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THE **Quarterly**

SPRING 2019



Federal Finances Spell Trouble for Canada

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ALSO INSIDE

State of Canadian
Health Care

Cronyism and
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Canada's Record
on Freshwater



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

As the cover of this issue of *The Quarterly* highlights, the federal government's finances should be of great concern to all Canadians. As I've noted previously, the federal government continues to run significant deficits (\$18 billion this year, growing to \$20 billion next year) and apparently has no interest in balancing the budget. The federal government's own Department of Finance now projects the government will not balance the budget until 2040.

The culprit is of course the massive increases in government spending. Federal program spending has increased by \$52 billion (or 20%) over the past three years—vastly outpacing the growth in revenues which are up \$31 billion (or 11%).

Indeed, our recent study, *Prime Ministers and Government Spending*, finds that the current Prime Minister has now recorded two of the three years with the highest levels of government spending in Canadian history, including times of war and recession (see page 2).

Higher deficit-financed spending means more debt that ultimately must be paid by taxpayers. It's for this reason that it is so worrying that this deficit-financed spending has happened during a time of positive, albeit marginal, economic growth. As my colleagues conclude in *What Happens to the Federal Deficit if a Recession Occurs in 2019?*, the federal government's projected 2019/20 deficit of \$19.6 billion will automatically reach upwards of \$34 billion if a recession hits this year (page 12). And that's before the government pursues any "stimulus" measures.

Annual deficits and growing government debt has, and will continue, to create massive uncertainty for Canadian households and businesses about additional future tax increases. Neither of which are particularly good for our economy.

Also in this issue is Fraser Institute Senior Fellow, and University of Guelph professor, Ross McKittrick's response to a group of British Columbian mayors and city councilors' threatening letters to major oil and gas companies (page 16).

I unfortunately cannot highlight all of the important work contained in this issue but would encourage you to read it all. After you are finished doing so, please pass this issue on to your friends, family and/or colleagues.

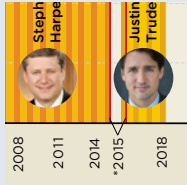
As always, thank you for your ongoing support.

Best,

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

Niels

New Research



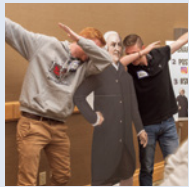
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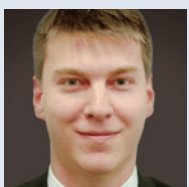
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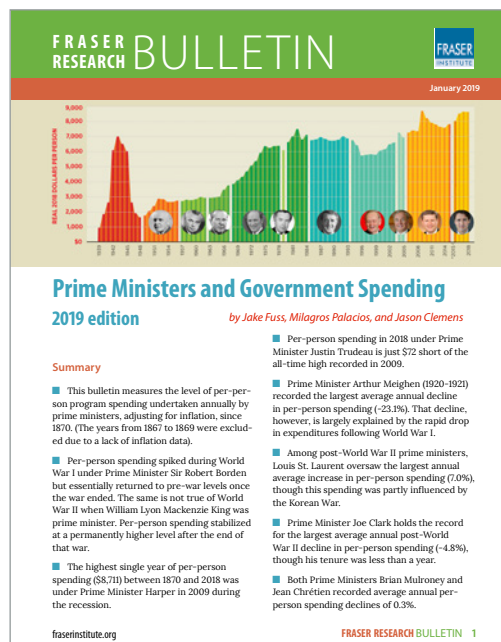
Federal Spending is at one of Its Highest Levels in Canadian History

Jake Fuss, Milagros Palacios, and Jason Clemens

The Fraser Institute recently released a study measuring per-person federal government program spending (total spending minus interest costs) and adjusted for inflation for each prime minister dating back to 1870. The 2019 edition of *Prime Ministers and Government Spending* provides historical context for both past and current government program spending in Canada.

The accompanying infographic shows the results for prime ministers holding office starting in 1939, the beginning of World War II. The highest level of per-person federal program spending was recorded by Prime Minister Stephen Harper in 2009 during the depths of the global recession. Per-person spending reached \$8,711 that year.

For reference, the peak of federal spending during World War II occurred in 1943 under Prime Minister William Lyon Mackenzie King when spending reached \$6,998, almost 20 percent less than the spending recorded by Prime Minister Harper in 2009.

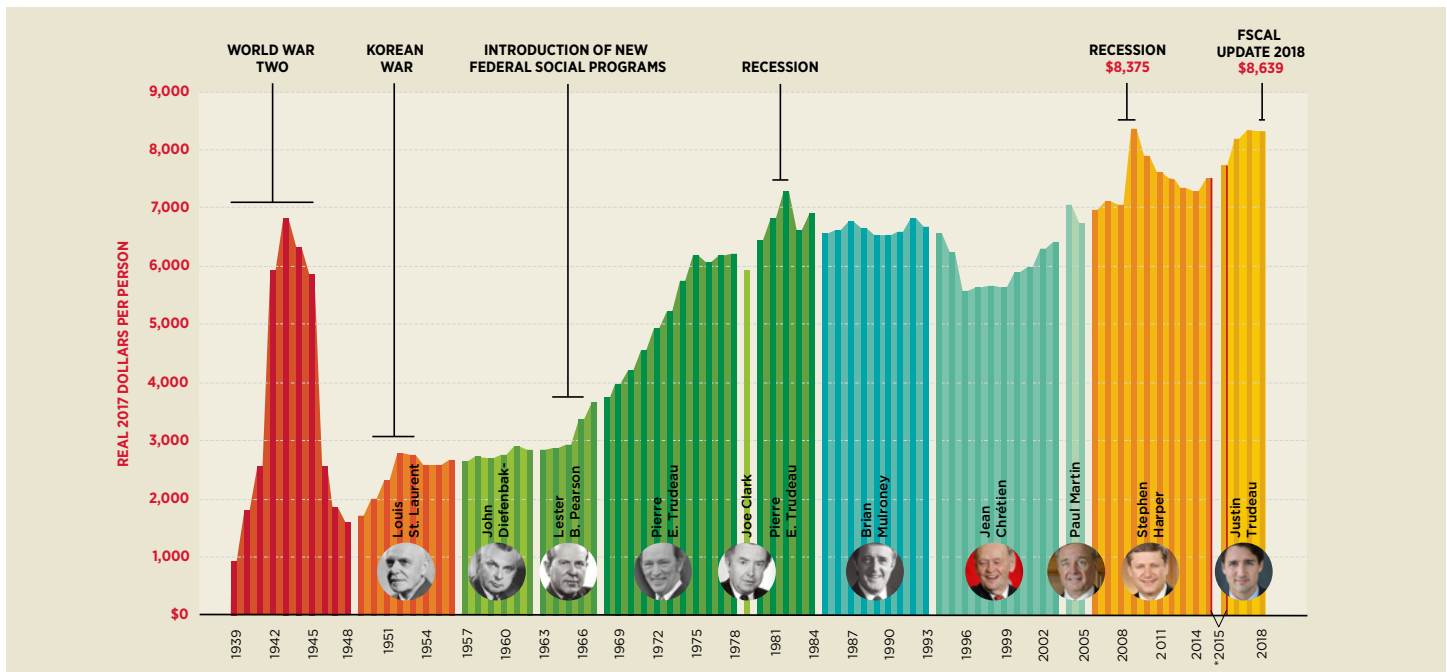


As the infographic depicts, program spending quickly returned to pre-war levels starting in 1946. A gradual increase in federal spending began under Prime Minister Lester Pearson, which was accelerated under Prime Minister Pierre Trudeau. Indeed, beginning in the mid-1970s, per-person federal spending levels began to compare with the peak levels seen during World War II—despite there being no military conflicts or recession.

In 1981 and 1982, federal per-person program spending exceeded the World War II peak for the first time, reaching \$7,471 in 1982. Importantly though, the economy was slowing in 1981 and in full recession in 1982.

Prime Minister Mulroney achieved a period of fairly flat growth in per-person spending as his government attempted to tackle an increasingly worrying deficit and growing debt. The federal deficit was finally slayed by the Liberal government led by then Prime Minister Jean Chrétien. (The book *End of the Chrétien Consensus* contains a full discussion of this period). Under the Chrétien government, per-person program spending was reduced from

WHO SPENT WHAT? A LOOK AT FEDERAL PROGRAM SPENDING SINCE WORLD WAR TWO



*2015 spending for Prime Minister Harper is based on the planned 2015 Budget spending while the 2015 spending for Prime Minister Trudeau is based on actual spending in that year.

\$6,854 in 1993 when the Liberals took office to a low of \$5,784 in 1999, a decline of 15.6 percent.

As noted earlier, per-person program spending spiked under Prime Minister Harper in 2009, in large measure due to the global recession. Per-person spending declined immediately afterwards and throughout most of the remainder of Prime Minister Harper's tenure.

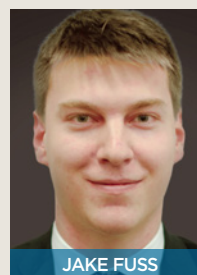
Prime Minister Justin Trudeau's election in 2015 marked a return to increases in per-person federal spending. Indeed, Prime Minister Trudeau's government has recorded the two highest years of per-person program spending outside of war or recession.

Upon taking office in late 2015, the Trudeau government immediately increased per-person federal spending by 3.4 percent. In 2017, the Trudeau government recorded the highest level of per-person program spending (\$8,650) ever recorded outside of war or recession. In 2018, spending was \$8,639 per person, only slightly below the level reached the year prior. In addition, spending in both years is only slightly less than the all-time high level recorded by Prime Minister Harper in 2009 (\$8,711).

It's worth understanding the implications of the increase in per-person federal spending when the numbers are aggregated. The 2015 Budget delivered by the Harper Tories proposed program spending totaling \$263.2

billion. The latest fiscal numbers provided by the Trudeau government indicate that program spending will reach \$328.3 billion this year (2019–20), an increase of \$65.1 billion or 24.7 percent in just four years.

