

SPRING 2020

Trudeau Government Rejects Chrétien's Fiscal Prudence





Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

It is clear that the Trudeau government has rejected the fiscal prudence of its Liberal predecessor under Mr. Chrétien—from which Canada benefited greatly. The most obvious difference is to the approach each took to deficits and debt (see page 16). The Chrétien government inherited a \$40 billion deficit and took decisive action to balance the budget. In contrast, the Trudeau government inherited a budget surplus and has purposefully run deficits totaling \$77 billion, with no end in sight.

In this issue of *The Quarterly* we celebrate the 25th anniversary of the Chrétien government's historic 1995 budget, which dealt with a then-decades-long problem of overspending that nearly bankrupted the country (see pages 2 to 5 for a summary of our essay series on the 1995 budget).

Before you dive into this issue, however, I'd like to share with you the impact that the Fraser Institute had on the 1995 federal budget. After years of warning Canadians about the perils of excessive, deficit-financed government spending and the alarming growth of government debt in Canada, the Fraser Institute held a conference in Toronto in November 1994 called *Hitting the Wall: Is Canada Bankrupt?* One journalist in attendance was John Fund of the *Wall Street Journal* and shortly after, he wrote an influential editorial for the paper, entitled "Canada Bankrupt?" In it, he wrote:

Turn around and check out Canada, which has now become an honorary member of the Third World in the unmanageability of its debt problem. If dramatic action isn't taken in next month's federal budget, it's not inconceivable that Canada could hit the debt wall.

The piece set off a wave of concern around the world regarding Canada's debt problem. It also ultimately led to the 1995 budget. Indeed, then-Associate Deputy Minister of Finance and later Governor of the Bank of Canada, David Dodge, called the *WSJ* editorial a "seminal event" in Canada's political life and very influential in the creation of the 1995 budget.

The Chrétien government changed course—and changed Canada from a fiscal basket case to a recognized world leader in fiscal prudence. That is why educating Canadians about the federal government's damaging fiscal policies is so important to the Fraser Institute.

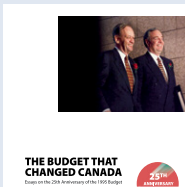
I hope you enjoy this edition of *The Quarterly*. After you've finished reading it, please pass it on to your friends, family, and colleagues. As always, I thank you for your ongoing support.

Best,

A handwritten signature in blue ink, which appears to read "Niels Veldhuis". The signature is fluid and cursive.

Niels

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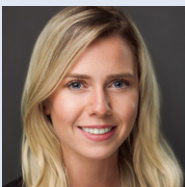
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Essays Celebrating the Budget that Changed Canada

William Watson and Jason Clemens, Editors

February 28th, 2020, is the 25th anniversary of one of the most important federal budgets in Canada's history. It took decisive steps to solve runaway deficits and mounting debt that began in the late 1960s. We invited noted economists and analysts to write on different aspects of the historic 1995 budget. The following is a brief summary of some of their essays.

One of the first essays in the series, by University of Windsor Professor Lydia Miljan and Fraser Institute economists Tegan Hill and Niels Veldhuis, explores the importance of spending reductions—as opposed to tax increases—in the success of the 1995 budget. No fewer than 24 budget speeches in the previous three decades had claimed to introduce some sort of spending restraint. But the 1995 federal budget actually did: nominal program spending fell from \$123.3 billion in 1994-95 to \$111.3 billion in 1996-97.

The focus on spending reductions was underpinned by a formal process of “Program Review” that set hard targets for each department that approached and even exceeded 50 percent. The process included a six-step analysis to assess and prioritize existing government spending:

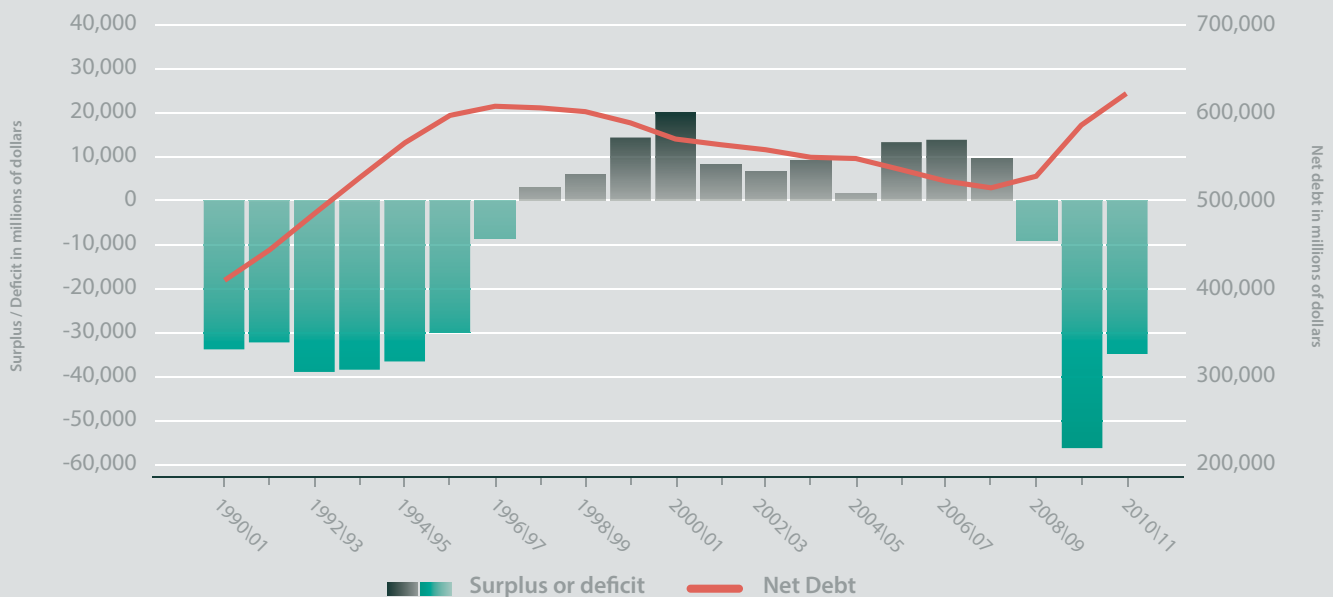
- Does the program serve the public interest?
- Is it affordable?
- Is government intervention necessary?
- What is the appropriateness of the federal government's involvement?
- Is there potential for private/public sector cooperation?
- Is it efficient?



Miljan, Hill, and Veldhuis conclude that the spending reductions enacted in the 1995 budget and the process it used vastly improved the state of federal finances and helped initiate a decade of balanced budgets and declining debts.

