gas prices up 55 percent, I highly recommend the summary of our recent study, "Can Canada Avoid Europe's Energy Crisis?" (page 2). The authors note that unfortunately, Canada is implementing many of the policies that contributed to Europe's energy crisis.

These are examples of just some of the commentaries and studies we have published over the past few months as we try to educate Canadians about the poor policy choices made by our federal government and what needs to be done to change course.

Canadians need to hear these important messages. After reading this edition of *The Quarterly*, please pass it on to your friends, family, and colleagues.

Best,  
Niels

A handwritten signature in blue ink, appearing to read "Niels Veldhuis". The signature is fluid and cursive, written in a professional style.

## New Research



Canada Risks European-Like Energy Crisis If Similar Policies Continue to Be Pursued **2**

Ottawa's Plan to Reach Zero Plastic Waste by 2030 Will Have Virtually No Effect on the Environment, but Will Impose High Costs on Canadians **4**

Canada Second Highest Debt Accumulator (as a Share of the Economy) out of 33 Countries from 2019-21 **6**

Stronger Private Sector Key to Improved Prosperity in Atlantic Canada **8**

Ottawa's Emission Cap on Oil and Gas Sector Targets Only 1/4 of GHG Emissions; Contradicts Rationale for Carbon Tax **10**

Canada's Aging Population Contributing to Job Vacancy Crunch **12**

## Recent Columns



Canada and US Must Make Policy U-Turns to Mitigate Recession **14**

"Learning Styles" Myth Damaging Our Education System **16**

BC Court Denies Patients the Ability to Seek Private Care **18**

Federal Government Should Help Increase Productivity to Tame Inflation **20**

How Premier Ford Can Make Hard Work Pay Off in Ontario **22**

Inflation—Why Now and Not Post-2008? **24**

Don't Blame COVID for Ottawa's Record High Debt Levels **26**

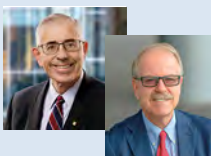
Alberta's Resource-Fuelled Budget Surplus Masks Long-Standing Spending Problem **28**

## Education Programs



Post-Secondary Policy Webinars Have an Impact on Canadian Students **30**

## Fraser Institute Adds Two Prominent Senior Fellows



Lawrence Schembri and Jock Finlayson join the Fraser Institute **32**

# Canada Risks European-Like Energy Crisis If Similar Policies Continue to Be Pursued

By Robert P. Murphy, Jairo Yunis, and Elmira Aliakbari

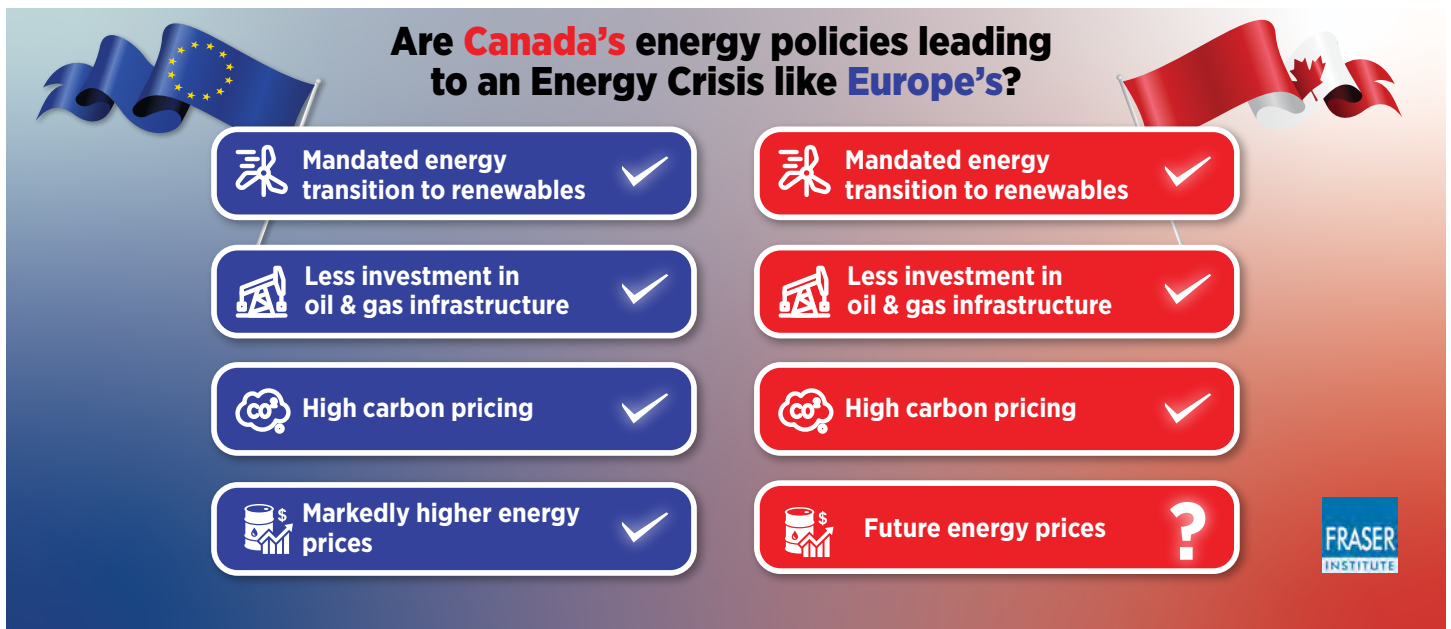
**Robust economic growth as the world emerged from the pandemic coupled with the world's strong reliance on abundant and affordable energy from fossil fuels has led to a significant post-COVID rebound in oil and gas consumption. According to most forecasters, oil and gas will continue to be a large component of the world's energy mix in the next decades even in the most conservative estimations. In fact, projections show that, at least in the medium term, demand for these conventional energy sources will increase and they will continue to fuel economic growth, particularly in developing countries.**

However, a combination of market forces and government policies is threatening global energy security as demand for oil and gas is expected to increase in the coming years without a commensurate increase in supply. Declining investment as a result of volatile commodity prices and aggressive climate policies in combination with the West's response to the war in Ukraine risk limiting the world's ability to supply this growing demand. As our report, *Can Canada Avoid Europe's Energy Crisis?* explains, the inevitable consequence of this supply and demand mismatch is an energy shortage that will lead to higher energy prices for a sustained period of time, hampering economic growth and increasing the cost of living.

Nowhere is this truer than in Europe, which is experiencing its worst energy crisis in decades. For the last 20 years, governments across Europe have intervened in the region's energy markets by drastically altering the composition of its energy mix. In particular, European climate policies have strongly encouraged the prolifera-



tion of wind and solar power at the expense of coal and nuclear. Yet because renewables (wind and solar) cannot fully support European demand for electricity due to their intermittency, the market has become increasingly dependent on natural gas—a predictable and dispatchable energy source—as a marginal supplier in times of high electricity demand. But European climate policies have also resulted in significantly lower domestic natural gas production and storage capacity, making Europe reliant on Russian natural gas imports. Specifically, several EU countries, such as Ireland, Germany, and France, have banned fracking, which effectively reduced the region's ability to produce the reliable and affordable energy it needs. Another example is the EU's soaring carbon prices, which are driven by the region's ambitious climate policies and targets. For most of its history, the European Union had modest carbon prices, typically under 15 euros per tonne. Yet recently the carbon price has risen very rapidly, going from 22 euros per tonne in early 2020 to



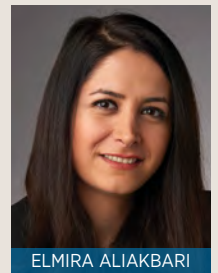
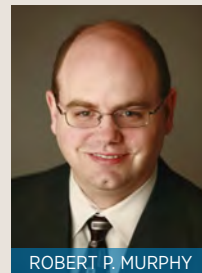
more than 60 euros by the fall of 2021 and 90 euros a tonne by December 2021.

Lower production and storage, coupled with increased demand for natural gas as a result of both a greater reliance on intermittent wind and solar and a strong economic recovery, led to a significant spike in the price of natural gas in 2021. Because natural gas is such a crucial component of European electricity generation, the price of natural gas partially drives the price of electricity. As a result, electricity prices soared to record levels in 2021, rising more than 200 percent in Germany, the UK, Spain, and France. In the Nordic region, prices surged 470 percent compared to 2020. Overall, aggressive climate policies through soaring carbon prices and forced energy transitions to renewable energy sources have largely contributed to Europe's energy crisis.

Europe's experience can serve as a cautionary tale for the federal government in Canada, which is implementing the same set of policies that contributed to Europe's energy crisis. For example, Canada will have a carbon tax of \$170 a tonne of carbon dioxide by 2030 while the European Union Emission Trading System allowance price sits at around \$110 per tonne. Like many European countries, in particular Germany, Ottawa has mandated the phase-out of conventional coal-fired electricity generation and accelerated the deployment of renewable energy sources to support its target to achieve 90 percent of non-emitting electricity generation by 2030.

In addition, Europe's cap on greenhouse gas emissions is a feature of its regional carbon pricing system and some countries, like Germany and the UK, have added a carbon tax on top of this cap-and-trade system. Canada's federal government plans to cap the greenhouse gas emissions from the oil and gas industry—without creating a corresponding permit market—on top of its already poorly designed carbon tax.

Although global market forces are out of Ottawa's control, many of our policy decisions are self-inflicted wounds contributing to the problem. Given the current context of rising energy prices, Canadian policymakers should consider the policy implications of aggressive climate policies that considerably limit the production of reliable and affordable energy. [FI](#)



Robert P. Murphy is a senior fellow, Jairo Yunis is a former policy analyst, and Elmira Aliakbari is director of Natural Resource Studies at the Fraser Institute. They are co-authors of *Can Canada Avoid Europe's Energy Crisis?*

# Ottawa's Plan to Reach Zero Plastic Waste by 2030 Will Have Virtually No Effect on the Environment, but Will Impose High Costs on Canadians

By Kenneth P. Green

At the end of 2021, the government of Canada launched a regulatory campaign against plastic waste—Zero-Plastic Waste 2030 (ZPW2030)—that will, in the estimation of its own Regulatory Impact Assessment, impose costs on Canadian society exceeding projected benefits. This fails the first and arguably most important test of sound public policy.