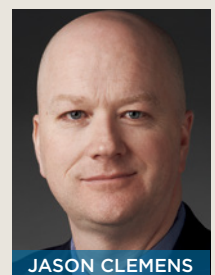
An understanding of the past and how different circumstances led to changes in federal program spending and their effects on the economy are critical to achieving sound policy today. The 2019 edition of *Prime Ministers and Government Spending* provides clear evidence that Canada is currently spending at an unprecedented level outside of war or recession, which poses risks for the future. **FI**



JAKE FUSS



MILAGROS PALACIOS



JASON CLEMENS

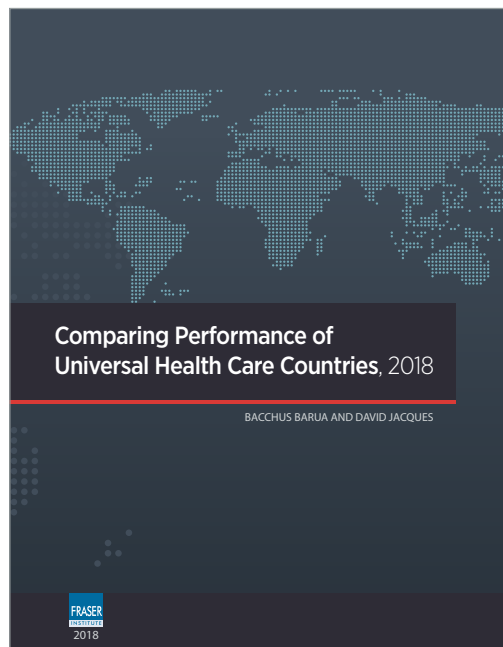
Jake Fuss is a policy analyst, Milagros Palacios is Associate Director, Addington Centre for Measurement, and Jason Clemens is Executive Vice-President at the Fraser Institute. They are the authors of *Prime Ministers and Government Spending: 2019 Edition*.

Canada Among Highest Health Care Spenders Yet Ranks Near Bottom on Number of Doctors, Hospital Beds and Wait Times

Bacchus Barua and David Jacques

Our study uses a “value for money approach” to compare the cost and performance of 28 universal access health care systems in high-income countries. We measured the level of health care expenditure using two indicators and the performance of each country’s health care system using 40 indicators. These indicators represent four broad categories: availability of resources; use of resources; access to resources; and quality and clinical performance.

We also included five measures of the overall health status of the population, though these indicators can be influenced to a large degree by non-medical determinants of health that lie outside the purview of



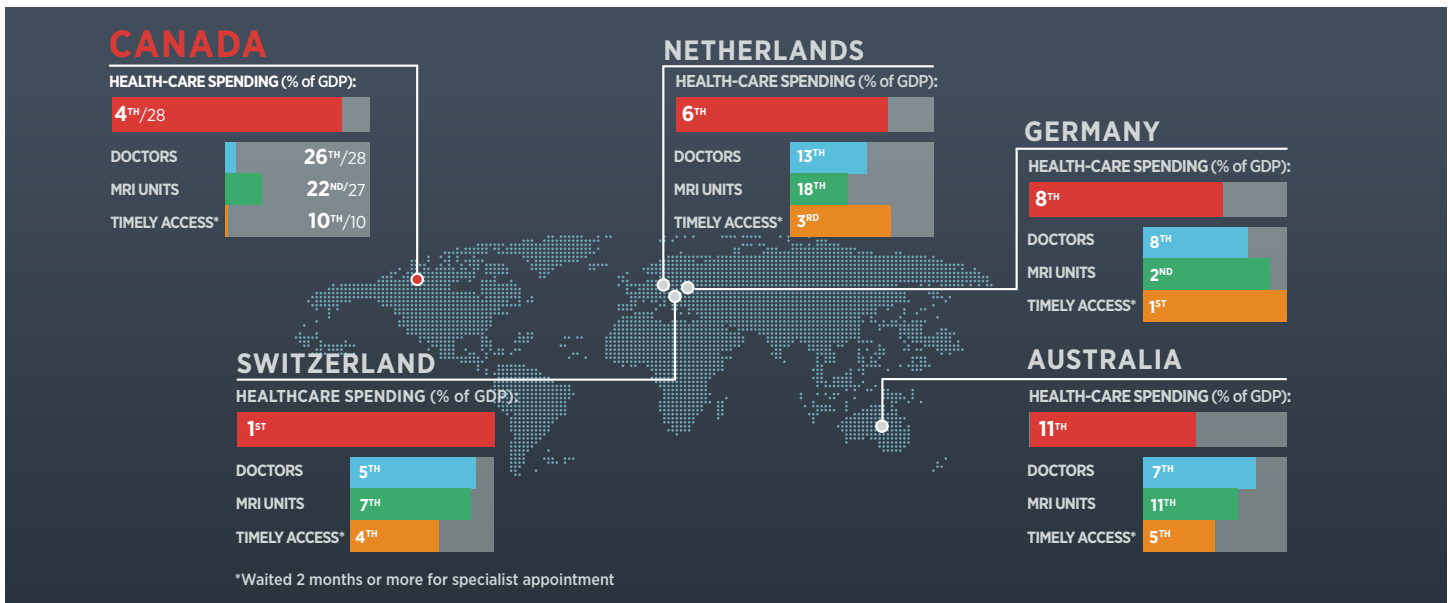
a country’s health care system and policies.

Expenditure on health care

Canada spends more on health care than the majority of high-income OECD countries with universal health care systems. After adjustment for age (the percentage of the population over 65), it ranks fourth highest for expenditure on health care as a percentage of GDP and tenth highest for health care expenditure per capita.

Availability of resources

The availability of medical resources is perhaps one of the most basic requirements for a properly functioning health care system. Data suggest that Canada has substantially fewer human and capital medical resources than many peer jurisdictions that spend comparable amounts of money on health care. After



adjustment for age, Canada has significantly fewer physicians, acute care beds, and psychiatric beds per capita than the average of the OECD countries included in the study. Canada also has fewer other medical technologies than the average high-income OECD country with universal health care for which comparable inventory data are available.

Use of resources

Medical resources are of little use if their services are not being consumed by those with health care needs. Data suggest that on its use of resources, Canada's performance is mixed; it performs at higher rates than the average OECD country on about half the indicators examined (for example, consultations with a doctor and knee replacement), and average to lower rates on the rest. Canada reports the least degree of hospital activity (as measured by discharge rates) in the group of countries studied.

Access to resources

While both the level of medical resources available and their use can provide insight into accessibility, it is also beneficial to measure accessibility more directly by examining measures of timeliness of care and cost-related barriers to access. Canada ranked worst on four of the five indicators of timeliness of care, and performed worse than the 10-country average on the indicator measuring the percentage of patients who reported that cost was a barrier to access.

Quality and clinical performance

When assessing the indicators of availability of, access to, and use of resources, it is also critically important

to include some measure of quality and clinical performance in the areas of primary care, acute care, mental health care, cancer care, and patient safety. While Canada does well on five indicators of clinical performance and quality (such as survival rates for breast, colon, and rectal cancers), its performance on the seven other indicators we examined in our study are either no different from the average or, in some cases (particularly obstetric traumas and diabetes-related amputations) worse.

The data examined in this report suggest that there is an imbalance between the value Canadians receive and the relatively high amount of money they spend on their health care system. Although Canada's universal-access health care system ranks among the most expensive in the OECD, it provides a generally below-average performance on the availability of and access to resources, and only mixed performance on the use of resources, quality, and clinical performance. [FI](#)



BACCHUS BARUA



DAVID JACQUES

Bacchus Barua is associate director of Health Policy Studies and David Jacques is an economist at the Fraser Institute. They are the co-authors of *Comparing Performance of Universal Health Care Countries, 2018*.

Despite Decades of Government Subsidies, Canadian Innovation has Waned

Steven Globerman and Joel Emes

The implementation and adoption of new methods of producing goods and services, along with the introduction and use of new products and new ways of organizing businesses, remain critical to improving living standards. Indeed, studies show that innovation is the driving force behind long-run increases in incomes in developed countries.

Here in Canada, federal and provincial governments have tried to promote innovation for decades, primarily through direct and indirect funding of research and development by established domestic companies and by funding start-up businesses. The consensus of academic studies and reports from special committees and councils is that government programs and initiatives to promote domestic innovation have been largely unsuccessful. For example, the Senate Special Committee on Science Policy noted as far back as 1970 that almost every decade since the 1920s, governments



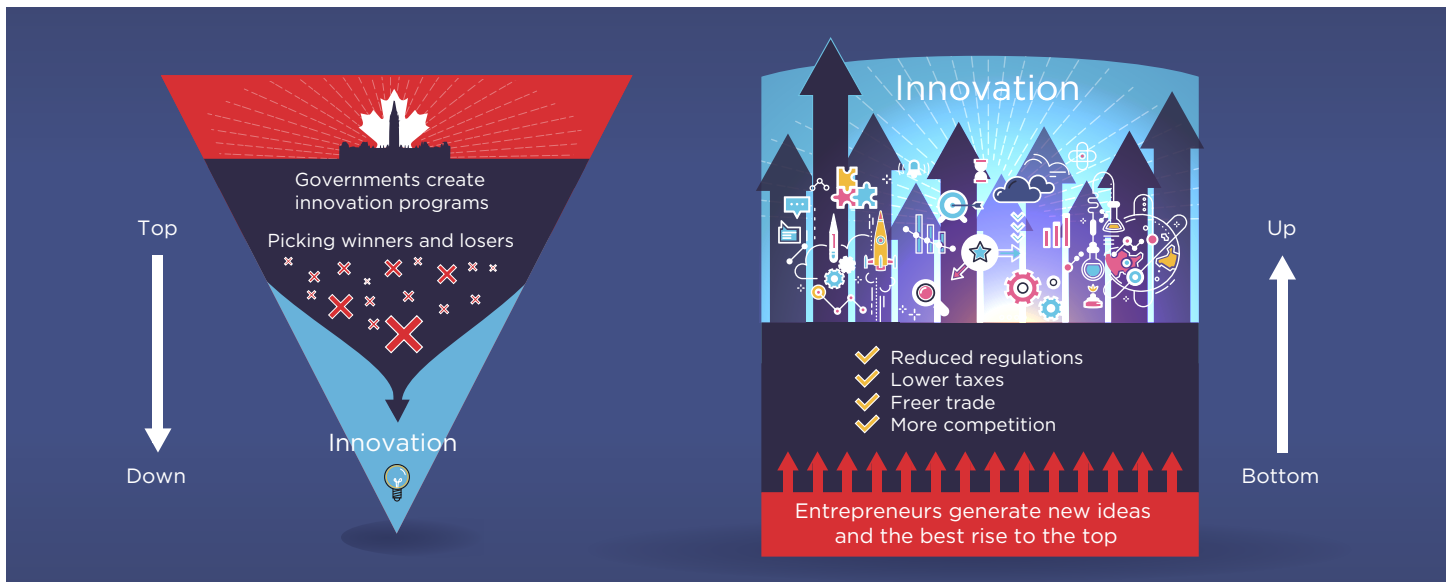
sought to promote innovation, but on the whole, all failed.