Several essays in the series explore specific aspects of the spending reductions. Former Fraser Institute senior fellow Mark Milke, for instance, examines how the federal budgets of 1995 and 1996 made big cuts in what is variously known as subsidies to business, corporate welfare, or crony capitalism. The Chrétien government undertook fundamental reform with an overall target of cutting subsidies to business by roughly 60 percent, or \$2.3 billion, with cuts varying by sector from just over a third in cultural industries to more than 97 percent in transportation. Some programs were entirely eliminated (grain transportation subsidies, for example) while in

FISCAL BALANCE AND NET DEBT, 1990/91 – 2010/11

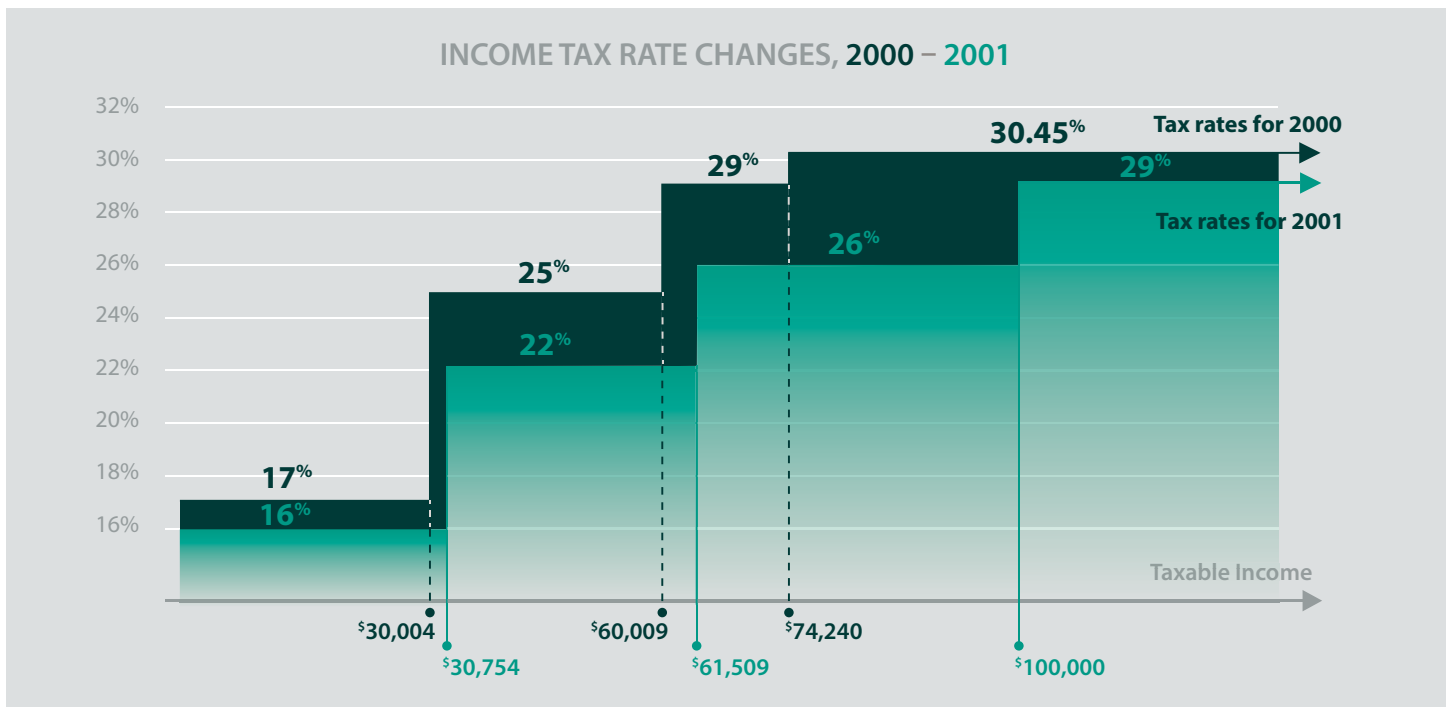


other cases government enterprises were privatized (air traffic control, for example) or saw their privatizations completed, as with CNR, Petro-Canada, and National Sea Products Limited. As Milke notes, these two budgets did not end corporate welfare, but for a time at least, cuts in grants to business played an important role in re-establishing a balanced budget and sound government finances.

“ The Chrétien government introduced the full indexation of the personal income tax in 2000, a reform that ensured taxpayers would thereafter only be taxed on real, rather than inflation-generated increases in their incomes. In 2001 the government removed a 5 percent surtax that had applied to the top tax brackets. It also reduced statutory personal income tax rates... and materially reduced the capital gains tax.”

University of Calgary economist Professor Ronald Kneebone and Fraser Institute economist Jake Fuss look at the role of the 1995 budget in reforming social assistance. The 1995 budget reduced spending in the Canada Assistance Plan (CAP), one of the key federal transfers to the provinces, but it also switched it to block funding. Specifically, CAP was transitioned from a cost-sharing program in which the federal government had very limited control of the costs to a block grant that provided the provinces with a set amount of funding. Critically, the federal government also removed almost all the restrictions attached to the funding. As Kneebone and Fuss explain, less federal control over how federal transfer money was spent led to innovations and experimentation.

Economist David Henderson provides a particularly interesting essay on the “fiscal anchor” the Chrétien government used. A fiscal anchor, or budget rule, guides a government in its spending and tax decisions. The Chrétien government imposed a requirement for not only a balanced budget but reductions in the absolute value of government debt. Two techniques that allowed it to succeed were contingency buffers built into the budget and consistent underestimation of revenues. For instance, in three budget years (1997, 2000, and 2003) actual revenues exceeded budgeted revenues by more than \$15 billion. The government’s strong fiscal discipline, made possible by its commitment and adherence to a