## Environmental Impacts

ZPW2030 will produce little or no environmental benefit because Canada's plastics economy poses a very small environmental risk either locally or globally. Only one percent of Canada's plastic waste is ever released into the environment. The other 99 percent is disposed of safely from an environmental perspective: some incinerated, some recycled, but most discarded in landfills, an environmentally benign endpoint.

Canada's contribution to global aquatic plastic pollution, when assessed in 2016, was between 0.02 and 0.03 percent of the global total. If observed market trends were to continue in the absence of ZPW2030, the government's Regulatory Impact Assessment estimates plastic waste and plastic pollution could increase (from 2016 levels) by roughly one third by 2030. Thus, if ZPW2030 eliminated all the predicted increase, it would prevent an increase from 0.02–0.03 percent to 0.023–0.033 percent of the global total, an undetectable reduction of three thousandths of one percent.

Even that small reduction in environmental harm is likely to be offset by increased environmental harms stemming from replacements for the plastic products banned under ZPW2030. As government acknowledges, "the proposed Regulations are expected to increase the waste gener-



ated from substitutes by 298,054 tonnes in the first year of full policy stringency (2024) and by around 3.2 million tonnes over the analytical period (2023 to 2032), almost all of which is driven by paper substitutes." And, the government observes, "The proposed Regulations would prevent approximately 1.6 million tonnes of plastics from entering the waste stream over the analytical period but would also add about 3.2 million tonnes of other materials to the waste stream from the use of substitutes."

The potential for this kind of regulatory "backfire" fails another important test of sound health and environment-related public policy, which is "First, do no harm."

## Economic impacts

As the government's Regulatory Impact Analysis shows, the monetized costs of the proposed single-use plastics regulations—CA\$1.3 billion—will outstrip the monetized benefits—CA\$619 million—by nearly 2 to 1. According to a report the government contracted Deloitte to pro-

## Canada's plan for "Zero Plastic Waste" by 2030 makes no sense because:



Only 1% of Canada's plastic waste is improperly disposed of

Aquatic plastic pollution will only be reduced 0.003% globally

Plastic substitutes will do greater environmental harm

Banning plastic will cost Canadians \$300 million a year



duce, over the course of the initiative estimated benefits of the overall ZPW2030 regime are estimated to be up to CA\$10.5 billion, but would require investment in new facilities of up to CA\$8.3 billion to achieve it. Even then, in 2030, annual costs of the program are estimated to exceed benefits by CA\$300 million per year.

**“** *Canada's policymakers should consider re-targeting and refocusing its ambitious plan to regulate Canadian plastic wastes, which are a very small environmental problem in Canada, and constitute only a vanishingly small contribution to the global plastic pollution problem.”*

These costs will ultimately be borne by consumers, as the government observes: the increased volume of wastes discussed above will “represent additional costs for municipalities and provincial authorities, as they are usually responsible for managing collection, transportation, and landfilling of plastic waste, and would assume

most of the associated costs, which would ultimately be passed on to taxpayers.”

### Alternative policy options

Canada's policymakers should consider re-targeting and refocusing its ambitious plan to regulate Canadian plastic wastes, which are a very small environmental problem in Canada, and constitute only a vanishingly small contribution to the global plastic pollution problem. Instead, Canadian policymakers could examine ways to crack down on improper end-point disposal of plastic wastes, such as littering in general. To the extent the federal government is involved with solid waste management, it might look for incentives it could develop to improve street cleaning and municipal waste management and handling practices to prevent littered plastics from lingering in Canada's environment or leaving the country's boundaries to become part of a global problem. **FI**



KENNETH P. GREEN

Kenneth P. Green is a Fraser Institute senior fellow and the author of *Canada's Wasteful Plan to Regulate Plastic Waste*.

# Canada Is Second Highest Debt Accumulator (as a Share of the Economy) out of 33 Countries from 2019-21

Tegan Hill and Milagros Palacios

During the pandemic, countries around the world accumulated significant debt in an effort to support their economies. In Canada, programs such as the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Response Benefit (CERB) cost hundreds of billions of dollars. In fact, Canadian governments—including federal, provincial, and local—borrowed more money than any other industrialized country except Japan during the pandemic, yet all that borrowing didn't translate into stronger economic performance compared to our peers.

Even before COVID, Canada's gross debt position (a measure of total government indebtedness) relative to the size of the economy wasn't great. In 2019, according to data from the International Monetary Fund (IMF), Canada had the 10th highest gross debt as a share of the economy (87.2 percent) out of 33 industrialized countries. By 2021, that number reached 112.1 percent, an increase of 24.9 percentage points, giving Canada the second-highest increase in gross debt as a share of the economy out of 33 countries from 2019 to 2021 (again, behind only Japan).

So what does all this mean for Canadians?

Given that Canadian governments accumulated more debt as a share of our economy than every other country in our peer group save for Japan, many believed Canada's economy would fare better than others. Unfortunately, the data do not bear that out. As noted in our study *The Accumulated Debt and Economic Performance of Industrialized Countries during COVID*, Canada underperformed relative to our peers on both economic growth and unemployment rates in 2020 and 2021.



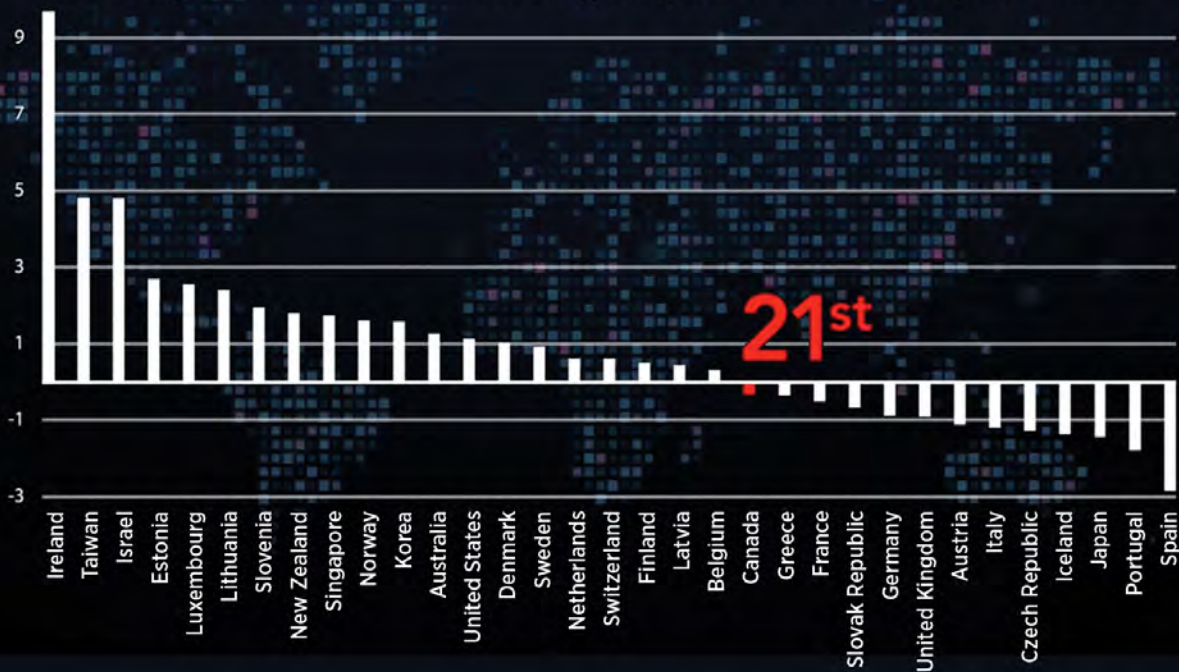
For the overall economy, Canada ranked 21st out of 33 countries, averaging negative 0.3 per cent GDP growth (inflation-adjusted) in 2020 and 2021. In other words, nearly two-thirds of our peer group—including the United States and Australia—fared better than Canada. Ireland, which actually reduced its gross debt-to-GDP ratio between 2019 and 2021, led the group of 33 industrialized countries in inflation-adjusted GDP growth.

Our performance for unemployment was even worse over the same two-year period (the IMF data are standardized to allow for inter-country comparisons). Of the 33 countries, Canada had the fifth-highest average unemployment rate in 2020 and 2021, behind only Greece, Spain, Italy, and Sweden.

Put simply, despite leading in debt accumulation, Canada lagged behind a majority of our peers on key economic indicators. And debt accumulation comes with conse-



## Average Growth in the Economy, Adjusted for Inflation, 2020-2021



**“** Despite leading in debt accumulation, Canada lagged behind a majority of our peers on key economic indicators.”

quences. Higher debt (all else equal) means more tax dollars go towards paying debt interest, which leaves less money for health care, social services, and/or tax relief. Interest payments on federal debt alone will cost Canadian taxpayers approximately \$180 billion from 2022/23 to 2026/27, and this assumes lower interest rates than will likely exist given current inflationary pressures—the Bank of Canada raised its policy interest rate from 0.25 percent in January to 1.5 percent in June and signaled that more rate hikes will follow. As interest rates rise, government debt interest costs also rise, all else equal.

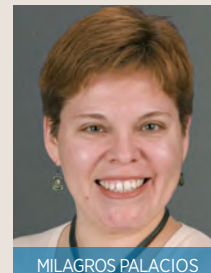
Finally, debt accumulation—specifically when the central bank purchases government debt to finance spending (as occurred in Canada during the pandemic)—can contribute to inflation, which occurs when the growth in the money supply exceeds the capacity of the economy to

meet that demand. When the Bank of Canada financed debt during the pandemic, it was printing money, which meant more dollars chasing less goods, spurring inflation.