And once again, a recent study by the Fraser Institute, *Innovation in Canada: An Assessment of Recent Experience*, finds that Canada's innovation performance in the post-2000 period continues this problematic trend. Indeed, relative to other innovation-leading developed countries, Canada's performance has deteriorated sharply. For example, according to the *Global Competitiveness Index*, which evaluates the competitiveness

and innovativeness of countries, Canada ranked 10th among all developed countries in 2007-2008 for innovation performance. By 2017-2018, we had dropped to 17th.

A second survey called the Global Innovation Index supports the inference that Canada's innovation performance is getting worse, not better. The index ranked Canada 6th among all developed countries in innovation performance for 2011 and 18th in 2018.

GOVERNMENT TOP-DOWN INNOVATION PROGRAMS DON'T WORK



While alternative explanations have been offered for Canada’s relatively poor innovation performance, there seems to be some agreement about one major problem. Namely, start-up companies in Canada fail to grow into larger and successful firms that, in turn, can serve as anchors to promote the growth of innovative suppliers and customers. The anchor roles played by companies such as Microsoft and Amazon in Seattle are examples of what Canada seems to lack. Incidentally, no Canadian companies appeared on the Fortune 100 global list of fastest-growing companies in 2015 and 2016, and only one Canadian company made the list in 2017.

The federal government has acknowledged the failure of new Canadian companies to succeed in later stages of the start-up process. However, notwithstanding massive amounts of government subsidies over many decades that failed to achieve their objective, Ottawa seems to be “doubling-down” on taxpayer-funded government-directed innovation incentives. The most recent comprehensive federal government plan to promote innovation in Canada—the 2017 Innovation and Skills Program—calls for, among other things, increased taxpayer support for companies in later stages of the start-up process and the creation of “superclusters” of companies working in specific technology areas, most notably “clean energy.”

But the historical experience suggests a fundamentally different approach to encouraging greater innovation in Canada is appropriate, as opposed to more taxpayer-funded and bureaucratically directed top-down

programs. One element of a different approach would focus on dramatically cutting regulatory red tape, which reduces private-sector resources that could be used for innovation and that often delays or even prevents the introduction of new products. A second is to promote increased potential competition in domestic industries, notably by eliminating restrictions on foreign ownership in critical industries such as telecommunications and banking. A third is to reduce corporate and capital gains tax rates to encourage risk-taking and capital investment. In fact, the *Global Competitiveness Index* identifies burdensome regulation, limited competition, and an unfavourable tax regime as three major disadvantages facing Canadian companies trying to improve their competitiveness relative to foreign counterparts. [FI](#)



STEVEN GLOBERMAN



JOEL EMES

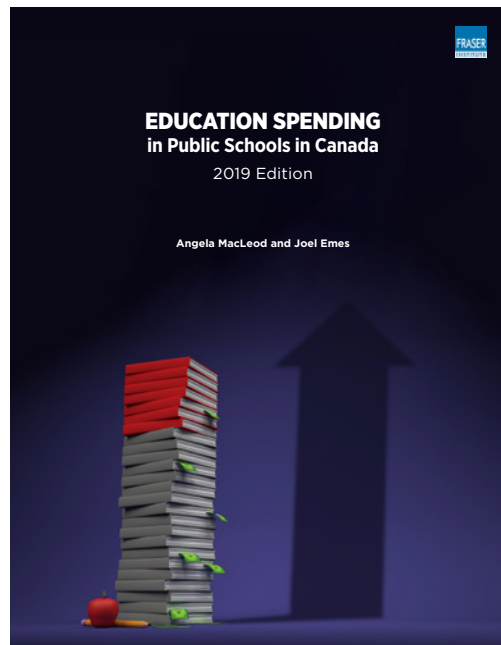
Steven Globberman is a resident scholar and Addington Chair in Measurement at the Fraser Institute and professor emeritus at Western Washington University. He is the co-author, with Joel Emes, of *Innovation in Canada: An Assessment of Recent Experience*.

Public School Spending Across Canada Up 17.3% Per Student, on Average, Over Past Decade

Angela MacLeod and Joel Emes

Parents across the country are concerned about the state of K-12 education in Canada. Results from standardized exams administered by several provinces and from international tests, such as the OECD's Programme for International Student Assessment (PISA), are alarming, particularly in math. There's a pervasive myth that large cuts to education spending are responsible for the decline in performance by Canada's students. Yet provinces are spending more—in some cases much more—than they did only a decade ago.

In fact, as noted in a recent Fraser Institute study, *Education Spending in Public Schools in Canada, 2019* edition, in the 10-year period between 2006/07 and 2015/16, spending on public schools in Canada rose from



\$48.8 billion to \$64.8 billion—an increase of 32.6 percent.

The number of K-12 students enrolled in public schools across the country declined from 5.2 million students in 2006/07 to just under 5.1 million students in 2015/16—a

decrease of 1.8 percent. Alberta, Saskatchewan, and Manitoba have seen an uptick in the number of students enrolled in public schools, but all other provinces have experienced declines.

To get a more accurate picture of the change in education spending we must take both the changes in enrolment and price levels (inflation) into account. Per-student inflation-adjusted spending in public schools increased from \$10,901 in 2006/07 to \$12,791 in 2015/16 (in 2016 dollars), an increase of 17.3 percent. All provinces increased per-student spending with Saskatchewan having the largest increase of 36.4 percent over

PUBLIC EDUCATION SPENDING UP 17.3% PER STUDENT SINCE 2006/07



the period, followed by Newfoundland (30.1 percent). Alberta had the smallest increase of 8.1 percent.

Parents across the country are concerned about K-12 education.

Saskatchewan leads the country by spending \$15,314 per student in 2015/16 followed by Manitoba (\$14,986). Quebec spends the least, at \$10,992 per student. So what are the results in the classroom?

If increased education spending resulted in improved student performance, we should see at least marginal improvements in all provinces. PISA exams, the gold standard for international testing, are administered to 15-year-old students worldwide every three years in reading, science, and math. Between 2003 and

2015 (the latest year available of data) math scores declined significantly in eight out of 10 provinces (Quebec and Prince Edward Island being the only ones holding steady).

There's a pervasive myth that large cuts to education spending are responsible for the decline in performance by Canada's students. Yet provinces are spending more—in some cases much more—than they did only a decade ago.

Standardized exams written in provinces such as Ontario and Alberta show similar trends, with 49 percent of Grade 6 students in Ontario and 40.8 percent of Grade 9 students in Alberta falling short of the standard in math. Parents across the country have been sounding the alarm about student skills in mathematics, and they're right to be concerned.

We owe it to young Canadians to ensure they are armed with the knowledge and skills needed to be successful and productive adults. It's clear something must be done about declining academic performance in Canada, and there are many options for reform. But one thing is certain—if this was a problem that could be solved by simply spending more money, it would be fixed by now. [FI](#)



ANGELA MACLEOD



JOEL EMES

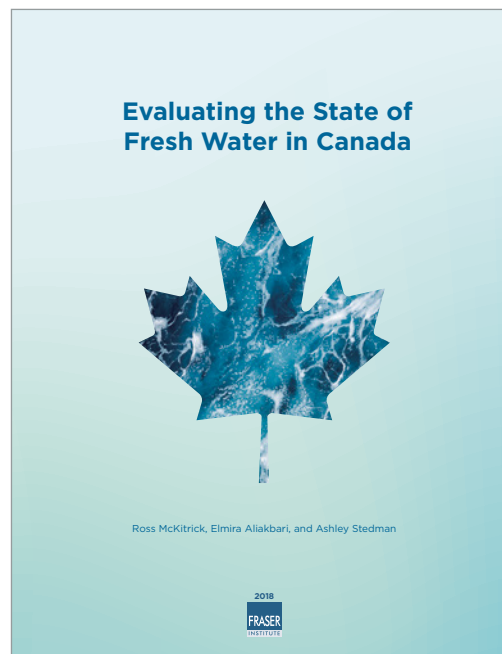
Angela MacLeod is a senior policy analyst with the Fraser Institute and, with Joel Emes, is co-author of *Education Spending in Public Schools in Canada, 2019*.

82% of Freshwater Monitoring Stations in Canada Report Fair to Excellent Quality

Ross McKittrick, Elmira Aliakbari, and Ashley Stedman

It's difficult to imagine a resource more important than clean water. This vital resource is essential for human health and contributes to economic and social well-being. To help Canadians understand the status of our water resources, a recent Fraser Institute study, *Evaluating the State of Fresh Water in Canada*, assessed the quantity and quality of Canada's fresh water. While issues remain and Canadians must be vigilant, the overall assessment of the country's fresh water is quite positive.