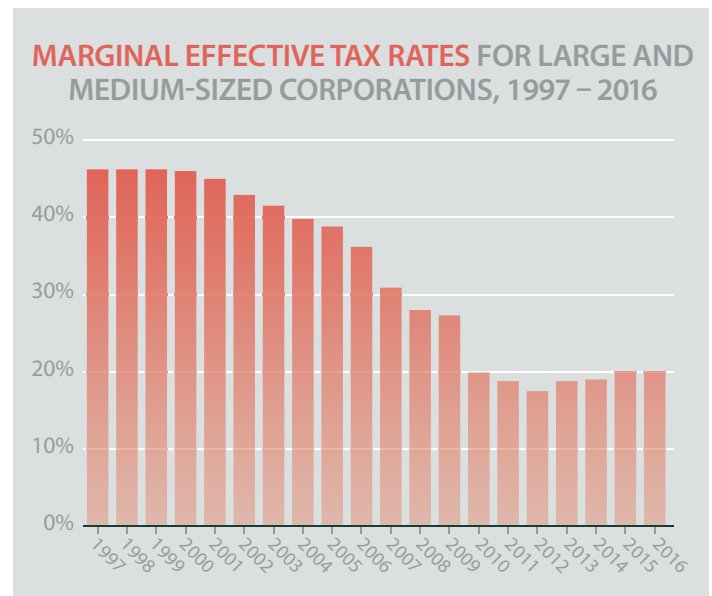


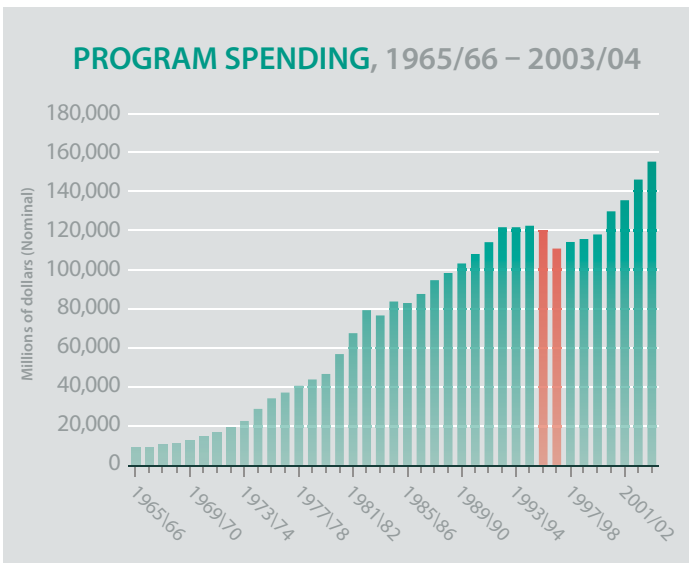
durable fiscal anchor, eventually enabled it to reduce the country's debt substantially.

Two essays explore how the achievement of a balanced budget in 1997-98 through the reforms of the 1995 budget allowed for meaningful tax reductions. The first essay focuses on the personal income and capital gains tax reductions introduced by the Chrétien government starting in 1998. The first major tax cut, though, was the full indexation of the personal income tax in 2000, a reform that ensured taxpayers would thereafter only be taxed on real, rather than inflation-generated increases in their incomes. In 2001 the government removed a 5 percent surtax that had applied to the top tax brackets. It also reduced statutory personal income tax rates: from 17 to 16 percent, from 25 to 22 percent, and from 29 to 26 percent. It introduced a new top bracket with the previous rate of 29 percent for those with taxable incomes greater than \$100,000. The Chrétien government also materially reduced the capital gains tax. The authors conclude that the tax relief helped improve the country's economic performance and competitiveness.

In a companion piece, noted economist Jack Mintz summarizes the federal government's reform of the business tax system. Canada's main tax problem in the late 1990s was high and uncompetitive business tax rates that were tilted to favour primary and manufacturing businesses over services. The Technical Committee that Mintz chaired recommended a more neutral system with

lower tax rates and fewer exceptions and exclusions. Successive federal governments largely complied with these recommendations with the result that the "marginal effective tax rate" on capital for large and medium-sized businesses declined from more than 45 percent in 2000 to a low of about 17 percent in 2012. This change coincided, as would be expected, with an increase in investment spending as a share of GDP, relatively more economic activity in services, and no appreciable decline in revenues from corporate taxation.





“ ... the bold policy actions the federal government took in the mid-1990s put Canada’s public finances onto a virtuous circle that continues to affect federal finances today... the determined actions of the Chrétien-Martin governments transformed a deficit of over \$30 billion in 1995-96 into a surplus of \$14.3 billion by 1999-00.”

The final essay in the series is by Don Drummond, Associate Deputy Minister in the Department of Finance during the reforms, who explains how the bold policy actions the federal government took in the mid-1990s put Canada’s public finances onto a virtuous circle that continues to affect federal finances today. Drummond shows how the determined actions of the Chrétien-Martin governments transformed a deficit of over \$30 billion in 1995-96 into a surplus of \$14.3 billion by 1999-00. The government’s electoral success during this time showed that Canadians generally bought into the fiscal policies of the government—restrained and prioritized spending, balanced budgets, declining debt, and tax relief. Importantly, Drummond explains how the fiscal policies of the decade preceding the crash of 2008 and

the Great Recession that followed positioned Canada better than most G7 countries not only to weather the fiscal storm but then to return expeditiously to the productive policies of the Chrétien era. Drummond also warns, however, that the deficits of today that continue in excess of \$20 billion despite the economy operating close to or even at capacity raise serious questions about the federal government’s commitment to the responsible path chosen in 1995.

As these essays show, the depth and breadth of the reforms enacted in the 1995 budget are impressive, indeed historic. They set the stage for more than a decade of fiscal responsibility and economic prosperity and provided a strong fiscal foundation that stood Canada in good stead during the turbulence of the 2008-09 financial crisis and recession. The hallmarks of fiscal responsibility established in 1995 and continued for at least 10 years—restrained and prioritized spending, balanced budgets, declining debt, generalized tax relief, and greater federal-provincial decentralization—ultimately served the country well. In view of the challenges and difficulties Canadians and their politicians faced in reversing 30 years of fiscal drift, it is surprising and disappointing on this 25th anniversary of such an important milestone in the country’s fiscal history that the current federal government has rejected budget balance, debt reduction, and universal tax relief as fiscal principles. It is our hope that helping Canadians understand the success of the 1995 budget—and the costs of the alternative approaches that are once again being favoured—will encourage a return to sounder and more productive fiscal policies. **FI**



WILLIAM WATSON



JASON CLEMENS

William Watson is a Professor of Economics at McGill and a Fraser Institute Senior Fellow. Jason Clemens is Executive Vice President of the Fraser Institute. They are editors of the publication *The Budget that Changed Canada: Essays on the 25th Anniversary of the 1995 Budget*.

Canada Remains Only High-Income Universal Health-Care Country **to Eschew Private Medical Insurance**

Steven Globerman

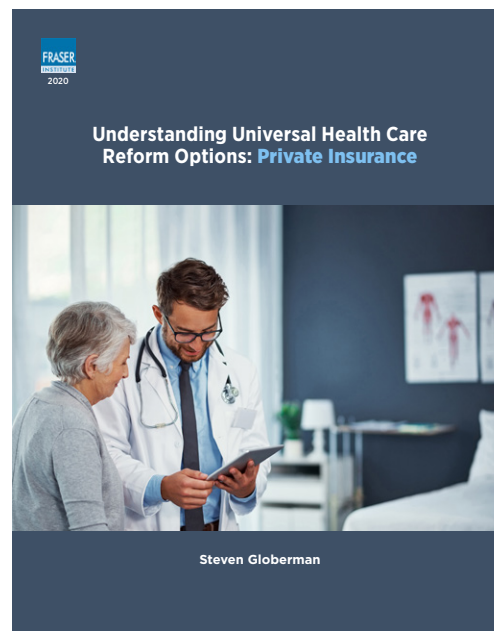
In its sole reliance on government providing “first-dollar” coverage of medically necessary services, Canada’s health care system is unique among high-income countries with universal health care. In particular, virtually all high-income countries including Australia, Germany, Switzerland, and the Netherlands allow residents to use private insurance to pay for some or all medically necessary services.