Canadian governments, including the federal government, racked up massive amounts of debt during the pandemic in an effort to support Canadians, but despite accumulating more debt as a share of the economy than every other country except Japan, our economy underperformed compared to our peers. Instead, debt accumulation simply put more costs onto Canadians. [FI](#)



TEGAN HILL



MILAGROS PALACIOS

Tegan Hill is a senior economist and Milagros Palacios is director of the Addington Centre for Measurement at the Fraser Institute. They are co-authors of *The Accumulated Debt and Economic Performance of Industrialized Countries during COVID*.

# Stronger Private Sector Key to Improved Prosperity in Atlantic Canada

Alex Whalen and Nathaniel Li

The economy of Atlantic Canada, like any economy, is composed of two sectors. The first is government, including municipal, regional, provincial, and federal. The second is the private sector, including both the for-profit and non-profit sectors. Government funds itself by drawing resources from the private sector. Given this relationship, the state of the private sector should concern residents of all four Atlantic provinces, even those preferring much larger government.

It's no secret that when compared with the rest of Canada, Atlantic Canadians have suffered from a prosperity gap. In the decade leading up to the pandemic (2010 to 2019), income in the Atlantic provinces (as measured by per-person GDP) was just 86 percent of the rest of the country. In simple terms, this means Atlantic Canadians have lower living standards than the rest of the country. Improving the private sector is key to closing this gap.

Our recent study, *The State of Markets in Atlantic Canada*, shows us that residents of the region should remain concerned about the private sector. In fact, across measures of business investment, entrepreneurship, venture capital investment, and private-sector employment, the Atlantic provinces largely underperform most of the rest of Canada.

Private-sector investment, for example, remains crucial for prosperity because it finances the new factories, machinery and equipment, and research and development that ultimately make workers more productive and improve living standards. Unfortunately, relative to the rest of the country, private-sector businesses are not investing in the three Maritime Provinces. Consider that in 2019 (the latest year of non-pandemic-influenced data), private-sector investment per worker in Nova Sco-



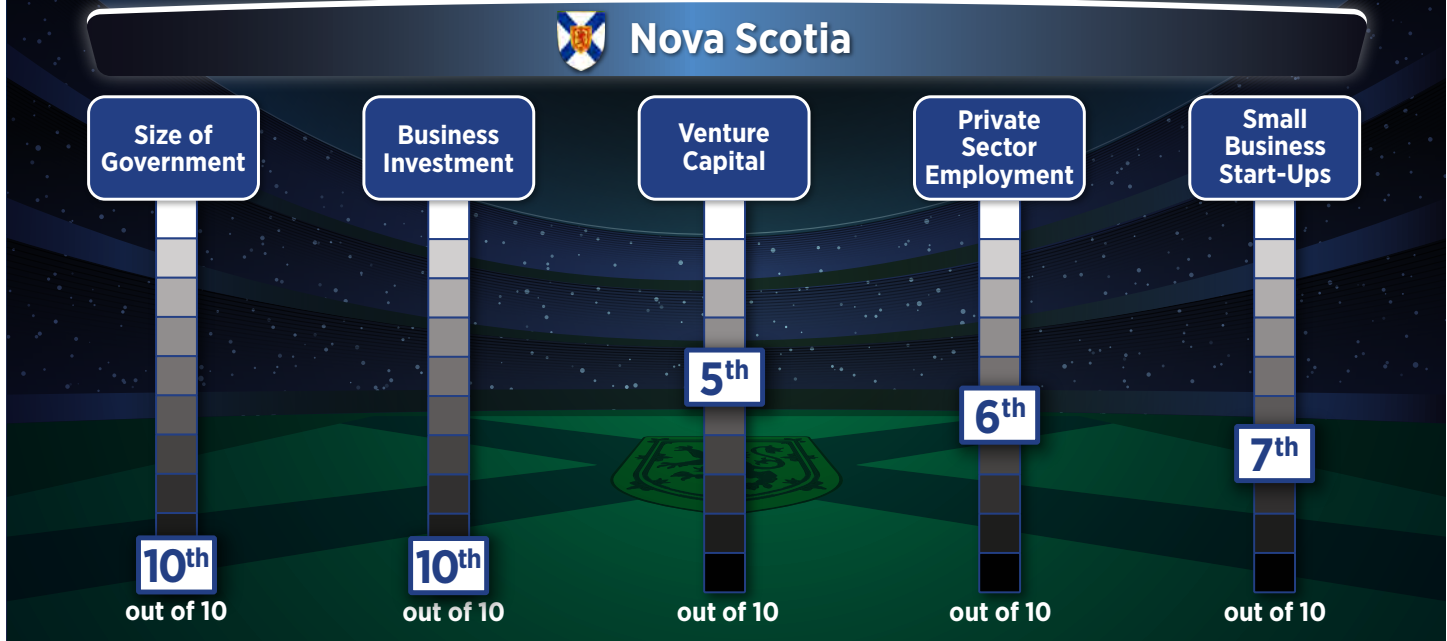
tia was just \$11,300—the lowest in the country. Prince Edward Island was second-last, at \$11,400, while New Brunswick was third-last, at \$13,800.

Other measures tell a similar story. In business start-ups, a key measure of entrepreneurship, Newfoundland & Labrador ranked sixth, Nova Scotia eighth, and New Brunswick ninth.

All four provinces ranked below average in venture capital investment per person, a measure of private-sector investment in start-ups and early-stage businesses. Improving the conditions for new business creation and investment is a key component of a healthier private sector.

There are bright spots within the data. Newfoundland & Labrador ranks first in the country in per-worker business investment, largely due to the province's oil and gas sector. Prince Edward Island leads the country in business

## On key measures, Nova Scotia's private markets rank poorly compared to the rest of Canada



start-ups. However, with some exceptions in individual categories, the five measures used in this study show that in 2019, private markets in the Atlantic provinces generally underperformed those in the rest of Canada.

**“It’s no secret that when compared with the rest of Canada, Atlantic Canadians have suffered from a prosperity gap. In the decade leading up to the pandemic (2010 to 2019), income in the Atlantic provinces (as measured by per-person GDP) was just 86 percent of the rest of the country.”**

Given the weakness of the private sector in the region, it should not be surprising that the economies of Atlantic Canada are dominated by the government sector. In Nova Scotia, government spending (at all levels) encom-

passed 60.2 percent of the economy in 2019, the highest in the country. This was followed closely by Prince Edward Island (58.5 percent) and New Brunswick (57.4 percent). Newfoundland & Labrador fared slightly better, at 44.1 percent, which ranked sixth but still higher than the national average of 40.1 percent.

Most Atlantic Canadians, like any other Canadians, want higher incomes and improved living standards. To achieve this, it’s crucial to have a strong private sector. [FI](#)



Alex Whalen is a senior economist and Nathaniel Li is an economist at the Fraser Institute. They are co-authors of *The State of Markets in Atlantic Canada*

# Ottawa's Emission Cap on Oil and Gas Sector Targets Only 1/4 of GHG Emissions; Contradicts Rationale for Carbon Tax

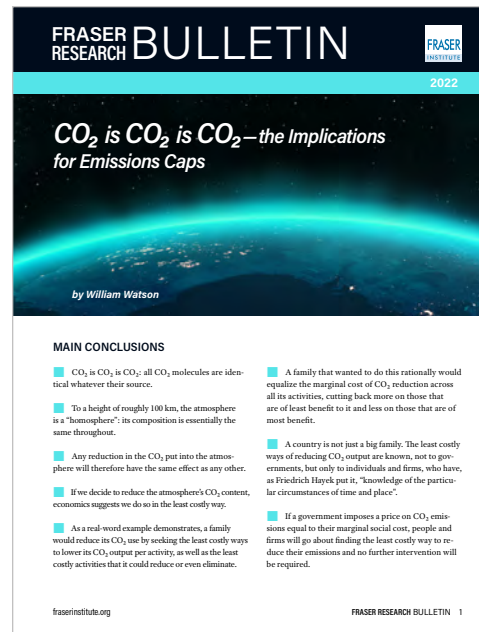
William Watson

As part of the 2030 Emissions Reduction plan, the federal government is planning to impose a hard cap on greenhouse gas (GHG) emissions from the oil and gas industry. Similarly, since 2016, the Alberta government has implemented a 100 megatonne (Mt) cap on GHG emissions that result from oil sands operations. My recent study, *CO<sub>2</sub> is CO<sub>2</sub>—the Implications for Emissions Caps*, investigates whether the government's approach to GHG emissions should depend on which industry or sector the emissions come from.

In 2019, Canada's oil and gas sector represented 26.2 percent of total GHG emissions while the transport sector represented nearly the same amount (25.4 percent) and buildings (12.4 percent) about half. The federal government's plan to cap GHG emissions only applies to the oil and gas sector, meaning that the remaining 73.8 percent of GHG emissions are exempted.

The study's analysis suggests that in pursuing the goal of reducing emissions, imposing a cap on a certain industry or sector is a misguided policy for two main reasons. First, up to a height of about 100 km, the atmosphere is homogenous, meaning that its composition is essentially the same throughout. This suggests that the atmospheric effects of carbon dioxide (CO<sub>2</sub>), which is the primary greenhouse gas, are the same regardless of the source. If our goal is to reduce the concentration of CO<sub>2</sub> in the atmosphere, any reduction will therefore have the same effect as any other. Put simply, the source of CO<sub>2</sub> is irrelevant from an environmental perspective—the effect of each CO<sub>2</sub> molecule is the same regardless of its origin.