Canada has the third largest supply of annual renewable fresh water in the world, yet some Canadians seem to believe we're running out of water. This is because, while abundant, Canada's fresh water



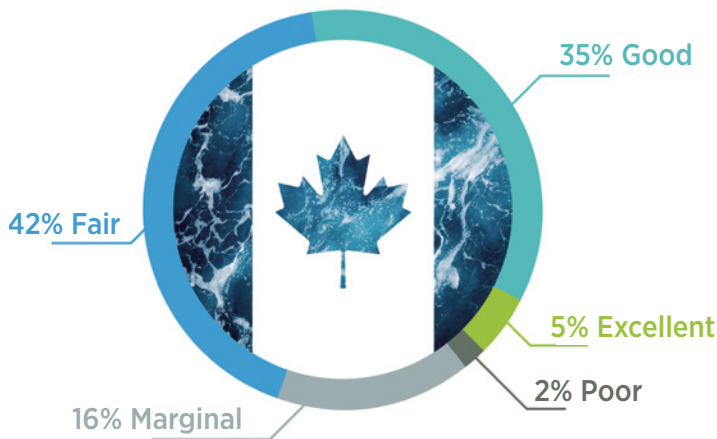
resources are not evenly distributed across the country.

Specifically, many of our rivers drain northward into the Arctic Ocean and Hudson Bay, limiting availability along the country's southern border where the majority of the population resides. Nonetheless, Canadians consume only a small fraction (about one percent) of the renewable fresh water supply annually available. In addition,

according to the federal government's analysis, which relies on monitoring stations across the country, most Canadian rivers (90 percent) had normal or above-normal water quantity and only 10 percent had water quantities that were lower than normal in 2015, the most recent year of available data.

Canada's record on fresh water quality is also quite good; most measures indicate stable or modest improvements over the past few years, with reductions in the amount

82 PERCENT OF MONITORING STATIONS NATIONWIDE SHOW FRESHWATER QUALITY IS FAIR TO EXCELLENT



of pollution that enters our waterways. The study noted improvements in a number of specific areas including municipal waste water treatment and regulatory compliance of mining operations.

According to the federal agency Environment and Climate Change Canada, between 2014 and 2016, 82 percent of monitoring stations on the southern border—again, where most Canadians live—recorded fair to excellent water quality. Only two percent of monitoring stations indicated poor water quality.

Canadians consume only a small fraction (about one percent) of the renewable fresh water supply annually available.

Furthermore, an analysis of Canada's water quality over a longer period (2002-2016) shows encouraging results as conditions remained stable in about 81 percent of locations across the country, improved in 10 percent, and deteriorated in only 9 percent.

So while the overall picture is good, there are some areas that require continued and careful monitoring.

Poor or marginal water quality is more common in rivers connected to the Great Lakes and St. Lawrence River. In particular, excessive concentrations of nutrients (agricultural runoff) in Lake Erie and near the shores of Lake Ontario and Lake Huron have caused a resurgence of harmful algal blooms in these areas. Excessive nutrient concentrations are also an issue in the St. Lawrence River and its major tributaries. Further, nutrient levels in Lake Winnipeg's south basin were excessive in 2016, especially near the inflow from the Red River.

Though concentrations of toxic substances have generally decreased, some indicators suggest levels of PBDEs (flame-retardant chemicals) are still above the prescribed guidelines in some areas including the Great Lakes and St. Lawrence River.

Crucially, however, these issues are to some extent inevitable due to Canada's densely populated areas and concentrations of agricultural activities. In addition, Canada's cold winters demand the use of road salt to melt ice and snow from roadways in populated areas, the runoff from which can adversely affect water quality.

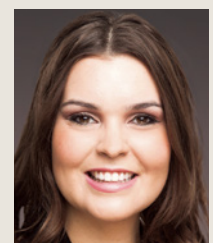
Overall, the state of water quality and quantity for Canada is very good and Canadians should be proud of our achievements to date. However, challenges remain. But they are largely localized and must be addressed with specific measures. **FI**



ROSS MCKITTRICK



ELMIRA ALIAKBARI



ASHLEY STEDMAN

Ross McKittrick is professor of economics at the University of Guelph and a Fraser Institute senior fellow, Elmira Aliakbari is associate director of Natural Resource Studies, and Ashley Stedman is a senior policy analyst at the Fraser Institute. They are co-authors of the study *Evaluating the State of Fresh Water in Canada*.

If Recession Hits, Federal Deficit Will Reach \$28 to \$34 Billion Before any Stimulus Spending

Jake Fuss, Milagros Palacios, and Jason Clemens

Fiscal prudence—the ability of the government to balance its budget and manage the finances of the country responsibly—is an increasing concern for Canadians. According to a recent Nanos poll, a majority of Canadians now favour balancing the federal budget more than continuing to run deficits to finance spending. Unfortunately the Trudeau government is focused almost exclusively on more spending.

The government's current estimate is that the deficit this year (2019-20) will reach \$19.6 billion. (Recall that the original Liberal plan was to balance the budget in 2019.) The primary reason for the larger-than-planned deficit is the government's proclivity for spending. Our recent analysis, *Prime Ministers and Government Spending, 2019*, measured per-person spending (adjusted for inflation) by every prime



minister since 1870. It showed that Prime Minister Trudeau recorded the two highest years of spending outside of recession or war since 1870.

Specifically, the Trudeau government spent \$8,650 per person in 2017-18 and \$8,639 in 2018-19, only slightly lower than the all-time high level of spending recorded by Prime Minister Stephen Harper in 2009-10 (\$8,711) during the depth of the global recession.

Put differently, this federal government has consistently preferred to spend at higher levels rather than move towards a balanced budget. For instance, in the spring of 2018 the government released its fiscal plan, which included spending \$312.2 billion in 2018-19. In the fall of 2018 it released its economic and financial update, which showed that government revenues were higher than planned. Instead of using the extra revenue to close the deficit, the government increased spending by \$8.0 billion. In other words, the government could have cut

the deficit significantly in 2018 if it had just adhered to the spending plan it released in the spring.

To the government's credit, it has been candid that a balanced budget is no longer its immediate goal. Indeed, the Department of Finance's latest long-term forecast projects that a balanced budget won't be achieved until 2040 or so. The government has instead shifted the goal to reducing the size of the federal debt relative to the size of the economy. Both the government's current plan and its long-term forecast indicate that federal debt will decline as a share of GDP.

Running deficits when the economy is expanding, as we are today, with record high levels of spending, risks significantly larger deficits and debt accumulation when the inevitable recession arrives.

However, both analyses are premised on a totally unrealistic assumption—that Canada will not experience a recession. The fundamental laws of economics, like gravity, mean that at some point our economy will contract. Since the Second World War, the Canadian economy has experienced a recession roughly every eight years, with the last recession in 2009.

In addition, there are signs that the risks of recession in 2019 or 2020 have increased. For instance, GDP contracted in two of the last three months. Equity markets are signalling a heightened risk of recession. And collapsing business investment in Canada also raises the risk of recession.

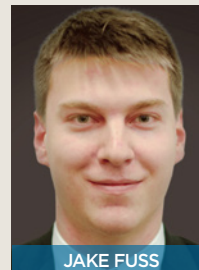
Our recent study, *What Happens to the Federal Deficit if a Recession Occurs in 2019?* assessed the implications of a recession on federal finances. It considered only the automatic revenue declines and spending increases that accompany recessions. For instance, government revenues will automatically drop as unemployment increases and people's wages decline. Similarly, certain types of spending such as Employment Insurance benefits will automatically increase. The analysis did not include any assumptions about discretionary actions such as stim-

ulus spending, which the government might undertake in a recession. Depending on the severity of the recession, the federal deficit could reach between \$28.2 billion and \$34.4 billion in 2019-20. Again, that doesn't include any proactive measures the government might take to combat the recession, which would increase the deficit.

And it's not just an increase in the 2019-20 deficit—the deterioration in finances after recessions tends to last a while. According to the analysis, the five-year accumulated deficit could increase from the current forecast of \$76.8 billion to between \$114.6 and \$142.3 billion, depending on the severity of the recession.

Even a mild recession would derail Ottawa's plan to reduce the ratio of debt to the economy. More worryingly, it would place the country on the same path we struggled through in the 1960s to the early-1990s, when regardless of the state of the economy, we never balanced the budget and consequently accumulated significant debt. Canada reached a crisis point in the early 1990s when interest costs consumed more than one-third of federal tax revenue. It took dramatic actions by the Chrétien Liberal government to finally solve more than three decades of poor financial management.

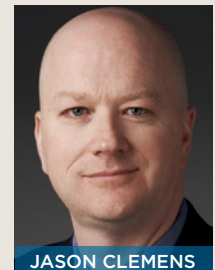
Running deficits when the economy is expanding, as we are today, with record high levels of spending, risks significantly larger deficits and debt accumulation when the inevitable recession arrives. The federal government has an opportunity to respond to Canadians and their increasing concerns about deficits and debt in the 2019 spring budget by finally tapping the brakes on spending and focusing on deficit reduction. **FI**



JAKE FUSS



MILAGROS PALACIOS



JASON CLEMENS

Jake Fuss is a policy analyst, Milagros Palacios is associate director of the Addington Centre for Measurement, and Jason Clemens is executive vice-president of the Fraser Institute. They are co-authors of the study *What Happens to the Federal Deficit if a Recession Occurs in 2019?*

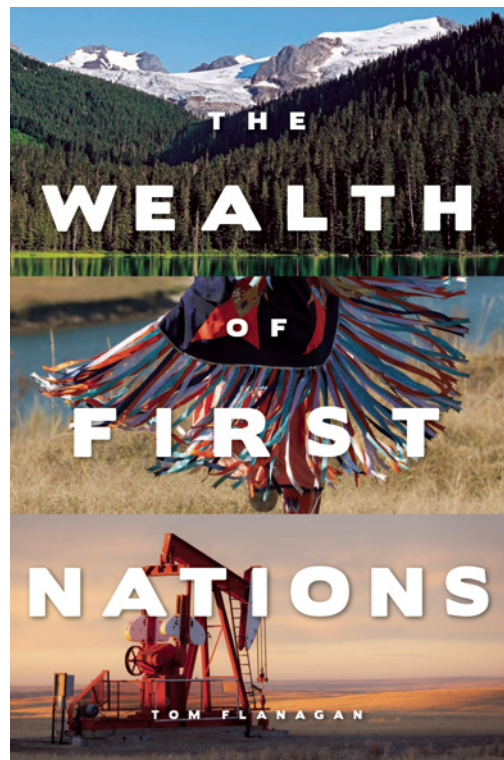
First Nations Focused on Economic Development Enjoy Higher Living Standards than Those Relying on Government Transfers

Tom Flanagan

Adam Smith wrote in his 1776 book, *The Wealth of Nations*, that the “propensity to truck, barter and exchange one thing for another is common to all men.” And indeed, this must be extended to today’s First Nations—where achieving a higher living standard for these communities is a priority for Canadian policymakers.