Here in Canada, the role of private health insurance was litigated in the Chaoulli case in Quebec and in the recent case involving Dr. Brian Day’s surgical clinic in British Columbia. In both cases, the provincial governments took strong stands against allowing private health insurance for medically necessary services. Yet their arguments seem increasingly weak in light of ongoing developments in the health care sector.

Why the opposition to private health care?

One common concern, as noted in the new Fraser Institute study *Understanding Universal Health Care Reform Options: Private Insurance*, is that private health insurance will so undermine universal coverage that health insurance becomes unaffordable for lower-income Canadians. However, other countries have successfully addressed this concern through government subsidies and regulations that prevent income levels and pre-existing health conditions from interfering with full coverage of basic health care.

A related concern is that private insurance will produce a “two-tier” system where patients with higher incomes



obtain faster or “better” health care than those with lower incomes. While private insurance would likely facilitate faster access to medical treatment were it legal, it would also likely reduce wait times for patients who rely solely on public insurance as the patients with private insurance would rely more on resources funded by private insurers and less on resources funded by the government. This has broadly been true in countries where private insurance is used, in part, to obtain faster access to providers (surgeons, for example). Consequently, it’s no coincidence Canada has the longest wait times for medical services among all high-income countries.

Furthermore, there's no consistent evidence that allowing private insurance markets results in poorer health care outcomes for patients who rely solely on public insurance. Nor do private insurance markets erode political support for taxpayer-funded health insurance. Indeed, by facilitating reduced wait times, private markets act as a "safety net" for the government insurance scheme, thereby undergirding the continued willingness of wealthier taxpayers to fund the public insurance scheme through progressive marginal income tax rates.

“ Canadian patients are entitled to make informed choices about their health care. Private health insurance, within our universal system, will provide more choice for patients when making some of the most critical decisions of their lives.”

And it's not just about wait times. Crucially, relying on a single public insurer will delay the adoption of medical innovations. Politicians and bureaucrats have less incentive than private-sector organizations to adopt innovations that may be costly in the short-run but that have positive net benefits in the long-run. In part, this is because politicians and senior bureaucrats are unlikely to be in office long enough to be rewarded (in the case of politicians, by voters) for promoting the use of costly new drugs and procedures whose benefits are realized by patients (and the health care system more broadly) over time.

The emergence of personalized medicine has already resulted in new drugs capable of curing hitherto incurable diseases. And much more such innovation is on the way. Again, these new treatment protocols are expensive in the near-term but promise to reduce ongoing costs of care over time, not to mention reductions in

mortality and morbidity. A robust private health insurance market would provide Canadians with increased options to access new medical therapies and procedures (digital consultations, for example) that public health officials, who tend to be focused on cost containment, may be unwilling to deem "medically necessary" under the public insurance scheme.

Simply put, Canadian patients are entitled to make informed choices about their health care. Private health insurance, within our universal system, will provide more choice for patients when making some of the most critical decisions of their lives. [FI](#)



STEVEN GLOBERMAN

Steven Gliberman is Resident Scholar and Addington Chair in Measurement at the Fraser Institute. He is the author of *Understanding Universal Health Care Reform Options: Private Insurance*.

Interest on Government Debt will Cost Each Canadian More than \$1,000 per Year

Jake Fuss and Milagros Palacios

For most Canadian families, the topic of government debt likely never comes up at the dinner table. And it's easy to see why. With mortgages, vehicle leases, and credit card bills, many Canadians have enough household debt to keep them occupied, so government debt ranks fairly low on their list of concerns.

But actually, government debt now represents a substantial burden for every Canadian regardless of where you live. In fact, as noted in a new Fraser Institute study, *The Growing Debt Burden for Canadians*, government debt—both federal and provincial (adjusted for any financial assets held by the government)—is expected to reach nearly \$1.5 trillion this year.

“Federal and provincial government debt (adjusted for any financial assets held by the government) is expected to reach nearly \$1.5 trillion this year.”

Like households, governments must pay interest on their debt, which is ultimately paid by Canadians in the form of taxes. These interest payments divert resources away from services such as health care and education. Put differently, interest costs create a wedge between the taxes we pay and the actual services we receive.

In every province, Canadians will pay more than \$500 per person in provincial government debt interest costs



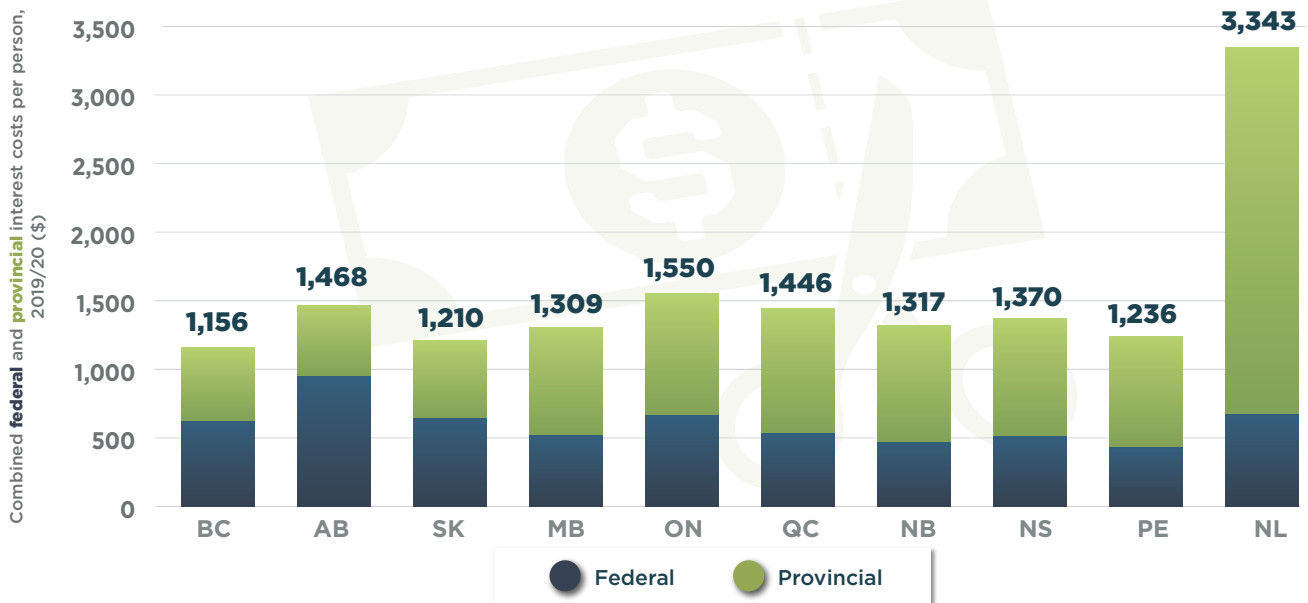
this year. However, the burden of interest costs varies widely across the country as some provinces are more indebted than others.