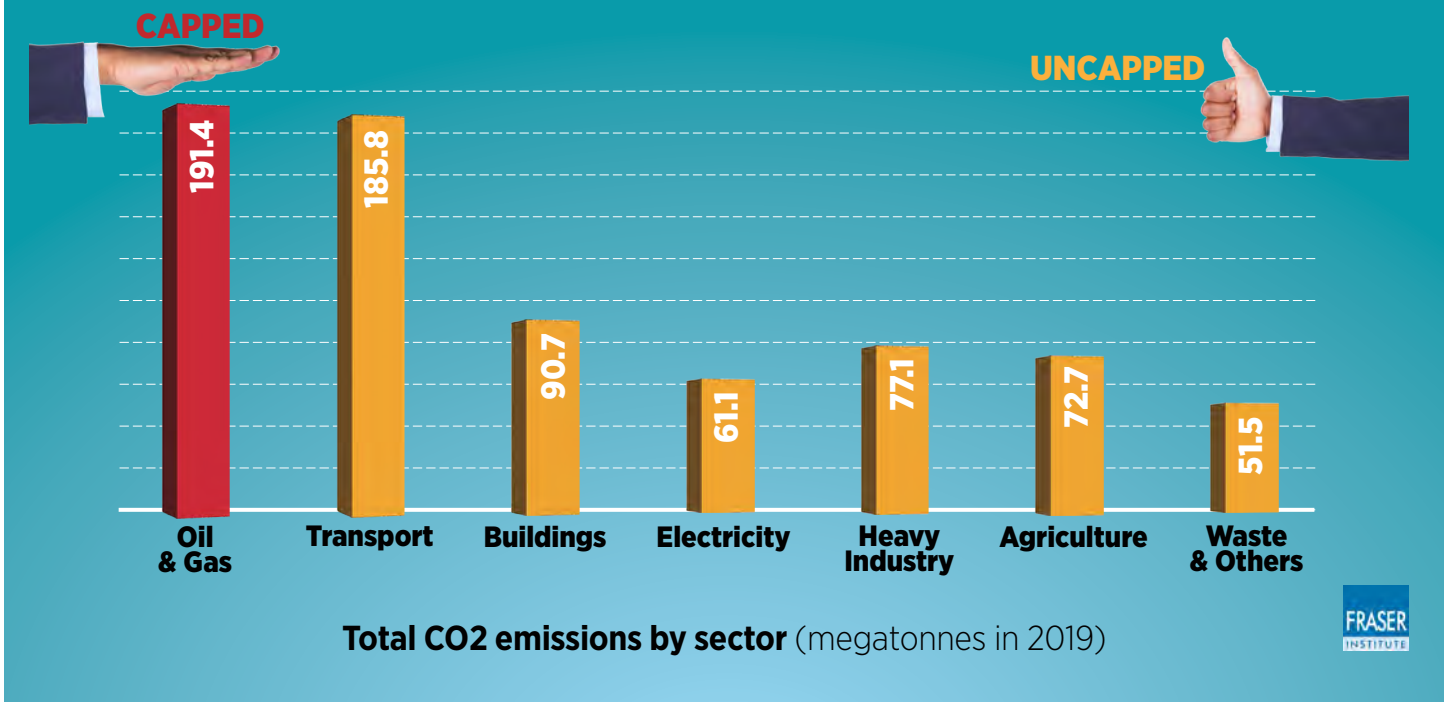
Second, if our goal is to reduce the atmosphere's CO<sub>2</sub> content, economics suggests we do it in the most efficient (i.e., least costly) way. As a real-world example



demonstrates, a family would reduce its CO<sub>2</sub> use by seeking the least costly ways to lower its CO<sub>2</sub> output per activity, as well as the least costly activities that it could reduce or even eliminate. A family that wanted to reduce its emissions rationally would cut back more on activities that are of least benefit to it and less on those activities that are of most benefit.

**“Up to a height of about 100 km, the atmosphere is homogenous, meaning that its composition is essentially the same throughout. This suggests that the atmospheric effects of carbon dioxide (CO<sub>2</sub>), which is the primary greenhouse gas, are the same regardless of the source.”**

## Carbon emissions in the oil and gas sector treated differently



Similarly, at the societal level, reducing emissions in a rational way would mean finding emission reductions where they are least costly. Emission reductions should come from where they inflict the least damage. Imposing arbitrary caps on individual sectors will reduce emissions at a greater cost than is necessary. For example, the cost of keeping oil and gas emissions at 100 megatonnes (Mt) CO<sub>2</sub> equivalent may be much greater than the cost of letting them go to 120 Mt and finding 20 Mt of emissions reductions elsewhere.

It is widely acknowledged that putting a price on carbon is the least costly way to reduce carbon emissions as it provides flexibility to individuals, and more broadly the economy, as to where and how emission mitigation occurs. By putting a price on carbon (whether in the form of a carbon tax or an emissions permit) firms and individuals will go about finding the least costly way to reduce their emissions and no further intervention—like a cap on the oil and gas sector—will be required. Overall, the analysis in this study suggests that there is no scientific or economic rationale for imposing arbitrary caps on individual industries. [FI](#)

**“Emission reductions should come from where they inflict the least damage. Imposing arbitrary caps on individual sectors will reduce emissions at a greater cost than is necessary.”**



William Watson is a senior fellow at the Fraser Institute and author of *CO<sub>2</sub> is CO<sub>2</sub> is CO<sub>2</sub>—The Implications for Emissions Caps*.

# Canada's Aging Population Contributing to Job Vacancy Crunch

Tegan Hill, Alex Whalen and  
Milagros Palacios

With unemployment at its lowest rate in decades, recent headlines have lauded Canada's "booming labour market" while noting that "Canada's job market is setting records" in the pandemic's wake. But while lower unemployment is a positive indicator of the labour market's recovery, there's more going on than meets the eye.

In fact, based on other indicators, Canada's labour market has yet to fully recover. For example, the employment rate—the share of the population aged 15 or older that is working—remains 0.2 percentage points below pre-pandemic levels in 2019 at 61.7 percent (based on average monthly data from January to May, the latest available comparable data). While that may not seem like a lot, it translates into hundreds of thousands of jobs at a time when job vacancies are at record highs.

Indeed, there are approximately 958,000 job vacancies as of the first quarter of 2022, nearly double the number of vacant jobs in the fourth quarter of 2019, prior to the pandemic. Employers are struggling to fill positions across a wide range of sectors, which is contributing to disruptions in business and supply chain challenges across the country.

Why is this happening?

As shown in a recent Fraser Institute study, *An Aging Population: The Demographic Drag on Canada's Labour Market*, our aging population is partly to blame. Between 2019 and 2022, (again averaging monthly data from January to May) Canada's senior population (aged 65 and older) grew by 12 percent or about 729,100 people. Among this group, just 62,680 seniors became employed.

FRASER RESEARCH BULLETIN FRASER INSTITUTE

August 2022

## An Aging Population: The Demographic Drag on Canada's Labour Market

by Tegan Hill, Alex Whalen, and Milagros Palacios

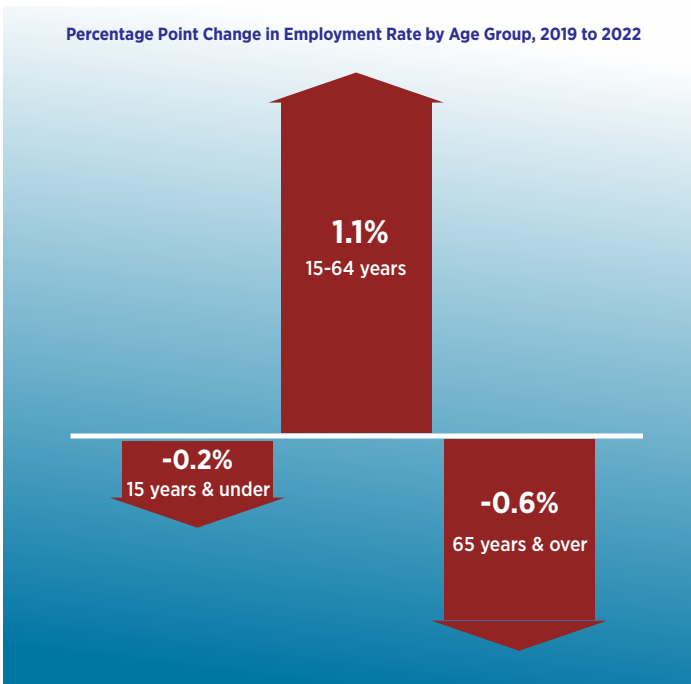


**SUMMARY**

- Many point to Canada's low unemployment rate (5.5%) as an indication of the strength of our economic recovery from the pandemic. Yet by other indicators it would appear that Canada's labour market has not yet fully recovered.
- For instance, the 2022 employment rate is 0.2 percentage points lower than in 2019 and the labour force participation rate is 0.4 percentage points lower. At the same time, Canada is experiencing a historic labour shortage with 958,000 vacant positions.
- Canada's aging population is one factor that may be contributing to the conflicting statistics, so this bulletin reviews labour statistics segregated by "working age" individuals (aged 15 to 64) and "seniors" (aged 65 and older).
- In 2022, the working age labour market participation rate is 0.9 percentage points higher than in 2019 and their employment rate is 1.1 percentage points higher than in 2019. In contrast, the labour force participation rate for seniors is 0.2 percentage points below 2019 levels and their employment rate is 0.6 percentage points lower.
- More specifically, seniors' labour force participation and employment rates have not grown at the same pace as their population growth. Moreover, seniors—who have lower labour force participation and employment rates than working age individuals—make up a larger share of the population (21.9% in 2022 than they did in 2019 (20.3%). These factors have created a drag on the overall labour market recovery.
- If seniors accounted for the same share of the population in 2022 as they did in 2019, both the employment rate and the labour force participation rate would be fully recovered. Moreover, job vacancies would be reduced by nearly half to 521,941 vacant positions.
- Canada's labour market challenges will only compound as the population continues to age.