The best way to learn what works in that direction is to study the experts—those First Nations who are succeeding in doing just that.

With indispensable help from younger researchers, I have studied First Nations’ success for the last six years, using the statistical tools of social science. The results, documented in my book *The Wealth of First Nations*, show that Adam Smith was right. The wealth of First Nations, like the wealth of all nations, is generated by



the invisible hand of market exchange, not by the all-too-visible hand of government regulations and subsidies.

First Nations who improve their standard of living can be identified by high scores on the Community Well-Being (CWB) Index, which aggregates Statistics Canada data on income, employment, housing, and education for all Canadian communities. Correlational analysis can show what is associated with higher CWB scores. In a nutshell, the making and trading of the marketplace,

but not the taking encouraged by politics, is associated with higher CWB scores.

Correlation is not causation, but it is still useful. People who don’t smoke, eat sensibly, control their weight, and manage stress, have fewer heart attacks and strokes, even if the exact mechanisms are unknown. We may not follow the advice all the time, but we know it’s good

advice for longer life expectancy. In the same way, the success of First Nations shows what is associated with a higher standard of living. Statistical analysis is just a way of tabulating those discoveries and achievements.

First Nations with higher CWB scores usually have long-term stable leadership. They reward chief and council adequately but not excessively. They balance their budgets, pay their bills on time, and avoid deficits. They exercise practical self-determination by using “off ramps” from the Indian Act to collect their own taxes and manage their own lands. In contrast, substituting custom governance for the Indian Act model is not statistically associated with higher well-being. It’s important to know what doesn’t work, as well as what does work.

Through both individual and collective mechanisms, high-scoring First Nations take advantage of economic opportunities, such as tourism and hospitality, residential and commercial real estate development, and natural resource plays.

Greater use of Certificates of Possession, the strongest form of individual property available under the Indian Act, is associated with higher CWB scores, particularly the housing component. But leasing of band land to generate own-source revenue is also a crucial factor in achieving prosperity. Through both individual and collective mechanisms, high-scoring First Nations take advantage of economic opportunities, such as tourism and hospitality, residential and commercial real estate development, and natural resource plays. Each high-scoring First Nation has a unique profile drawing from these legal, political, and economic factors.

In comparison, transfers achieved by political and judicial activism show little or no association with higher CWB scores. Federal spending on Indigenous people has grown exponentially over the last 70 years, but First Nations’ CWB has not improved in proportion to that growth in spending. Rather, the increase of First Nations’ CWB parallels the CWB increase of other Canadian

communities. The Canadian economy, not government spending, is the tide that lifts all boats.

Specific claims have resulted in the transfer of almost \$6 billion stemming from disputes over the implementation of treaty or Indian Act provisions, but First Nations receiving these settlements do not show higher CWB scores than those without them. In Saskatchewan, large amounts of land have been added to Indian reserves in the name of treaty land entitlement, based on arguments that reserves were smaller than they should have been. Yet these transfers have had no discernible impact on CWB scores except for a small number of entrepreneurial First Nations that have used their new lands to create urban reserves and enter the business world. Without making and trading in the market, attempts to rectify the past do not produce higher living standards in the future.

Legal rights have also been transferred; the most important example is the judicial creation of First Nations’ right to be consulted before authorizing natural resource development on traditional territory. Although confidentiality of these impact-benefit agreements precludes exact statistical analysis, some First Nations have obtained large payments as a result of consultation and have invested the proceeds with great success. However, dozens of First Nations have received little or nothing because political activists have used the duty to consult to block oil and gas pipelines.

Consultation can be a powerful tool for First Nations wanting to obtain a higher standard of living by engaging in the Canadian economy; but it won’t realize its full potential until the law is reformed to prevent essential corridor developments from being blocked by political opponents.

First Nations who want to improve their own economies are now organizing to achieve a better form of consultation. Adam Smith would applaud their efforts. **FI**



Tom Flanagan is a Fraser Institute senior fellow and professor emeritus of Political Science and Distinguished Fellow at the School of Public Policy, University of Calgary. He is the author of *The Wealth of First Nations*.

Mayors Hope to Shake Down Energy Companies

Ross McKittrick



The West Coast Environmental Law Society, an advocacy organization based in Vancouver, has persuaded a group of British Columbia mayors and city councillors to write threatening letters to major oil and gas companies demanding they pay large, arbitrary sums for a list of supposed harms associated with greenhouse gases from fossil fuel use.

If these mayors and councillors really believe their climate catastrophe rhetoric, they are free at any time to stop using fossil fuel in their personal lives, but of course that isn't going to happen. They enjoy as much as anyone else the benefits of reliable, inexpensive fossil fuels. Unfortunately, they also seem to enjoy using the authority of their offices to bully people who work in

lawful, productive industries and extort cash based on ludicrous claims.

If these mayors and councillors really believe their climate catastrophe rhetoric, they are free at any time to stop using fossil fuel in their personal lives.

Let's suppose their strategy works. Why stop at fossil fuels? Think of all the other businesses they could shake down.

Everyone knows eating food is the root cause of obesity. Look at all those grocery stores encouraging people to consume more than is good for them. Let's hit them up for all the costs of diet-induced health problems. And we all know wine contributes to alcoholism. Think of those BC wineries pushing their poison, knowing perfectly well how drinking harms public health. Nail them. And if there weren't any streets there wouldn't be any traffic accidents. The mayors should go after their own road-building departments and make them pay for the costs of injuries in traffic accidents.

Life consists of choices that carry both benefits and costs. We try to choose the ones that, on balance, yield greater benefits than costs. This is true of everything—eating, drinking, getting around, etc. Regarding fossil fuels, society long ago sized them up and decided, correctly, that the benefits vastly exceed the costs.

Before I go putting any ideas into the heads of these mayors, let's clarify the flaw in all this. Life consists of choices that carry both benefits and costs. We try to choose the ones that, on balance, yield greater benefits than costs. This is true of everything—eating, drinking, getting around, etc. Regarding fossil fuels, society long ago sized them up and decided, correctly, that the benefits vastly exceed the costs.

From the very beginning of the Industrial Revolution, we have known that fossil fuels have downsides including air pollution and greenhouse gas emissions. But again, the gains from their use are far greater and we have accepted the bargain, gladly and unanimously. We know what a world without fossil fuels looks like; we used to live in it. It was cold, poor, dark, ignorant, starving, and backwards. And it had its own environmental problems, including intense deforestation and air pollution as people relied on wood for fuel.

After more than a century of enjoying the immeasurable net benefits of fossil fuels, these mayors now want energy companies to reimburse cities for alleged costs (their precisely calculated climate damages are scientifically nonsensical, but leave that aside). What they are saying is they want to rerun the last 150 years of history and back out the net effects of fossil fuels. Okay. But the first step, then, is for the cities to repay the energy sector for all the social, economic, and environmental benefits they have reaped from a reliable and abundant supply of fossil fuels.

But of course, they only want to charge back the costs while keeping all the benefits. These mayors live in a dream world with only pluses, never minuses. Only upsides and never downsides. And actions that yield only risk-free benefits with no costs.

Nor is there any basis for claiming that fossil energy companies were secretly concealing knowledge of climate risks. In 1984, the CBC ran a documentary called *The Greenhouse Effect and Planet Earth*. It's remarkable to watch it now, 35 years later. All the themes of today's discussion are laid out in public. Scientists agree on the basic mechanism but are unsure of the pace and severity. It's infeasible to give up using fossil fuels any time soon, so we'd better learn to adapt. While activists worry about catastrophic predictions, expert assessment of the impacts suggests there will likely be benefits—and costs.

In full possession of this knowledge, we have decided ever since to keep using fossil fuels. It was the right decision then, and it will remain the right decision for a long time to come. This is obvious to everyone except, apparently, a bunch of mayors and town councillors in British Columbia. [FI](#)



ROSS MCKITRICK

Ross McKittrick is a professor of economics at the University of Guelph and a senior fellow of the Fraser Institute.

The Dirty Secret Behind Canada's Supposedly “Successful” Public-sector Pensions

Philip Cross



The large and growing gap between public and private sector pensions is arguably the most striking feature of Canada’s retirement system. Defined-benefit (or DB) pension plans, the most sought-after and valuable workplace pensions, are now found almost exclusively in the public sector. Eighty percent of public sector workers participate in DB pension plans. Only 10 percent of private sector workers can make the same claim.

The demise of private sector DB plans has been neither sudden nor surprising. Participation rates peaked in the 1980s, but eventually the collapse of interest rates in the early 2000s made DB plans prohibitively expensive. They now cost more than most private sector employers are prepared to pay, and more than most private sector workers believe the plans are worth.