For example, the Ontario government expects to spend almost \$13 billion on government debt interest costs in 2019/20—more than what the province spends on post-secondary education. In other words, each Ontarian will pay approximately \$886 in interest payments on the provincial debt.

In Newfoundland and Labrador, the province spends \$1.4 billion on annual government debt interest costs, nearly double what it spends on education and early childhood development. Consequently, provincial interest costs equal \$2,675 per person, the highest number in the country.

Canada's Interest Costs

Interest on government debt will cost each Canadian more than a thousand dollars this year



But Canadians don't just pay provincial interest costs; they also pay interest on federal debt. Ottawa is expected to spend \$24.4 billion on federal government debt interest costs in 2019/20—billions more than what we spend on employment insurance benefits, for example.

“Ottawa is expected to spend \$24.4 billion on federal government debt interest costs in 2019/20—billions more than what we spend on employment insurance benefits, for example.”

In total, the provinces and federal government are expected to spend \$54.8 billion on combined federal and provincial interest payments this year. On a per-person basis, Newfoundlanders & Labradorians pay the highest combined government debt interest costs in Canada (\$3,343 per person) followed by Ontarians (\$1,550) while British Columbians pay the lowest (\$1,156).

Clearly, government debt comes at a cost, and there are negative consequences associated with persistent

budget deficits and debt accumulation. Ultimately, Canadians bear the burden of interest costs and younger generations will continue to pay the price in the future for today's debt accumulation.

Government debt can sometimes be an afterthought for many people because we don't necessarily see the impact on our lives. There are more interesting things to discuss at coffee shops, restaurants, and the family dinner table, but this issue affects everyone in Canada no matter where you live. When you realize how much Canadian families spend every year just on interest payments to service government debt, the issue doesn't seem so trivial anymore. [FI](#)



JAKE FUSS



MILAGROS PALACIOS

Jake Fuss is an economist and Milagros Palacios is Associate Director in the Addington Centre for Measurement at the Fraser Institute. They are co-authors of the study *The Growing Debt Burden for Canadians*.

Only 9% of Ontario's Job-Creation Happened Outside GTA and Ottawa Since 2008

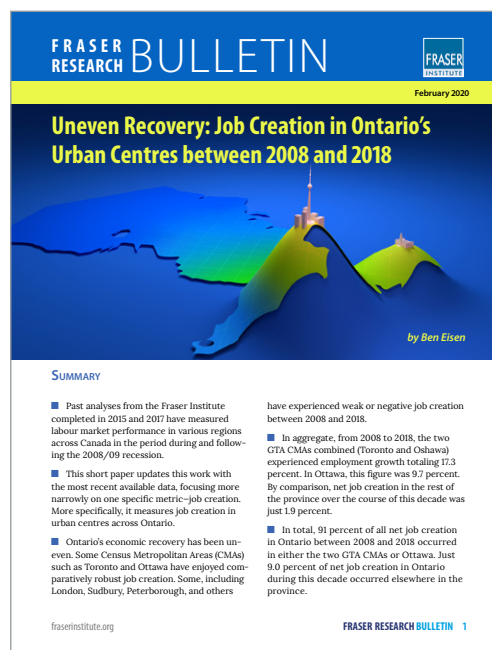
Ben Eisen and Steve Lafleur

Ontarians have suffered more than their share of economic pain over the past 15 years. For much of the 2000s, the province's manufacturing sector was struggling—and then the 2008/09 recession made things much worse. Unfortunately, in the years that followed, the province's recovery was tepid.

This pain, however, has been spread unevenly across the province. Toronto (and its surrounding area) and Ottawa have been spared the worst of the economic damage. But if you look outside the province's two largest metropolitan areas, you'll find that large numbers of Ontarians have suffered even more than provincial-level economic statistics suggest.

“ We found that [between 2008 and 2018] 91 percent of all net job creation in Ontario took place in the GTA and Ottawa compared to 9 percent in the rest of the province.”

The numbers tell the story. In a recent study, *Uneven Recovery: Job Creation in Ontario's Urban Centres between 2008 and 2018*, we analyzed job growth between 2008 and 2018 (the latest year of comparable data) in Ontario's 15 largest population centres. We found that 91 percent of all net job creation in Ontario



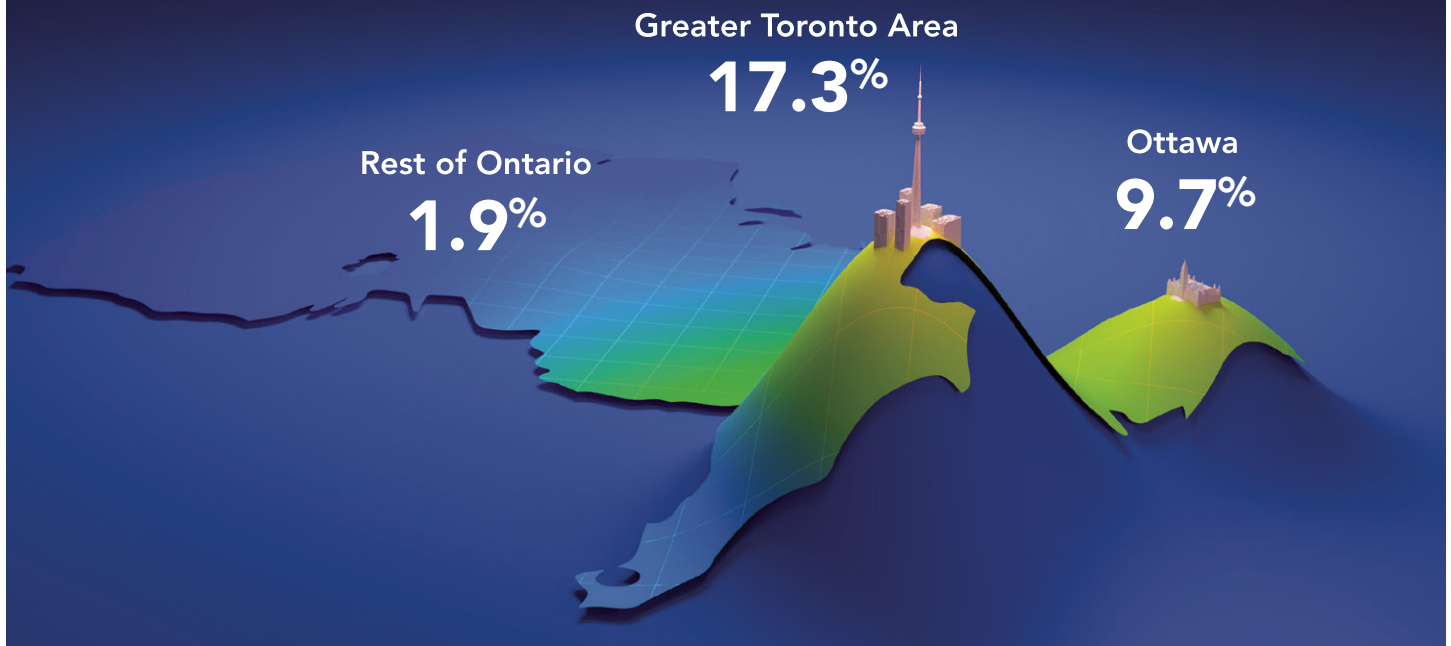
took place in the GTA and Ottawa compared to 9 percent in the rest of the province.