**“Seniors... comprise a larger share of the population in 2022 than they did in 2019... and growth in the employment of seniors has not kept pace with their population growth. As a result, despite a robust recovery in employment for working-age Canadians—their employment rate has more than recovered to 2019 levels and in fact is the highest on record—the overall employment rate remains below pre-pandemic levels.”**

Percentage Point Change in Employment Rate by Age Group, 2019 to 2022



Put simply, a few things are happening. Seniors—who have lower employment rates than working-age individuals—comprise a larger share of the population in 2022 than they did in 2019. Second, the growth in the employment of seniors has not kept pace with their population growth. As a result, despite a robust recovery in employment for working-age Canadians—their employment rate has more than recovered to 2019 levels and in fact is the highest on record—the overall employment rate remains below pre-pandemic levels.

Unfortunately, there are more challenges ahead. According to projections by Statistics Canada, the senior share of the population is projected to increase from 19.0 percent in 2022 to 22.5 percent by 2030.

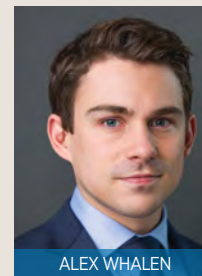
While some elements of this demographic challenge are beyond the control of government, certain policies aren't helping. For instance, the claw back of retirement income supports including Old Age Security (OAS), the Guaranteed Income Supplement (GIS), and the Registered Retirement Savings Program (RRSP) reduce the payments seniors receive as they earn additional income, effectively acting as a tax and disincentive to work.

When looking at Canada's labour market, there's more going on than meets the eye. While the unemployment rate is indeed at historic lows, Canada's aging population has helped reduce the employment rate, which has coincided with record job vacancies. Absent policy reform, as the population continues to age, Canada's labour market challenges will only get worse. [FI](#)

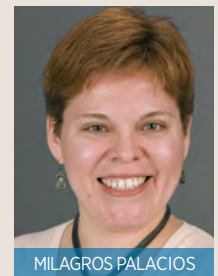
**“** When looking at Canada's labour market, there's more going on than meets the eye. While the unemployment rate is indeed at historic lows, Canada's aging population has helped reduce the employment rate, which has coincided with record job vacancies. Absent policy reform, as the population continues to age, Canada's labour market challenges will only get worse.”



TEGAN HILL



ALEX WHALEN



MILAGROS PALACIOS

Tegan Hill is a senior economist, Alex Whalen is a senior economist and Milagros Palacios is director of the Addington Centre for Measurement at the Fraser Institute. They are co-authors of *An Aging Population: The Demographic Drag on Canada's Labour Market*.

# Canada and US Must Make Policy U-Turns to Mitigate Recession



**Jason Clemens and Steven Globerman**

**There are increasing signs that Canada, like most western countries, is heading for a recession, if we're not in one already. But Canadian governments, particularly federally, can minimize this recession's severity by reversing policies that have contributed to it. The same is true for the Biden administration in the United States. The question is whether governments on both sides of the border have the humility to admit past mistakes, the fortitude to challenge influential interest groups, and the economic understanding of why reversals are needed.**

**M**onetary policy has been far too accommodative for too long. Corrections are underway (e.g., higher interest rates) and will likely continue, which will weigh on the economy and the well-being of Canadians and Americans for the foreseeable future.

Fiscal policy in both countries has also been far too stimulative for too long. Policymakers must align fiscal policy with current monetary policy and constrain government spending financed by debt to ease the burden on central banks to address inflationary pressures.

At the same time, to address immediate economic problems and pave the way for longer-run prosperity, both countries need fiscal policies that encourage increased



**“Fiscal policy in both countries has also been far too stimulative for too long. Policymakers must align fiscal policy with current monetary policy and constrain government spending financed by debt to ease the burden on central banks to address inflationary pressures.”**

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labour-force participation and promote investment and entrepreneurship. This requires a reorientation away from the current policy emphasis on redistributing existing income and towards encouraging the growth of income. Reducing marginal personal income tax rates, business taxes, and the capital gains tax rate would encourage workers to increase their participation in the labour market and stimulate both increased investment by businesses and entrepreneurial innovation.

Both countries also must undertake dramatic regulatory reforms, particularly with respect to the oil and gas sector. In Canada, this means undoing regulations that impede large infrastructure projects (including pipelines), prohibit shipping of bitumen off the west coast, increase the carbon tax and arbitrarily cap greenhouse

**“The current economic crisis reflects past monetary and fiscal policy mistakes that cannot easily be undone. However, there are proven policies to correct those mistakes available to politicians with the courage to implement them.”**

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gas (GHG) emissions for the oil and gas sector (the cap does not apply to the remaining three-quarters of GHG emissions from other sectors). If Ottawa enacted these reforms, it would encourage domestic production of oil and gas, as well as exports, which would eventually lower prices and ease inflationary pressure.

In the US, the federal government could re-authorize the Keystone XL pipeline, eliminate all new regulations and permitting requirements imposed by the Biden administration, and push for approving export facilities.

The policies we propose closely resemble the “supply-side” economic policies implemented in many countries including Canada and many provinces and states over the years, which helped promote longer-run economic growth. While both the Trudeau government and Biden administration have derided these policies, if Canada and the US suffer significant and protracted recessions, public pressure for growth-oriented policies will mount, creating an environment where such policies can be implemented. Enacting these fiscal and regulatory policies will lessen the severity of the monetary actions needed to restore price stability while encouraging a return to the higher economic growth rates both countries enjoyed decades ago.

The current economic crisis reflects past monetary and fiscal policy mistakes that cannot easily be undone. However, there are proven policies to correct those mistakes available to politicians with the courage to implement them. [FI](#)




JASON CLEMENS



STEVEN GLOBERMAN

Jason Clemens is executive vice president and Steven Globerman is a senior fellow and Addington Chair in Measurement at the Fraser Institute.

A young girl with blonde hair in a ponytail, wearing a blue polo shirt and a tan vest, is talking to a teacher. The teacher is partially visible on the left, looking towards the girl. The background is a blurred classroom setting.

## “Learning Styles” Myth Damaging Our Education System

**Michael Zwaagstra**

**During the summer break, most parents and students in Canada were likely thinking little about the classroom. But one of the most widely accepted education theories—that everyone has a unique learning style—should provide food for thought for the next school year and beyond.**

**A**ccording to this theory, some people are visual learners, others are auditory learners, while others are tactile-kinaesthetic learners, meaning students need to manipulate or touch materials. Proponents say that teachers should adapt their lessons for each student’s learning style: show lots of pictures to visual students, give verbal explanations to auditory students, and provide plenty of hands-on activities for tactile-kinaesthetic students.

It makes intuitive sense. There’s just one problem: the concept of individual learning styles—applied to the

general student population, beyond learners with special needs—appears to be a myth. Even though opinion surveys show that most adults and nearly all teachers believe in individual learning styles, it remains a theory without supporting evidence. In fact, the considerable evidence that exists directly contradicts this theory.

It’s not hard to test this theory out. Take a large group of people and divide them according to their supposed learning styles. Let half of them experience a story through their preferred learning style and have the other half experience the same story in a different way. Then administer a test to each group to determine how much they remember about the story.

This experiment has been carried out multiple times and the results are always the same—there’s no statistically significant difference between the people who learned something according to their so-called learning style

versus those who did not. The individual learning styles theory is little more than an urban legend—again, a myth.

Interestingly, professional psychologists have for years made significant efforts to correct these public misconceptions. The American Psychological Association (APA) website, for instance, provides links to several articles debunking this theory.

**“The concept of individual learning styles—applied to the general student population, beyond learners with special needs—appears to be a myth... In fact, the considerable evidence that exists directly contradicts this theory.”**

The learning styles myth is far from harmless because it perpetuates a falsehood about how students learn. Categorizing students as visual, auditory, or tactile-kinaesthetic learners is a sure-fire way to make it harder for students to learn things in different ways. It creates a self-fulfilling prophecy that tends to come true in the end.

For example, someone who believes they're a visual learner now has a ready-made excuse for why they cannot pay attention during lectures and why they don't do well on tests in lecture courses. Similarly, those who think they are tactile-kinaesthetic learners quickly come to believe they cannot learn new things unless they're working with their hands.

In addition, trying to plan for each student's so-called learning style creates a huge burden for teachers. Instead of creating one lesson for the entire class, teachers must come up with at least three—sometimes even more—lessons. This is sometimes called differentiated instruction.

Differentiated instruction, a common expectation placed on teachers by school boards, is largely built on the premise of individual learning styles. Since the theory is a myth, it's important to reevaluate the widespread push for differentiated instruction.

To be clear, this doesn't mean teachers should teach everything exactly the same way. While people do not have individual learning styles, some topics are better suited for certain methods than others. For example, a good teacher will probably use plenty of pictures and models when teaching young students about shapes and patterns. For other topics, such as learning how to pronounce certain words, the teacher will provide plenty of verbal instruction and practice.

And some topics are best taught by a combination of visual, auditory, and tactile-kinaesthetic approaches. When teaching about the solar system, for example, it makes sense to give students pictures of the planets, provide a detailed verbal description, and let them work with an accurate physical model of the solar system. This makes far more sense than pigeonholing students into individual learning styles groups.

Simply put, teachers should be free to provide whole-class lessons to the greatest extent possible. The nature of the content being taught would largely determine the delivery method for each lesson. Not only would this be a more efficient use of teacher time, but it would also help students learn more effectively.

It's time we recognize that there are no visual learners, auditory learners, or tactile-kinaesthetic learners. There are only learners. The learning styles myth should be abandoned. [FI](#)



MICHAEL ZWAAGSTRA

Michael Zwaagstra is a senior fellow at the Fraser Institute. He is the author of *The Decline of Standardized Testing in Canada*.