The mystery is not why DB plans have disappeared in the private sector; it is why they have continued to flourish in the public sector. If private sector employers can no longer afford even modest DB plans, how can public sector employers afford much more expensive plans—plans with larger pensions, earlier retirement, and full inflation protection? This is the question Malcolm Hamilton and I looked at in our recent study, *Risk and Reward in Public Sector Pension Plans: A Taxpayer’s Perspective*.

Canada’s public sector DB plans frequently cite the “Canadian Pension Model”—the manner in which they are organized, governed, administered, funded and invested—as the reason for their success. A recent World Bank study attributes the success of the Canadian Pension Model to superior governance, economies of scale, innovative investment practices, responsible

funding, visionary leadership, high pay, and other virtues too numerous to mention.

That Canada's public sector DB plans have done a superb job for their members is undeniable. No one would question the plans' success; but we do question the reason for their success. That success is due to large public subsidies made possible by practices that are neither admirable nor virtuous: bad accounting, poor governance, imprudent risk-taking, and inadequate financial disclosure.

Defined-benefit pension plans, the most sought-after and valuable workplace pensions, are now found almost exclusively in the public sector.

To be fair, the responsibility for many of these failings lies not with the pension boards who administer the plans, but with the employers who sponsor them. The fault lies with public sector employers, usually governments, who fail to represent the public interest when it conflicts with the interests of their employees. This does not mean that our pension boards are entirely without blame. They have become enablers of, and enthusiastic cheerleaders for, a badly flawed pension system. They have grown comfortable with a success they do not understand.

The narrative advanced by Canada's public sector DB plans raises a perplexing question. If innovative investment strategies abetted by good governance explain their success, why don't private sector employers adopt the Canadian Pension Model and provide comparable pensions to their employees? Our answer is that Canada's public sector DB plans do things that private sector DB plans are prevented from doing—for good reason. In particular, public sector accounting standards allow public sector employers to materially misrepresent the cost of their pension plans. Private sector employers are prevented by private sector accounting standards from doing the same thing.

Taking on investment risk is a legitimate tactic, provided that those who bear the risk also reap the reward. This is not what happens in Canada's public sector DB

plans. Consider the plans covering employees of the federal government. Plan members, whose interests are ably represented by powerful public sector unions, are handsomely rewarded for investment risk taken by their pension plans and borne by the public. The public, whose interests are poorly represented by the federal government, receives no reward for bearing this risk. To be clear, public sector accounting standards permit, but do not require, the deceptive accounting practices that make this possible. Governments are allowed to properly account for pension costs; they simply choose not to do so. By making this choice they subordinate the public interest to the interests of their employees.

Public sector DB plans cite their independence from government as a key to their success, freeing them to pursue profitable policies outside the purview of politics. But this independence is a flaw, not a virtue, of public-sector pension governance. The plans take on investment risk to advance the interests of plan members while the interests of taxpayers, who ultimately bear this risk, are ignored. Outside the public sector this would usually be called moral hazard, not good governance.

The assertion that Canada's public sector pension plans have discovered a formula that makes them a model for the world to emulate warrants serious skepticism. The exceptional feature of Canada's public sector DB plans is not "world-beating" investment strategies or good governance. It is the ability to enrich public employees by shifting large, undisclosed investment risks to taxpayers without fair compensation. By our estimate, this provides an unacknowledged \$22 billion annual subsidy to Canada's public sector DB plans and, ultimately, to the members of these plans. This large public subsidy, not the virtues of the Canadian Pension Model, explains the plans' success. Without it, public sector DB plans would be no more viable than private sector DB plans. [FI](#)



PHILIP CROSS

Philip Cross is a Fraser Institute senior fellow. He is the co-author, along with Malcolm Hamilton, of *Risk and Reward in Public Sector Pension Plans: A Taxpayer's Perspective*.

Ontario Government Must Back up Housing Rhetoric with Concrete Policies

Josef Filipowicz and Steve Lafleur



At the end of 2018, the Ford government vowed to tackle housing affordability by growing the housing supply and asking the public for input on how to reduce regulatory barriers to homebuilding.

As a starting point, it's good to see that the new government isn't preoccupied with vain attempts to tamp down housing demand (like in British Columbia), nor is it intent on resurrecting heavily discredited policies such as rent control (like the Wynne government did). Instead, the government seems to recognize the root of the problem—a shortage of homes. This change is good news.

However, as is often the case in politics, there's a big difference between intentions and outcomes. So far, the Ford government is talking the supply talk, but will it walk the walk? Scrapping rent controls on new units was a good start, since it will make rental housing construction (and maintenance) more attractive. But beyond these incentives, removing regulatory barriers to construction remains key. One place to start is to accelerate building permit approval timelines by improving municipal zoning bylaws.

Research shows that long and uncertain approval timelines are a significant impediment to homebuilding. And in the Greater Golden Horseshoe (Ontario's largest

urban region), timelines average one-and-a-half years from the time builders first approach city hall to the moment they can break ground, with significant variation between individual projects.

Many factors influence timelines, including the number and clarity of steps in a municipality’s approval process and the number of staff available to process applications. Zoning bylaws are also crucial.

According to the 2016 research paper *The Impact of Land-Use Regulation on Housing Supply in Canada*, which measured regulatory barriers to homebuilding, rezoning (the need to amend local zoning bylaws to replace, say, a row of bungalows with an apartment building) adds a significant amount of time to the building permit approval process. In Toronto, rezoning adds more than seven months to that process, on average, while in Hamilton it adds almost one year. This has important ramifications for the housing supply, since every additional month of delay or uncertainty erodes the ability of homebuilders to respond to strong demand with new homes.

Research shows that long and uncertain approval timelines are a significant impediment to homebuilding.

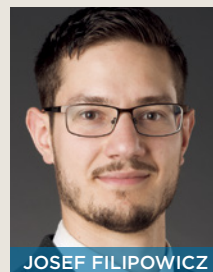
Although zoning is a municipal function, the provincial government has significant power over municipalities, as evidenced by the recent decision to cut the number of Toronto city councillors in half. The Ford government could, for example, require as a precondition of provincial transit infrastructure funds the “upzoning” of areas around transit stations to create far more housing than is currently allowed. This would curb the municipal practice of holding back extra density as a bargaining chip to extract local amenities from builders.

The same applies to provincial grants to municipalities. According to provincial data on local government finances, a significant portion of municipal revenue (almost 18 percent in the GTA in 2016) comes from

provincial and (to a lesser extent) federal transfers, including grants to help with operating spending. Tying such grants to tangible increases in “zoned capacity” (the number of homes allowed by current zoning) would help foster the many more homes needed to increase affordability, while shaving months off the permit application process.

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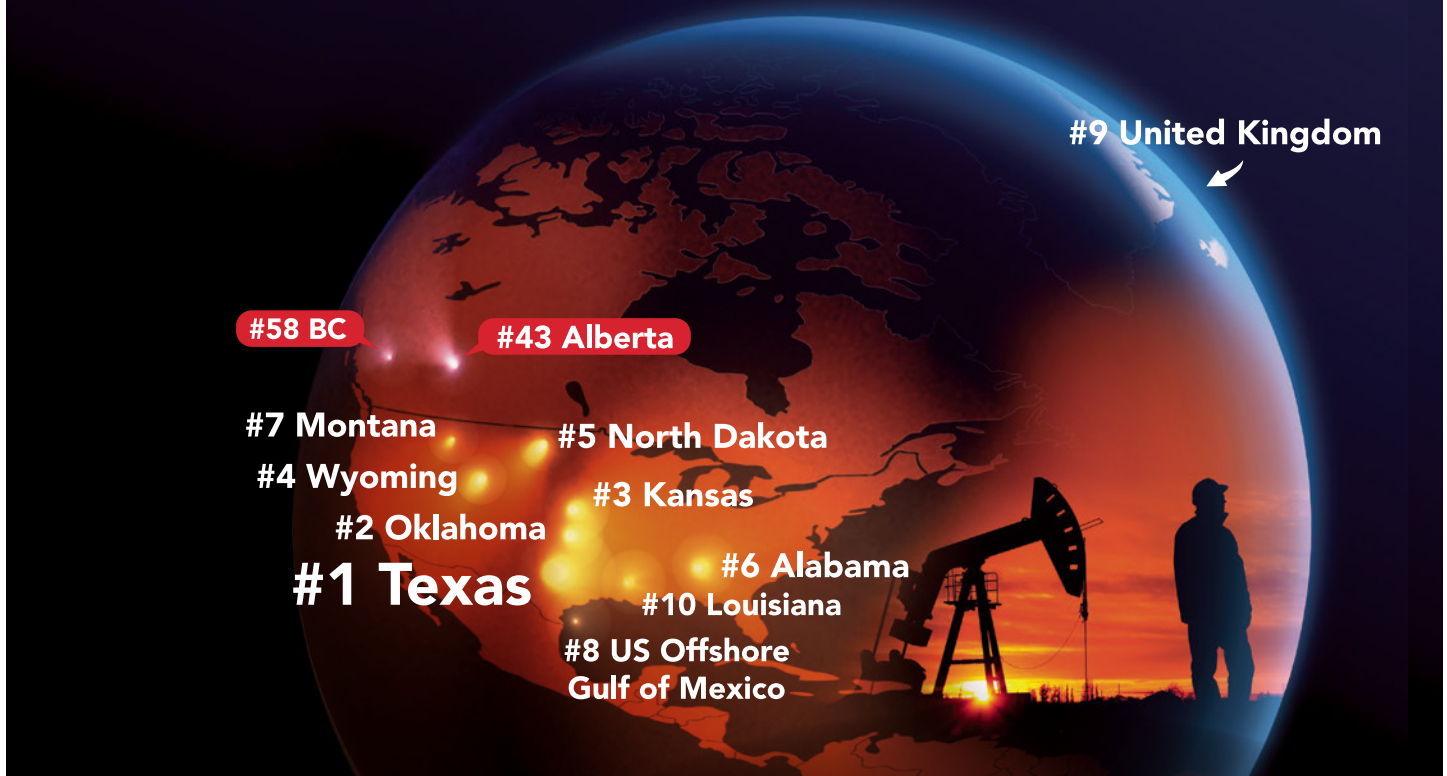
These are but a few tools at Queen’s Park’s disposal. Much more could be said about how to help renters, and about novel approaches to funding the infrastructure necessary to service a growing housing supply. Most important, however, is that in 2019 and beyond the Ford government show a genuine interest in solving the housing affordability puzzle—and not just provide lip service. **FI**



Josef Filipowicz and Steve Lafleur are both senior policy analysts at the Fraser Institute.