Here's another way to look at it. Between 2008 and 2018, the number of jobs in increased by 17.3 percent in the GTA and 9.7 percent in Ottawa—compared to just 1.9 percent in the rest of the province. In short, outside of Toronto and Ottawa, there was almost no net job creation over 10 years.

It's also important to recognize that when we discuss weak economic performance outside of Toronto and Ottawa, we're not just talking about small towns and rural areas. Other major population centres have stagnated.

Mapping job growth in Ontario

Comparing job creation among the different regions of the province from 2008–2018



Consider that southwestern Ontario, which has experienced weak job growth, has approximately as many residents as the Maritime provinces combined. London is about the same size as Halifax. Northern Ontario, which also experienced slow rates of job creation during the 10-year period, is more populous than any individual Maritime province.

“As long as large and populous regions of Ontario struggle, the province and the country will be unable to meet their full economic potential.”

Subsequently, poor net job creation rates in Ontario (outside Toronto and Ottawa) is an important story not only for the provincial economy, but for the national economy. As long as large and populous regions of Ontario struggle, the province and the country will be unable to meet their full economic potential.

Of course, job creation in Toronto and Ottawa is good news, but a deeper look outside the two largest cities reveals a lost decade with respect to job growth. Hopefully as policymakers at Queen’s Park and Parliament Hill become more aware of the magnitude of Ontario’s economic woes, they will recognize the need for pro-growth policies that can help spur job creation, wage growth, and prosperity for Ontarians no matter where they live in the province. **FI**



BEN EISEN



STEVE LAFLEUR

Ben Eisen is a senior fellow and author of *Uneven Recovery: Job Creation in Ontario’s Urban Centres between 2008 and 2018*. Steve Lafleur is a senior policy analyst at the Fraser Institute.

Comparing the Wages and Benefits of Workers in the Government and Private Sectors

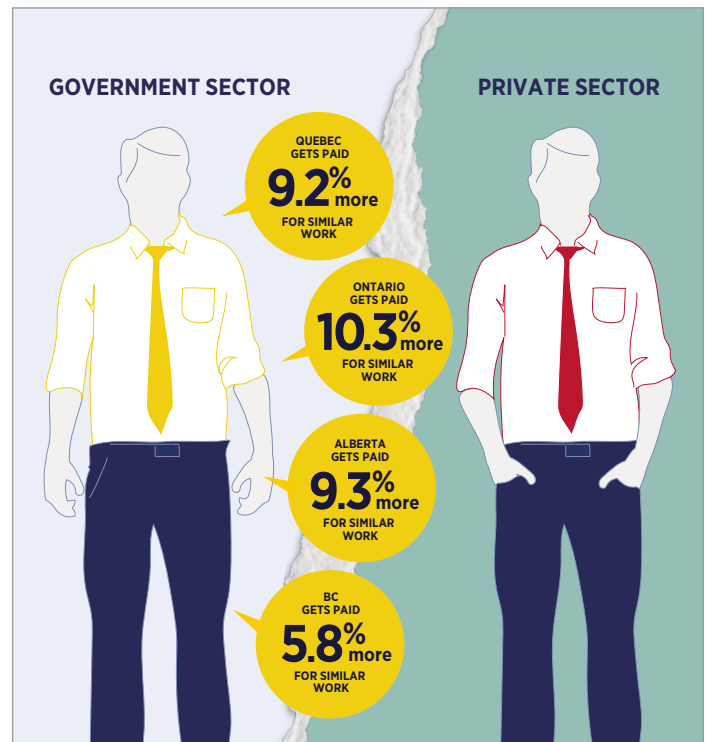
Milagros Palacios, Nathaniel Li,
and Alex Whalen

Over the past few months, the Institute has published a series of reports comparing the compensation of government workers with their private sector counterparts. The Institute has long been a leader in measuring the differences in compensation between the two sectors to better understand the drivers of government spending.

Each of the reports published looked at the difference in both wages and benefits to better understand differences in compensation between the government and private sectors. Using Statistics Canada 2018 data, analyses were completed for British Columbia, Alberta, Ontario, Quebec, and Atlantic Canada (the small population size of the four Atlantic provinces necessitated grouping them together for analytical reasons). Each analysis included government workers at the federal, provincial, and local levels.

“Government employees enjoy higher levels of compensation in benefits such as pensions, job security, retirement age, and absenteeism.”

A significant wage gap was observed across all the provinces studied. The gap is largest in Atlantic Canada,



where government workers receive, on average, wages that are 11.9 percent higher than comparable workers in the private sector receive. In Ontario, average wages for government workers was 10.3 percent more, while the gap was 9.3 percent in Alberta, 9.2 percent in Quebec, and 5.8 percent in British Columbia. (This wage premium accounts for differences between individual workers in the two sectors such as age, gender, education, tenure, experience, and type of work, among other characteristics.)

COMPARING NON-WAGE BENEFITS OF GOVERNMENT AND THE PRIVATE SECTOR

Province	Average age of retirement		Rate (%) of pension coverage	
	Public	Private	Public	Private
Newfoundland & Labrador	59.7	63.9	93.8	28.3
P.E.I.	62.4	65.7	80.4	16.7
Nova Scotia	61.1	64.0	91.7	22.4
New Brunswick	61.3	63.6	91.9	22.8
Quebec	60.5	63.5	95.1	22.0
Ontario	61.8	63.8	82.7	24.6
Alberta	62.8	64.5	70.2	20.3
British Columbia	62.3	64.2	91.6	16.6

It is important to keep in mind that the wage gap mentioned above is after adjusting for variables. If the comparison doesn't adjust for these variables, the wage gap is as high as 40 percent between the government and private sectors.