# BC Court Denies Patients the Ability to Seek Private Care



## Bacchus Barua

**On July 15, the BC Court of Appeal explicitly acknowledged the plight of thousands of British Columbian patients on waiting lists. However, in a ruling worthy of Orwellian doublespeak, the court proceeded to deny them the right to do anything about it in the name of “fundamental justice.” This despite the fact that every other developed country with a universal health care system allows patients to seek care privately when they choose to do so.**

**A**nd many of these “private alternative” countries deliver more timely access to care with better access to physicians, medical technologies, and hospital beds despite costing the same or less than Canada’s vaunted public system.

While the Supreme Court of Canada will almost certainly be asked to hear an appeal, British Columbians will remain locked within a system that—in the court’s own opinion—deprives them of the right to life and security of their person.

The case, now in its 13th year of litigation, is spearheaded by Dr. Brian Day, former head of the Canadian Medical Association, along with four of his patients. Dr. Day’s surgical clinic in Vancouver provides privately funded medical services to patients failed by the public system and patients with access to private services through other programs. However, the manner in which the clinic provides these services is in violation of BC’s Medicare Protection Act, which places severe limitations on private insurance, direct billing, and extra-billing for medically necessary services.

To be clear, Dr. Day is in no way interested in or advocating for the dismantling of Canada’s cherished universal health care system—in fact, he’s a proponent of universal health care. However, he’s also intimately familiar with Medicare’s failings and understands the importance of offering patients a pressure valve to relieve the burden on the public system. As such, the doctor and his patients simply argue that BC’s regulations go too far by limiting their options for recourse when the public system fails and is unable to deliver timely access to care.

**“ The Fraser Institute’s annual survey of physicians reported a median wait of 26.2 weeks in BC between seeing a general practitioner and receiving treatment in 2021, with an estimated 212,482 patients waiting for care. While some of this is due to COVID-related backlogs, the same survey reported a median wait time of 24.0 weeks in 2019—before the pandemic started.**

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There’s no doubt that the province’s system is failing patients seeking timely care. The Fraser Institute’s annual survey of physicians reported a median wait of 26.2 weeks in BC between seeing a general practitioner and receiving treatment in 2021, with an estimated 212,482 patients waiting for care. While some of this is due to COVID-related backlogs, the same survey reported a median wait time of 24.0 weeks in 2019—before the pandemic started.

Of course, wait times are not benign inconveniences. They can result in poorer outcomes from care or more complex treatments because of deteriorating medical conditions. In the worst cases, waiting too long may also result in patients paying the ultimate price—death. This is not hyperbole. A recent report revealed that at least 11,581 patients died while waiting for surgeries, procedures, and diagnostic scans in Canada in 2020-21.

Again, Canada’s wait times are also much longer than in other universal health care countries. For example, the Commonwealth Fund’s international surveys routinely rank Canada last (out of 10 universal systems) for wait times to see a specialist and receive elective surgery. Time and again, fewer Canadian patients report being able to receive timely treatment compared to their international peers. For example, in 2020, only 38 percent of Canadians reported waiting less than four weeks to see a specialist—far less than Dutch (69 percent) and Swiss (68 percent) participants. And while 62 percent of Canadians waited less than four months for elective surgery,

99 percent of Germans received treatment within that time.

All three of these countries have universal health care. The difference? None of them have the sort of prohibitions on private alternatives and patient cost-sharing that Canada does. Rather, these countries—and others including Australia, Sweden, and France—understand the importance of embracing the private sector as a partner or pressure valve.

The July 15th ruling ensures that British Columbians will continue to be denied the right to seek treatment from physicians like Dr. Day closer to home, and instead be forced to cross international borders to receive timely treatment. It also ensures that BC’s health care system will remain a poor performer in international comparisons, failing to delivery timely care to patients while still serving taxpayers an oversized bill for their care. While it’s hard to understand who exactly won in the decision, it’s abundantly clear that patients lost. [FI](#)

**“ The July 15th ruling ensures that British Columbians will continue to be denied the right to seek treatment from physicians like Dr. Day closer to home, and instead be forced to cross international borders to receive timely treatment... While it’s hard to understand who exactly won in the decision, it’s abundantly clear that patients lost.”**

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BACCHUS BARUA

Bacchus Barua is director of the Centre for Health Policy Studies at the Fraser Institute.

# Federal Government Should Help Increase Productivity to Tame Inflation



**Steven Globerman**

**Canada's inflation rate has hit 7.7 percent, which will undoubtedly spur more sharp interest rate increases from the Bank of Canada in coming months. For its part, the federal government seems willing to stand aside and not provoke a conflict with the central bank—even if higher interest rates help trigger a recession.**

**A**t the same time, there's a growing recognition that fiscal policy—including government borrowing and spending—influences current inflation and expectations about future inflation. Belatedly, even the Trudeau government seems to recognize this dynamic. In a recent speech, Finance Minister Chrystia Freeland highlighted the government's commitment to reduce federal spend-

ing growth, which, combined with a tax revenue windfall thanks partly to inflation, is reducing Ottawa's projected budget deficit.

Certainly, if Ottawa reduces spending growth while taking in more tax revenue, the growth of "total demand" (essentially, the demand for all goods and services in the economy) should slow, which in turn should reduce demand-side pressures on future inflation. However, like other developed countries, Canada faces a long-run inflation problem that short-term deficit-reduction measures won't solve.

First, Canada's aging population will slow labour force growth, even with more ambitious immigration targets. Second, Ottawa is leading the transition away from car-

bon fuels to “green energy.” Whatever one thinks of this transition and the imperative to address climate change, there’s no denying the costs, which include reduced productivity growth in Canada.

And third, there’s the longer-run disruption of global supply chains and international trade and investment more generally owing to growing geopolitical tensions between western countries and China. In a recent meeting, US Treasury Secretary Janet Yellen and Finance Minister Freeland discussed “friend-shoring,” which means doing international business with political allies.

Due to these factors, the economic output of Canada and other western countries will likely increase at slower rates in the future. As a consequence, Canada will need reduced total demand growth, including reduced government spending, to avoid an excess of total demand for goods and services over available supply—the essence of inflation. Expensive government programs (universal child care, for example) ostensibly meant to increase the labour force participation rate are, at best, band-aids.

In other words, even if the federal government suddenly discovers a zeal for deficit reduction and reduced spending growth (which would be in stark contrast from the past few decades), that may still not be enough to tame long-run inflation.

So, what should Ottawa do?

In short, it should craft policies to improve the economy’s competitiveness, productivity, and efficiency. For example, eliminate all tariffs on food imports and all quotas on domestic production. Provincial marketing boards—sanctioned by the federal government—inflict higher-than-necessary food costs on Canadians and indirectly reduce the amount of land available for housing construction. Ottawa could also eliminate restrictions on inward foreign direct investment in critical infrastructure sectors of the economy such as telecommunications, transportation, and financial services (with exceptions based on narrow grounds of national security). And stop imposing costly “environmental, social, and governance” (or ESG) reporting mandates and related regulations on companies.

The federal government finally seems to have acknowledged its fiscal responsibility to fight inflation. Canadians should expect strong actions to follow. [FI](#)

**“Ottawa should craft policies to improve the economy’s competitiveness, productivity, and efficiency. For example, eliminate all tariffs on food imports and all quotas on domestic production... Ottawa could also eliminate restrictions on inward foreign direct investment in critical infrastructure sectors of the economy such as telecommunications, transportation, and financial services (with exceptions based on narrow grounds of national security), and stop imposing costly ESG (environmental, social, and governance) reporting mandates and related regulations on companies.”**



Steven Globerman is a senior fellow and Addington Chair in Measurement at the Fraser Institute.

# How Premier Ford Can Make Hard Work Pay Off in Ontario



**Jake Fuss and Niels Veldhuis**

**With his new mandate, Premier Ford must now deliver on his election promise to “ensure Ontario is the economic engine of Canada, with one of the fastest-growing economies in North America.” Doing so will require a host of policy changes, but none more important than dealing with Ontario’s growth-killing taxes.**

**W**hile Ontario families faced a host of tax increases over the years, none have been more economically damaging than income tax hikes on the province’s high-skilled workers including entrepreneurs, engineers, lawyers and doctors. From 2012 to 2014, the Ontario government “temporarily” increased the province’s top personal income tax rate multiple times, from 17.41 to 20.53 percent. The federal government raised personal income taxes in 2016 by increasing its top marginal tax

rate from 29 to 33 percent. As a result, Ontario’s top personal income tax rate (federal and provincial combined) is 53.5 percent, the third-highest rate among all 60 US states and Canadian provinces. (Only Nova Scotia and Newfoundland & Labrador have higher top marginal combined tax rates.)

Now consider the province’s top marginal tax rate (“marginal” is economic-speak for the tax rate on the next dollar of income you earn). In addition to income taxes, when you also include Ontario’s 13 percent HST and other types of taxes including property taxes, payroll taxes, and gasoline taxes, the total all-in tax rate on additional income for many professionals, entrepreneurs, and high-skilled workers is more than 72 percent.

This is a major issue for Ontario, as research shows high marginal tax rates discourage productive economic



activities such as work, savings, investment, and entrepreneurship. When 72 cents of every additional dollar a family earns goes to pay taxes, hard work simply doesn't pay off.

**“ The total all-in tax rate on additional income for many professionals, entrepreneurs, and high-skilled workers is more than 72 percent.”**

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Premier Ford has demonstrated that he understands the impact of high taxes. In his 2018 election platform he promised to reduce provincial taxes on doctors to encourage them to move to northern Ontario.

But why stop there? Why not send a message to Ontario's entrepreneurs, professionals, and skilled workers that hard work pays off in the province? Why not send the same message to the same entrepreneurs, professionals, and skilled workers across Canada and the United States? Come to Ontario: your hard work pays.