According to Oil and Gas Investors, Canada Much Less Attractive than US

Ashley Stedman and Elmira Aliakbari



There's money out there for the upstream oil and gas industry, but investors seem eager to steer clear of Canada. With continued pipeline obstructionism, uncompetitive tax rates, and increasing regulatory uncertainty here in Canada, investors increasingly view US states as a better place to invest and ultimately produce jobs and government revenue.

According to the 2018 *Fraser Institute Global Petroleum Survey*, which tracks the perceptions of oil and gas investors by spotlighting policies that affect investment attractiveness including royalties, taxes, and

regulations, nine of the top 10 most attractive jurisdictions for oil and gas investment are in the United States. Canadian provinces were shut out of the global top 10.

Last year, six US states and two Canadian provinces (Newfoundland & Labrador and Saskatchewan) made the global top 10 list of most attractive jurisdictions for oil and gas investors. But this year, the majority of Canadian jurisdictions dropped in the rankings, including Alberta (ranked 43rd) and Saskatchewan (ranked 18th). In contrast, most US jurisdictions rose in the rankings.

So what's behind the boost in investor confidence for many US jurisdictions?

Simply put, investors have a more positive view of the regulatory environment in many US states. In particular, in the eyes of investors, more than half of the US jurisdictions significantly improved their labour regulations and addressed regulatory duplication since last year. Meanwhile, on the regulation front, many Canadian jurisdictions saw their perception scores decline.

With continued pipeline obstructionism, uncompetitive tax rates, and increasing regulatory uncertainty here in Canada, upstream oil and gas investors increasingly view US states as a better place to invest and ultimately produce jobs and government revenue.

An Alberta/Texas comparison underscores Canada's uncompetitive regulatory and policy regimes. To start, Alberta (which, again, is ranked 43rd) is Canada's second least-attractive jurisdiction to invest in whereas Texas (ranked 1st) is the most attractive jurisdiction in the United States—and the world.

On the tax front, more than 50 percent of respondents see Alberta's fiscal terms (royalties, etc.) and taxation as deterrents to investment compared to 4 percent for Texas. And in a stunning result (related to Canada's federal regulatory system), 73 percent of respondents cited the cost of regulatory compliance in Alberta as a deterrent to investment this year, compared to only 10 percent for Texas.

Moreover, if we compare Alberta's results to Oklahoma (the second most attractive jurisdiction based on policies), or Kansas (third most attractive), we see similar patterns.

To understand why Canada has dimmed in the eyes of oil and gas investors, consider how recent policy decisions vary between countries. In Canada, the Trudeau government plans to make the regulatory approval process

even more uncertain and complex with Bill-69, which is currently under Senate review. This bill includes subjective assessment criteria—including the social impact of energy investment and its “gender” implications—which will likely increase uncertainty, further politicize the regulatory process, and lengthen approval times. Meanwhile, the Trump administration has rescinded or scaled back several Obama-era regulations including regulations on hydraulic fracturing on federal lands. The US has also moved away from carbon pricing and has introduced sweeping corporate tax cuts meant to attract business investment.

This raises a key question. Why would investors put money into Canadian jurisdictions as opposed to US states if governments north of the border continue to feature uncompetitive tax rates and onerous regulations? In short, they won't.

Overall, oil and gas investors are sending clear signals that Canada has an investment attractiveness problem. To reverse this trend, policymakers in Ottawa and the provinces should adopt competitive policies and streamline regulatory processes to restore investor confidence. **FI**



Ashley Stedman is a senior policy analyst and co-author, with Kenneth P. Green, of the *Fraser Institute Global Petroleum Survey, 2018*. Elmira Aliakbari is associate director, Natural Resource Studies, at the Fraser Institute.

Canadian Policymakers Should Learn from US Supply-side Success

By Steven Globerman

The election of President Trump and a Republican Congress in 2016 spurred another experiment in supply-side economics, which should interest policymakers in Ottawa and the provinces. Specifically, Congress passed a tax bill that reduced the corporate tax rate from 35 percent to 21 percent, while the administration rolled back regulations that accumulated during the Obama presidency. Republicans said these steps would stimulate business investment and economic growth, which had lagged during the Obama years.

The theory behind the tax cut and deregulation initiatives is straightforward. Lower taxes on corpo-

rate earnings and lower costs associated with reduced regulatory burdens should increase the after-tax profitability of business investments, thereby encouraging increased capital expenditures. The latter, in turn, should lead to increased productivity and faster real economic growth. The main argument against these supply-side measures, made by economist and *New York Times* columnist Paul Krugman and others, is that capital investment is relatively insensitive to corporate tax rates. In other words, there aren't many potential business investments worth doing with a 21 percent profit tax that aren't worth doing with a 35 percent tax rate.

The issue of the effectiveness of supply-side policies is ultimately empirical. In fact, private-sector capital

spending in the US picked up substantially after President Trump took office. (Gross private domestic investment increased by only 3.6 percent from 2014 to 2016 compared to almost 14 percent from 2016 to the third quarter of 2018.) This increase belies the arguments of critics such as Krugman, that the corporate tax cut resulted only in corporations buying back their own shares rather than expanding production capacity.

It's also quite plausible that the supply-side effects of the Trump tax cuts and deregulation would be even more pronounced were it not for the economic uncertainty and disruptions to production supply chains caused by the administration's mercantilist tariffs and escalating trade war with China. By way of support, an index of trade policy uncertainty created by economists at the University of Chicago increased by more than 200 percent from 2016 to 2018. Put simply, investors and corporate executives making decisions about capital expenditures became much more uncertain about the likely outcome of their investment decisions after the tax cut went into effect.

The theory behind the tax cut and deregulation initiatives is straightforward. Lower taxes on corporate earnings and lower costs associated with reduced regulatory burdens should increase the after-tax profitability of business investments, thereby encouraging increased capital expenditures.

Increased uncertainty results in companies using a higher discount rate to evaluate potential investments, which in turn discourages capital expenditures at the margin. Indeed, surveys by the Federal Reserve Bank of Atlanta show that US firms are delaying or dropping a significant percentage of previously planned capital expenditures because of increased uncertainty in the global trade environment.

Here at home, there has been much discussion about a dramatic decrease in business investment in Canada relative to other developed countries in recent years. Concerns about a deteriorating domestic environment for capital investment have led to calls by some Canadian economists and international organizations (including the International Monetary Fund and the Organization for Economic Cooperation and Development) for tax reform in Canada to stimulate capital expenditures. An important component of any such reform would include reductions in Canada's corporate tax rate, which is now among the highest in the developed world.

While Canadian policymakers should avoid certain aspects of Trump administration policies, supply-side policies such as corporate tax cuts and cutting regulatory red tape are worth emulating.

Clearly, while Canadian policymakers should avoid certain aspects of Trump administration policies, supply-side policies such as corporate tax cuts and cutting regulatory red tape are worth emulating. The Trump administration's real-time experiment in supply-side economics has produced evidence that tax reduction and deregulation incentives "work" even when they are compromised by tariffs and other policies anathema to supply-side proponents. [FI](#)



Steven Globerman is a resident scholar and Addington Chair in Measurement at the Fraser Institute and professor emeritus at Western Washington University. He is the co-author, with Trevor Press, of *Capital Investment in Canada: An International Comparison*.

Ontario Government Should Heed Lessons of Previous Amalgamation Experiment

Lydia Miljan



The spectre of amalgamation once again looms over Ontario as the Ford government recently announced plans to review the governance, decisionmaking, and service delivery in eight regional municipalities and Simcoe County, prompting speculation that the government wants to resume the amalgamations initiated by former premier Mike Harris in the 1990s and 2000s.

Here's some quick history. When the Harris Progressive Conservative government was elected in 1995,

there were 850 municipalities in the province. Within five years, that number was nearly cut in half to 444, based on a premise that amalgamation would produce more efficient and less costly local governments. Taxpayers, it was argued, would benefit from lower costs and lower taxes.

But research on the province's largest cities found these benefits did not materialize.

Fast-forward to today, and the Ford government's review will focus on regional governance structures that have been in place for 40 years. Regional governments

in Ontario form what already could be considered partial amalgamation. The services covered under the regions include arterial roads, transit, policing, sewer and water systems, waste disposal, region-wide land use planning, and health and social services. In some cases, the town or city within the region provides services to residents.

The review will spotlight two general areas—municipal governance and service delivery. In the first area, the advisory body will examine whether there are efficiencies to having two levels of government and whether this structure is appropriate in all cases. These are important and relevant questions that should yield some interesting results.

Many of the claims put forward by amalgamation advocates failed to materialize. In most of the municipalities we analyzed, the per-household municipal tax burden increased. We also found that spending on certain services and remuneration also increased significantly.

However, the second area, the question of service delivery, raises some concern. Whenever a government asks if there is duplication of activities or opportunities for cost savings, it raises fears that the real purpose of the review is to use amalgamation to reduce government.

As noted, studies on Ontario's larger cities have found no cost savings to amalgamation, and indeed, our research on smaller municipalities (principally, *Municipal Amalgamation in Ontario*), came to similar conclusions.

Specifically, 15 years after amalgamation, we found that the exercise had not resulted in cost savings or lower property taxes. Rather, we found significant increases in property taxes and compensation for municipal employees along with long-term debt in both amalgamated and unamalgamated communities, suggesting there was no tangible financial benefit from amalgamation.