“The government-sector wage and benefits bill is a large expense for every government. At a time when many of these governments are tackling debts and deficits, the data suggest that compensation in the government sector is out of line with that in the private sector.”

But wages are just one component of total compensation. Government employees enjoy higher levels of compensation in benefits such as pensions, job security,

retirement age, and absenteeism. For example, government workers in Newfoundland & Labrador lead all provinces with a retirement age 4.2 years lower than workers in the private sector. Quebec government workers lead in absenteeism, missing 6.5 more days per year than those in the private sector. Quebec government-sector workers also lead in pension coverage (95.1 percent of them have pension coverage compared with 22 percent in the private sector). PEI has the highest rate of government sector defined-benefit pensions at 97.9 percent, thirty-six times higher than the private sector.

The Institute did not publish wage comparisons for Saskatchewan and Manitoba (due to resource constraints), however, non-wage data are available for all provinces and reveal a consistent gap between the government and private sectors.

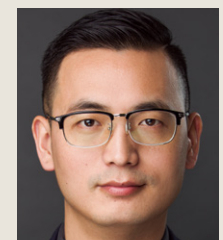
The government-sector wage (and benefits) bill is a large expense for every government. At a time when many of these governments are tackling debts and deficits, the data suggest that compensation in the government sector is out of line with that in the private sector. Governments across the country would do well to pay closer attention to this gap. [FI](#)



MILAGROS PALACIOS



ALEX WHALEN



NATHANIEL LI

Milagros Palacios is Associate Director in the Addington Centre for Measurement, Nathaniel Li is an economist, and Alex Whalen is a policy analyst at the Fraser Institute. They are co-authors, with Steve Lafleur, of a series of studies comparing government and private sector compensation.

Catching up with Canada: A Prosperity Agenda for Atlantic Canada

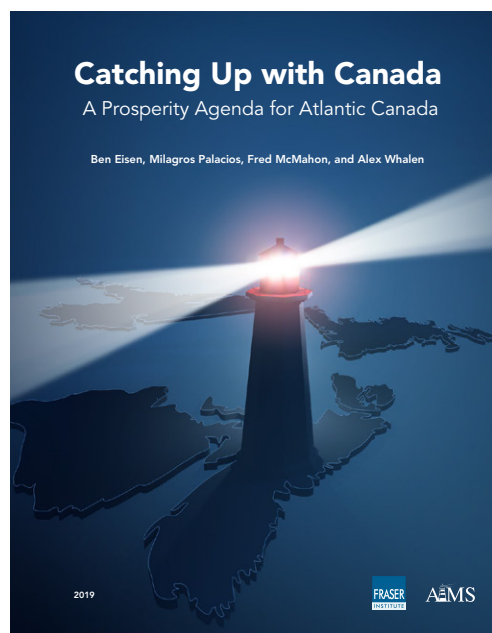
**Ben Eisen, Milagros Palacios,
Fred McMahon, and Alex Whalen**

Taken as a whole, Atlantic Canada is a lagging economic region in Canada. But this has not always been the case. The region has experienced significant periods of prosperity and economic optimism. This history gives hope that the region's current status as a relatively weak economic performer within Canada should not necessarily be viewed as an intractable reality.

A recent study, *Catching Up with Canada: A Prosperity Agenda for Atlantic Canada*, begins by recounting past moments of growth and optimism in the Atlantic Region.

It then goes on to measure the size of the current “prosperity gap” between Atlantic Canada and the rest of the country across a broad range of economic indicators. Key findings include:

- Gross Domestic Product per person in Atlantic Canada today is just 83.5 percent of the average in the rest of Canada, a difference of \$9,773 per person.
- Atlantic Canada's unemployment rate has consistently been several points higher than in the rest of the country. In 2018, for instance, the unemployment rate in the region was 9.2 percent compared to 5.6 percent in the rest of Canada.
- Employment rates are consistently higher in the rest of Canada than in Atlantic Canada. In 2018, this gap was 6.3 percentage points.
- In 2017, the household income per person gap between the Atlantic provinces and the rest of Canada was 10.3 percent.
- Labour productivity as measured by real GDP per worker has been consistently higher in the rest of the