For starters, the government could repeal Ontario's "temporary" income tax hike to boost economic activity while costing the province very little in forgone revenue. A 2020 Fraser Institute study, *The Revenue Effects of Rescinding Ontario's Tax Rate Hike on High-income Earners*, found that lowering the province's top personal income tax rate from the current 20.53 percent to 17.41 percent—where it was prior to a "temporary" rate hike in 2012—would encourage significantly more economic activity. So much so that after five years the revenue loss would only be approximately \$150 million (or less than 0.5 percent) of the \$45 billion or more in personal income tax the government collects annually.

Improving incentives to work hard, save, invest, and take entrepreneurial risks is simply good economic policy. If

Premier Ford wants to deliver on his promise to re-establish Ontario as the engine of economic growth and prosperity in North America, improving incentives through tax reductions would be a good place to start. [FI](#)

**“ Lowering the province's top personal income tax rate from the current 20.53 percent to 17.41 percent—where it was prior to a “temporary” rate hike in 2012—would encourage significantly more economic activity. So much so that after five years the revenue loss would only be approximately \$150 million (or less than 0.5 percent) of the \$45 billion or more in personal income tax the government collects annually.”**

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JAKE FUSS



NIELS VELDHUIS

Jake Fuss is associate director of Fiscal Studies and Niels Veldhuis is president of the Fraser Institute.



## Inflation—Why Now and Not Post-2008?

**Ross McKittrick**

**The key question is not why inflation has broken out: the monetary expansion since winter 2020 made that inevitable. But rather, why didn't inflation take off after the monetary expansion in the aftermath of the 2008 banking crisis? The fact that it didn't may have convinced economists that monetary expansion no longer causes inflation. Alas, that was the wrong lesson to learn.**

In 2008 the US financial system experienced massive asset destruction when the housing bubble burst, taking down a superstructure of derivative mortgage products. To keep banks afloat the Federal Reserve began creating money and purchasing assets. The U.S. monetary base went from the now-quaint level of US\$850 billion in August 2008 to more than US\$2 trillion in March

2010. Occasional attempts to slow its growth thereafter caused sharp drops in the stock market, which forced the Fed to keep easing. By late 2014 the monetary base had topped US\$4 trillion.

But where was the inflation? It didn't happen because people weren't borrowing and/or the banks weren't lending. US bank excess reserves held on deposit at the Fed had historically been an even more quaint US\$2 billion or less, but after 2008 they put the flood of cash on deposit at the Fed, accumulating US\$2.6 trillion in excess reserves by late 2014. This resulted in a declining velocity of circulation, which neutralized the effect of the monetary expansion.

Things began to change after 2016. From October 2017 to September 2019 the Fed managed to taper the monetary base from US\$3.8 trillion to US\$3.2 trillion. But

real economic activity was surging, led in part by the Trump administration's tax cuts and deregulation of US energy and domestic manufacturing. Banks began pushing loans out the door, reducing excess reserves from US\$2.1 trillion to US\$1.3 trillion. The combination of increased lending, Fed tightening, and real economic growth soaked up the circulating money and inflation couldn't get started.

Then came COVID. In January 2020 the US monetary base was holding steady at US\$3.4 trillion. When the shutdown occurred and federal spending soared the Fed flooded the market and by May 2020 the monetary base had reached US\$5.1 trillion. There was a brief pause in the latter half of 2020, then starting around November 2020 it began growing again, hitting US\$6.4 trillion in November 2021. That's a 7.5-fold increase in the US monetary base from 2008 to 2021.

Once again, the banks held on to the new money as excess reserves, which doubled from US\$1.5 trillion to US\$3.2 trillion between February and May 2020. But in March 2020, to encourage more lending, the Federal Reserve enacted a rule change that eliminated reserve requirements. Most people think banks hold a fraction of deposits on reserve in case customers want to withdraw money. They used to, but no longer. In Canada we haven't had reserve requirements since the 1990s. And since March 2020 they're not required in the United States, either. Instead, other regulations cap the volume of loans banks can make in relation to their market capital.

Also in winter 2020 the banks experienced a rapid increase in consumer deposits because so many consumer spending categories were shut down. The combination of events resulted in a boom in total deposits in US banks, which went from US\$13.5 trillion in March 2020 to US\$15.6 trillion by June 2020, the biggest jump ever, and the growth rate tilted upward. Deposits topped US\$18 trillion by the end of 2021.

This expansion of liquidity in the US banking system, coupled with the elimination of reserve requirements, is an unprecedented monetary stimulus that makes the post-2008 measures look like chump change. Unfortunately it coincided with the Biden administration's aggressive fiscal stimulus package in 2021 and a series of negative supply shocks. The Biden administration sharply curtailed US energy development, kicking off an upward trajectory of fuel costs. Supply chain disruptions that began with COVID shutdowns were exacerbated by

transportation logistic problems at major US ports and in the North American trucking industry. Then stimulus payments and the Great Resignation triggered a labour shortage, just as the Russian invasion of Ukraine slashed global energy and food supplies.

The combination of monetary expansion, demand stimulus, and supply contraction all but guarantees an extended bout of inflation. Unlike post-2008, velocity is not shrinking to offset the monetary expansion. Since 2020 velocity has been flat, possibly because the flood of deposits and the elimination of reserve requirements has convinced banks to expand their loan portfolios. The extra money is now out in the economy while there are fewer goods for it to chase, slower job growth, and less investment in expanded output.

Canada will not escape. Aside from the cross-border transmission of price shocks, our monetary expansion was dramatic as well, with Bank of Canada asset holdings jumping from C\$105 billion in March 2020 to C\$450 billion in December 2021, most of which consisted of Canada government bond purchases. And we have experienced similar negative supply shocks including policy-driven restrictions on energy production, expansion of the regulatory burden, and food-sector contraction due to war-induced price changes. While the Bank of Canada is beginning to shed assets (C\$20 billion since December 2021), it will take sustained aggressive action to get control of the situation.

The failure of inflation to materialize after 2008 was a surprise and might have led many economists to the complacent view that monetary expansion is not inflationary. In reality, some countervailing economic forces neutralized the effects of monetary expansion for a decade, but those forces are now gone. In their wake, classical monetary theory is back. And so is inflation. **FI**



Ross McKittrick is Professor of Economics, University of Guelph, and a Fraser Institute senior fellow.

# Don't Blame COVID for Ottawa's Record High Debt Levels



Evin Ryan and Jake Fuss

**The federal government incurred large deficits during the pandemic while debt per-person has reached historic highs and Canadians face the prospect of a higher tax burden in the future. However, not all of this record debt can be attributed to the pandemic as the majority of money spent by Ottawa had nothing to do with COVID.**

Federal gross debt (total liabilities) is projected to increase from 54 percent as a share of the economy in 2019 to 72 percent in 2021. The ratio is on track to grow, primarily because Ottawa ran consecutive deficits of more than \$100 billion in 2020 and 2021 combined with a shrinking economy in 2020.

If you consider 2020, the year most severely affected by the pandemic, federal per-person debt reached a record high—at that time—of \$48,764 (inflation-adjusted). But again, this record debt is not entirely the result of COVID emergency spending. When we exclude COVID-related spending, per-person debt would still have been at record highs, reaching \$42,380 in 2020—that's 43 percent higher than per-person debt levels at the peak of the Second World War and 13 percent higher than the previous year, 2019.

The debt situation did not get better in the two years that followed. In 2021, federal per-person debt reached a new record at \$48,955. But COVID once again cannot be blamed for all of this debt accumulation. Without any COVID-related spending in 2020 or 2021, federal

**“ While all Canadians will see increases to their tax burden from federal debt accumulation, young people will bear the brunt of the burden. This is why it’s important to hold Ottawa accountable when it unnecessarily finances spending with debt. Federal debt is a concern for all Canadians but especially for young people.”**

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per-person debt would still have reached \$41,340 in 2021—the fourth-highest amount in Canadian history. Clearly, federal debt was already on an upward trajectory and the pandemic only exacerbated the problem.

Now, in 2022, the federal government’s per-person debt level is \$47,070, still more than 25 percent higher than in 2019, the last year before the pandemic.

Of course, this debt accumulation does not come without costs. Many of these costs are deferred to the future but will still significantly affect the Canadian economy. A Fraser Institute study, *The Lifetime Tax Burden for Canadians from Federal Debt Accumulation*, measured the increases in personal income taxes Canadians will have to pay to keep pace with the interest costs on federal debt over their lifetimes.

The study finds that 16-year-old individuals will face an additional \$29,663 in personal income tax payments over their lifetimes due to federal debt servicing. Older age groups will face a much smaller burden in comparison. In fact, a 16-year-old can expect to pay 12 times the amount a 65-year-old will have to pay. Citizens aged 16 to 80 will (on average) pay an additional \$10,498 in extra taxes due to federal interest costs.

While all Canadians will see increases to their tax burden from federal debt accumulation, young people will bear the brunt of the burden. This is why it’s important to hold Ottawa accountable when it unnecessarily finances spending with debt. Federal debt is a concern for all Canadians but especially for young people.

We cannot put all the blame on COVID for Ottawa’s record per-person debt levels. Increasing federal spending on programs and services that had nothing to do with the pandemic played an outsized role in increasing our debt and putting a significant burden on future generations of Canadians. [FI](#)

**“ We cannot put all the blame on COVID for Ottawa’s record per-person debt levels. Increasing federal spending on programs and services that had nothing to do with the pandemic played an outsized role in increasing our debt and putting a significant burden on future generations of Canadians.”**

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EVIN RYAN



JAKE FUSS

Evin Ryan is a summer intern and Jake Fuss is associate director of Fiscal Studies at the Fraser Institute.

# Alberta's Resource-Fuelled Budget Surplus Masks Long-Standing Spending Problem



Tegan Hill and Jake Fuss

**With the recent windfall in resource revenue, the sentiment towards fiscal policy in Alberta has shifted. Indeed, as budget deficits turned to surpluses, policy discussions moved from how to restrain government spending to how best to use the additional revenue. While the fiscal turnaround is good news, if the provincial government maintains this latest era of high spending, it will only lead to more deficits when resource revenues inevitably decline in the future.**

First, a bit of history.