In fact, many of the claims put forward by amalgamation advocates failed to materialize. In most of the municipalities we analyzed, the per-household municipal tax burden increased. We also found that spending on certain services and remuneration also increased significantly.

In conducting this research, we interviewed local politicians and administrators who said the urgency and speed with which the amalgamations were carried out didn't help. There was little provincial assistance at the time for the amalgamations. Moreover, one of the reasons for the increased costs was that wages were harmonized upwards in this period (meaning many government workers received raises), which had a significant impact on the cost of service delivery. And many municipalities were fearful of forced consolidation, which resulted in expedient decisions about governance and servicing issues without the benefit of time or access to comparable information and best practices.

Finally, our research revealed that when rural areas were amalgamated with urban areas, residents began to demand more urban services, which further stretched municipal budgets in the years following consolidation. Subsequent policy "downloading"—that is, the transferring of responsibility for services from the provincial government to municipalities—and a change in provincial government in 2003 entrenched these institutional structures.

While it's commendable that the government is reviewing municipal service delivery, let's hope it will heed the lessons of the last amalgamation experiment and proceed with caution to ensure the best possible outcome and provide true cost-savings and better local governance. **FI**



Lydia Miljan is an associate professor of political science at the University of Windsor and a senior fellow at the Fraser Institute. She is the co-author, with Zachary Spicer, of *Municipal Amalgamation in Ontario*.

The SNC-Lavalin Affair— Crony Capitalism in Action

Jason Clemens and Niels Veldhuis



SNC-Lavalin Headquarters, Montreal, Wikimedia photo

With new developments breaking daily in the SNC-Lavalin affair, the economic impact in Quebec of the company's decline (or demise) is becoming increasingly obfuscated. This is a particularly sensitive issue in Ottawa given that Quebec will likely determine the outcome of October's federal election.

SNC-Lavalin is a global engineering and project management company covering infrastructure,

mining, and energy, with operations in more than 50 countries and roughly 50,000 employees. The suggestion—indeed, even the justification—by some is that possible interventions by the prime minister's office (PMO) to save the company from criminal prosecution were made to secure SNC-Lavalin's future because of its pivotal role in the Quebec economy.

This conflates the fate of an individual firm—in this case, SNC-Lavalin—with the economic activity and employment related to the firm. This was a common mistake

during the debates in 2008 and 2009 about the potential failure of US banks. Vested interests argued that the failure of individual banks could lead to the implosion of the entire global financial system, while not understanding that other successful banks and new entrants would absorb the assets and employees of the banks that failed. The real winners from the bank bailout were the owners (shareholders) of the failing banks who avoided the costs (losses) of bank failure.

The failure of a single firm, whether it's a US bank or a major engineering firm such as SNC-Lavalin, doesn't mean the end of the underlying economic activity or even the related employment. The reason is quite simple—customers still demand those services. So long as the demand for those services remains genuine, there will continue to be economic opportunities. Those opportunities mean that existing firms will expand and/or new entrepreneurial firms will emerge to meet that demand. Such expansion and creation absorbs much, if not all, of the existing employment. That's not to say, however, that employees don't experience disruptions and costs of transition, but those consequences are significantly different and less costly than the demise of an industry.

What failure does mean, though, is that the executives and owners (shareholders) of the firm incur losses. The shareholders of SNC-Lavalin, including its executives, stand to lose considerable sums if the firm continues to decline or even fails. But a market economy is based on both profits and losses. You can't have one without the other.

Profits signal to other firms, entrepreneurs, and potential investors that there are opportunities in a particular market or industry, which encourages investment and the allocation of capital and talent to that market. Equally as important, though, are the losses, which signal the decline of a firm or perhaps even an industry, and inform both workers and investors to shift their efforts, talent, and capital elsewhere. This mechanism ensures that capital and labour are employed as efficiently as possible.

What's being sold now is economic hyperbole designed to protect existing interests. If the engineering services of SNC-Lavalin are in legitimate demand, then those customers will still demand those services if SNC-Lavalin continues to decline or fails. Other firms will

expand and/or new firms will emerge to capture SNC-Lavalin's market share. That's how entrepreneurial capitalism works.

The failure of a single firm, whether it's a US bank or a major engineering firm such as SNC-Lavalin, doesn't mean the end of the underlying economic activity or even the related employment.

The very public discussion now is about nothing more than crony capitalism, whereby firms request and secure special treatment and privileges from government. In this case, it seems much more about protecting the wealth of the owners and executives of SNC-Lavalin, which again is essentially what happened in the bank bailout in the United States in 2009.

The legal process should proceed as it would with any other firm. And politicians, policymakers, and Canadians more broadly should avoid conflating the interests of the owners of a specific firm with broader economic interests. [FI](#)



Jason Clemens is Vice-President and Niels Veldhuis is President of the Fraser Institute.



Adam Smith is spotted in this “dab” selfie taken at a Fraser Institute student seminar.

STUDENT ESSAY CONTEST

Timed with the release of the Fraser Institute’s new book *The Essential Adam Smith* by Professor James Otteson, this year’s essay contest challenges student authors to imagine and write about what Adam Smith, known as the father of modern economics, would say about the world today. Stay tuned—the winning 3 essays (high school, undergraduate, and graduate categories) will be published in the Fall edition of *Canadian Student Review*.

REACHING NEW STUDENT MARKETS

Prompted by requests from local sponsor teachers, this February the Institute brought its popular high school program to Nanaimo, BC. Over 160 senior high school students came to hear how to apply economics to their daily lives from acclaimed economic educators Dirk Mateer and Charity-Joy Acchiardo. The day included a series of “economic experiments” designed to give students a common experience from which they can reflect, discuss, and discover the economic principle in action.

“This seminar was worthwhile because it exposed me to ideas and interpretations that I would not be exposed to back home. Many ideas expressed in today’s seminar were focused on economics and free markets, which I was never exposed to at my university. I am so thankful to have been given this opportunity to attend the conference and I will certainly be using ideas I learned here and bring them back to UNBC with me.”

—Bursary recipient

Continuing its expansion into new markets, the Fraser Institute held a post-secondary seminar in London, Ontario, on January 26th with 90 university and college student in attendance.

SERVING REMOTE COMMUNITIES

The Institute is focused on reaching students in urban centres as well as in remote communities. Thanks to support from the Lotte and John Hecht Memorial Foundation, the Institute flew over 110 students from across BC including Kamloops, Kelowna, Vernon, and Prince George so they could attend our Vancouver seminars. This year, the Peter Munk Centre for Free Enterprise Education is funding an expansion to the travel bursary program so that students from some of Ontario's more remote regions can attend our seminars in Toronto, Guelph, Ottawa, and London.

CURRICULUM DEVELOPMENT

Through a grant from the Lotte & John Hecht Memorial Foundation the Fraser Institute recently distributed a set of lesson plans based on our *Economic Freedom of the World Index* to 1,000 teachers across Canada. Estimated conservatively, these lesson plans could influence over 90,000 students once implemented in the classroom. Developed by award winning economics educator Signè Thomas, the lesson plans highlight the impact of economic freedom on global prosperity. Thirty-four teachers recently attended a one-day workshop hosted in Ottawa to see the lesson plans in action.



Economic educator Debbie Henney runs an experiment with teachers in Langley, BC, showing the effects of tariffs on trade.

This spring a new curriculum developed for the Fraser Institute by economics educator Debbie Henney is being launched at teacher workshops in Regina on April 12th and Vancouver on May 15th. The lesson plans cover major episodes in Canadian history, from the fur trade to the great depression, examining the economic principles at play. The early response from teachers to this curriculum has been encouraging. [FI](#)



Fifty-eight students from outside the Lower Mainland were flown in for the Fraser Institute's January 26th seminar on public policy issues at the Coast Pinnacle Hotel in Vancouver.



Jake Fuss

What's your role at the Institute?

I am a fiscal policy analyst. I'm primarily responsible for writing papers and commentaries about taxation, government spending, and debt. Fiscal policy is a really interesting field because government budgets have such a major impact on the daily lives of Canadians.

How did you arrive at the Institute?

During my Master of Public Policy degree, I wrote my capstone paper with the help of my research supervisor Dr. Tom Flanagan, who is a senior fellow at the Fraser Institute. My paper focused on the equalization program and Dr. Flanagan encouraged me to apply at the Institute because of my interest in fiscal and economic policy. I owe a big thank you to him for helping me begin my career at the Fraser Institute.

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

Currently, I am working on this year's version of our annual *Tax Freedom Day* paper. Tax Freedom Day marks the day of year when the average Canadian family has earned enough money to pay the taxes imposed on it by all levels of government. Taxation is a particularly salient issue in Canada right now and it's a topic that I'm very passionate about, so I'm excited to be able to work on such an interesting project.

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

I am a massive Calgary Flames fan and love watching their games in my spare time. My favorite player on Alberta's best NHL team is Matthew Tkachuk because he is the heart and soul of the team. I've stuck with the team through some tough years, so I am excited that the Flames are winning as much as they are now.

The Essential Adam Smith

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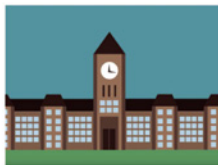


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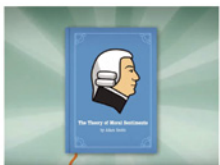
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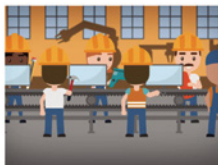
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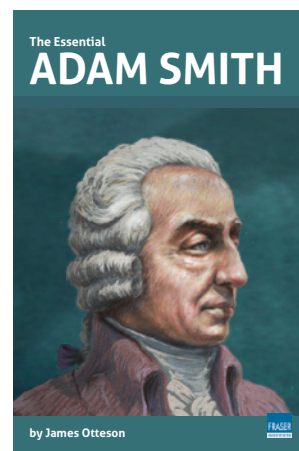


Labour Markets



Who is Adam Smith?

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