**A**s detailed in our recent study, *Alberta Premiers and Government Spending*, there have been two main periods of prolonged increases in per-person spending in Alberta since 1965. The first ran from the mid 1960s to the

early 1980s. Overall, per-person spending, which excludes debt interest costs and is adjusted for inflation, increased from \$3,216 in 1965 to \$12,305 in 1982. Over much of the period—particularly in the 1970s—spending growth corresponded with relatively high oil prices and increased resource revenue for the provincial government.

As resource revenue fell, years of increased spending culminated in persistent deficits and an immense accumulation of debt by the early 1990s. To get Alberta's fiscal house in order and avoid a potential crisis, the Getty and Klein governments had to rein in spending. After sharp spending cuts under the Klein government reduced per-person spending by 22.2 percent over four years, per-person spending was reduced to \$7,154 in 1996.

Once the province balanced its budget in 1994/95 and began successfully paying down debt, however,

per-person spending began another ascent (particularly as resource revenue began to increase in the early 2000s—not unlike the first period of prolonged spending growth).

By 2003, the Klein government’s spending ramped up considerably as the province became debt free and no longer had a clear fiscal anchor guiding its spending decisions. As a result, per-person spending at the end of Klein’s tenure was 18.8 percent higher than when he took office.

By 2008, per-person spending grew to \$13,114, and despite a small 1.8 percent decline in 2009, remained at near record-high levels, marking a new era of permanently high spending that superseded the previous period. Finally, in 2017 under Premier Rachel Notley per-person spending reached its highest level (\$13,719) since 1965, while Jason Kenney recorded the second-highest level (\$13,640) during COVID-19 in 2020, the latest year of available data (that year, non-COVID related per-person spending totalled \$12,347).

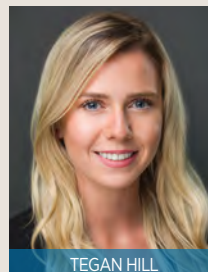
**“ In 2017 under Premier Rachel Notley per-person spending reached its highest level (\$13,719) since 1965, while Jason Kenney recorded the second-highest level (\$13,640) during COVID-19 in 2020, the latest year of available data (that year, non-COVID related per-person spending totalled \$12,347). ”**

This time, a windfall in resource revenue will save Alberta from deficits in 2021 and 2022 without Klein-sized spending reductions, though the provincial government has shown some spending restraint in recent years. But if the era of higher spending continues—or even worse, per-person spending begins to climb—we’ll again incur deficits once resource revenue inevitably falls.

Indeed, in Budget 2022 the Kenney government forecast a surplus of \$511 million for fiscal year 2022/23. But if resource revenue returns to its average level over the past 10 years, the surplus would immediately flip to a deficit of \$6.8 billion.

**“ A windfall in resource revenue will save Alberta from deficits in 2021 and 2022.... But if the era of higher spending continues—or even worse, per-person spending begins to climb—we’ll again incur deficits once resource revenue inevitably falls. ”**

The recent windfall in resource revenue should not mask Alberta’s underlying spending problem. To avoid more deficits in the future, and the subsequent mounting debt and interest costs, the provincial government must end Alberta’s latest era of high spending. **FI**



TEGAN HILL



JAKE FUSS

Tegan Hill is a senior economist and Jake Fuss is associate director of Fiscal Studies at the Fraser Institute. They are co-authors, with Joel Emes, of *Alberta Premiers and Government Spending*.

## COMMITTED TO EDUCATING THE NEXT GENERATION

Through the Institute's Centre for Education Programs and the Peter Munk Centre for Free Enterprise Education, we continue to reach thousands of Canadian students annually with timely webinars, contests, and academic opportunities.

This fall we will host 12 free, one-hour webinars which will reach thousands of Canadian post-secondary students. Previous speakers in this series have included, among others, William Easterly speaking on his book, the *Tyranny of Experts*, Hernando de Soto discussing his book, *The Mystery of Capital*, and Arthur Brooks outlining the key themes in his book, *Love Your Enemies*.

But we won't stop there. We will also host three free, one-day field trips for high school students to introduce them to key economic principles and concepts, and one in-person post-secondary seminar in Vancouver with students participating from all across British Columbia.

For a look at all of our programs, webinar recordings, and resources for students, visit [www.fraserinstitute.org/education-programs](http://www.fraserinstitute.org/education-programs).

Here is what some students are saying about our student programs:

*“These seminars expose rising leaders to get out of their comfort zone and own biases.”*

*“The presenters are always passionate and have new perspectives from what I'm used to or am taught in school.”*

*“The topic of free speech is something that I see tossed around a lot, but I've never really paid much attention to the subject. This presentation really opened my eyes about the situation on campuses. I enjoyed the fact that I learned so many new things about this topic I normally would never have given a second thought about.” FI*





## WE CONTINUE TO SUPPORT CANADIAN TEACHERS AND JOURNALISTS WITH PROFESSIONAL DEVELOPMENT OPPORTUNITIES AND RESOURCES

In addition to our student programming, the Fraser Institute also supports teachers and journalists by offering professional development opportunities and resources. This fall we will host four teacher workshops and webinars, distribute hundreds of engaging lessons plans that will have an influence on thousands of students, and introduce timely resources to support economic education in Canadian classrooms.

We will also host two journalism programs for Canadian journalists—*Economics for Journalists*, and *Policy for Journalists*. Through these programs 50 journalists will gain a more sound understanding of economics and public policy which will help them become better equipped to educate the Canadian population through their various media channels.

To find out more about our resources and programming for teachers and journalists, visit [www.fraserinstitute.org/education-programs](http://www.fraserinstitute.org/education-programs).

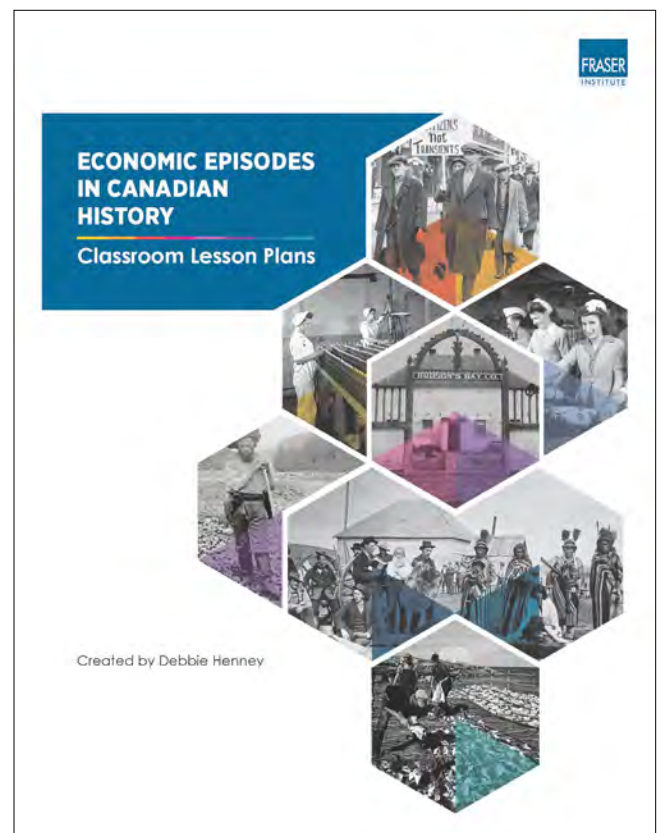


Here is what teachers are saying about our webinars and resources:

*“I never thought that economic concepts could be taught in an interactive way before attending this session.”*

*“This was the best webinar I’ve attended—so much great info marrying concepts and interesting stories. I enjoyed the format.”*

*“Thank you for your continued support of teachers and students. Learning from exemplary professors is a privilege and provides an incredible benefit to our students. These opportunities are great learning experiences that enhance my knowledge of engaging methods and practices to educate our youth.”* FI



## Lawrence Schembri and Jock Finlayson join the Fraser Institute

**Lawrence Schembri**, former deputy governor of the Bank of Canada, and **Jock Finlayson**, one of the country's leading public policy economists, will join the Fraser Institute on September 1st as senior fellows and joint holders of the new Peter M. Brown Chair in Canadian Competitiveness, honouring Board member and past chairman of the Institute, Peter Brown. They will focus on a host of critical national and provincial issues affecting Canada's competitiveness.



PETER M. BROWN  
CHAIR IN CANADIAN  
COMPETITIVENESS



**Lawrence Schembri** served as the Bank of Canada's deputy governor from 2013 until his retirement in June 2022. He was one of two deputy governors responsible for overseeing the Bank's analysis and activities promoting a stable and efficient financial system. Mr. Schembri received a bachelor of commerce degree from the University of Toronto, an MSc in economics from the London School of Economics and Political Science, and a PhD in economics from the Massachusetts Institute of Technology. Prior to joining the Bank of Canada, he was an associate professor of economics at Carleton University.



**Jock Finlayson** was the long-serving executive vice-president and chief policy officer for the Business Council of British Columbia, one of Canada's most influential business associations, where he directed the Council's work on economic, fiscal, tax, environmental, regulatory and human capital issues. He holds a master's degree in business from Yale University, undergraduate and MA degrees from UBC, and a post-graduate diploma in economics from the University of London. He also received an honorary doctorate from Royal Roads University in 2014. He's the author or co-author of two books and more than 50 published articles, book chapters, and monographs, and is a frequent commentator on economic, business, and public policy issues. His articles have appeared in a wide range of outlets including *Business in Vancouver*, the *Vancouver Sun*, the *Globe and Mail* and the *National Post*. Mr. Finlayson served on the board of directors of the Bank of Canada from 2007 to 2013.

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