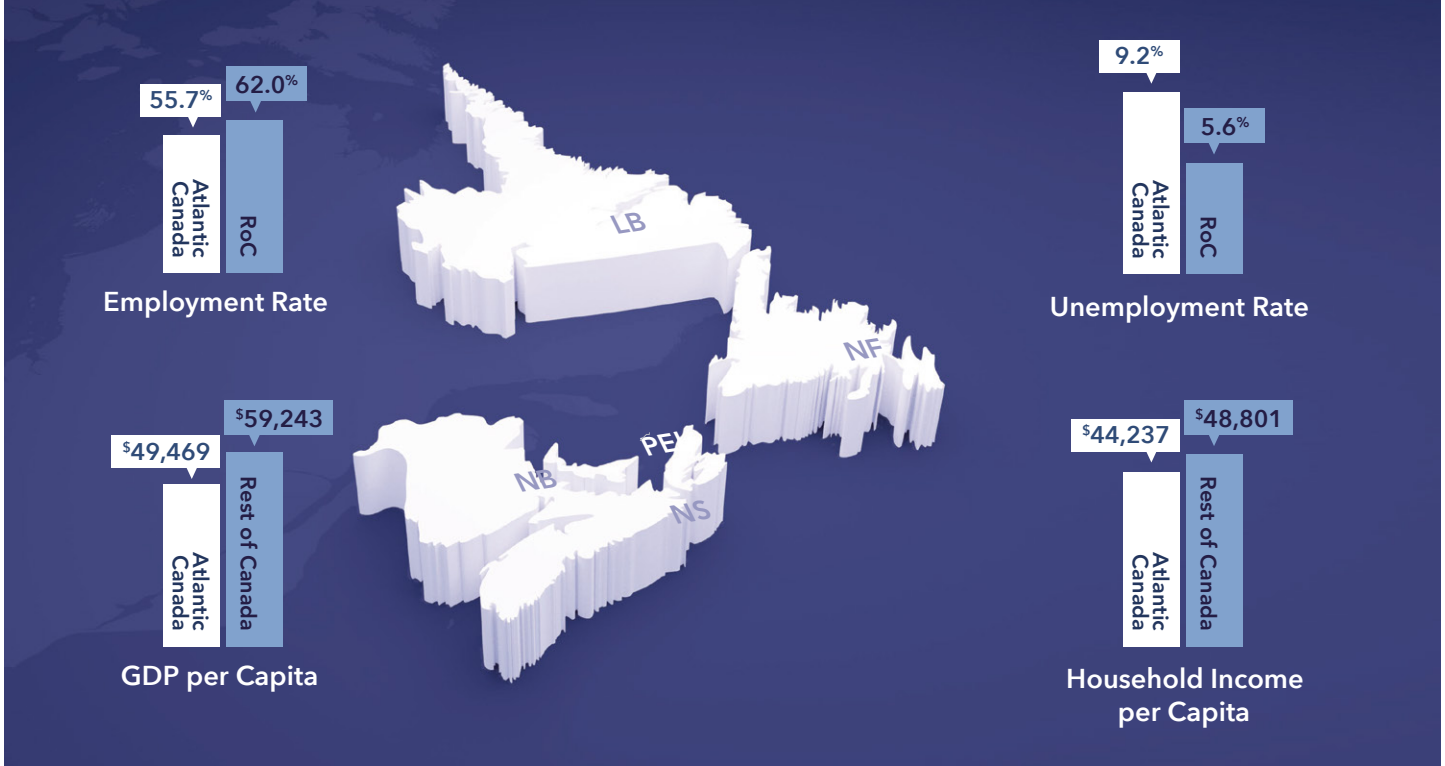


country than Atlantic Canada for as long as Statistics Canada data on the metric exists.

The “prosperity gap” is large—but it may not be intractable. The paper outlines options for policy reform drawn from proven real-world successes in other jurisdictions (with a special focus on Ireland and the US state of Michigan) that can help boost employment rates, productivity, and real per-capita GDP in the intermediate to long term.

Further, the study calculates the rate of growth that would be necessary for Atlantic Canada's living standards to catch up with those in the rest of the country (measured as GDP per person) over 20 years. In short, it measures the growth rate that would be needed so a child born in the region today would enter a regional economy every bit as prosperous as the rest of Canada when he or she came of age.

No reason for Atlantic Canada to be poorer than the rest of Canada

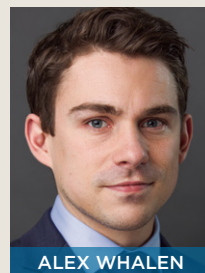
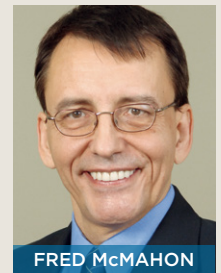


“ Global evidence suggests rapid convergence by struggling regions is possible if they embrace a consistently pro-growth policy framework.”

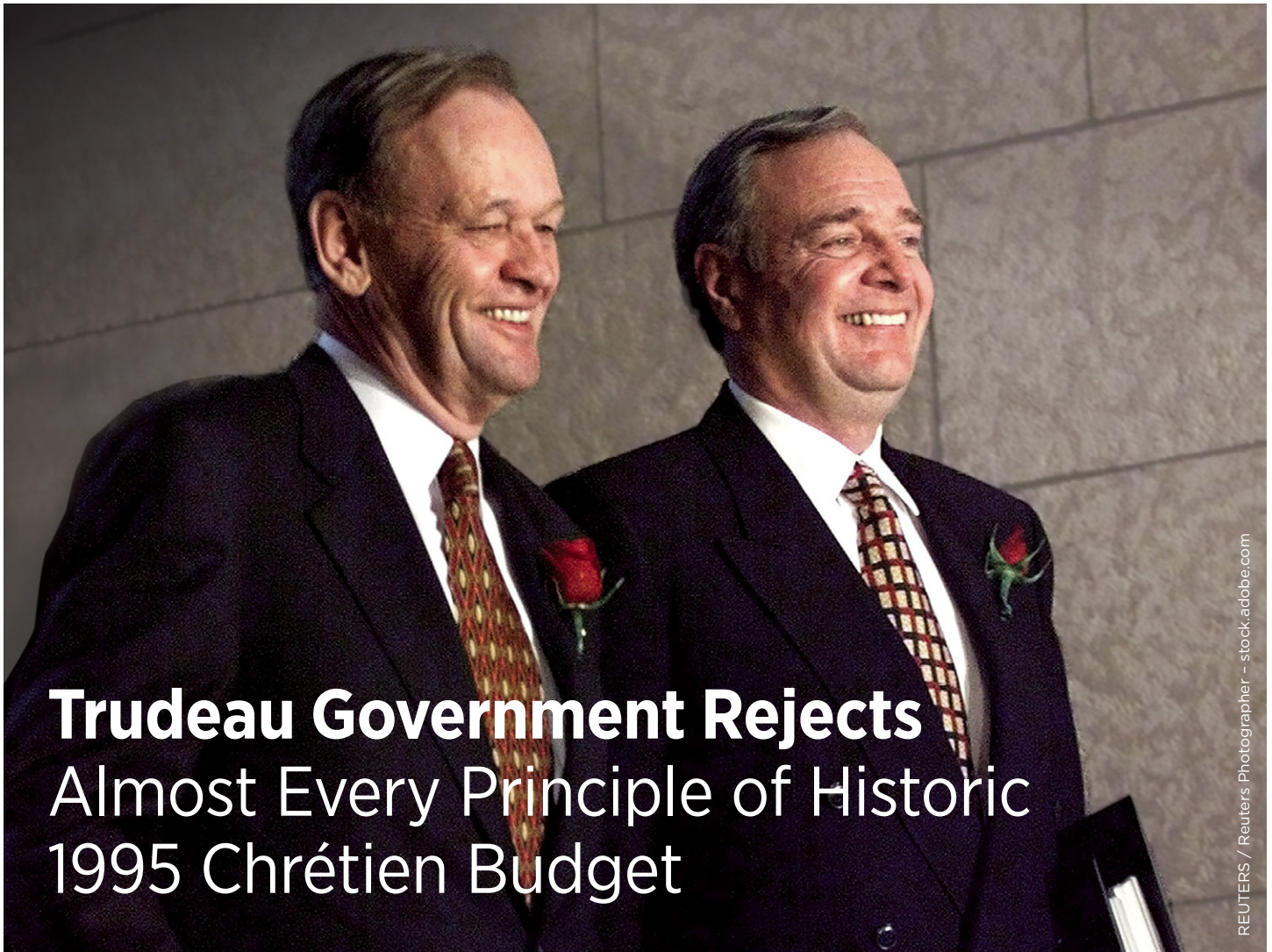
country. However, the outcome will be significantly influenced by the extent to which the general public supports a pro-growth agenda and puts pressure on policymakers to do the same. Global evidence suggests rapid convergence by struggling regions is possible if they embrace a consistently pro-growth policy framework. [FI](#)

Private forecasters predict long-run nation-wide GDP inflation-adjusted per-person growth of approximately 0.7 percent in the decades to come. If those forecasts come to pass, the study shows that Atlantic Canada’s real per capita GDP would need to increase by 1.6 percent over the next 20 years in order for its economy to fully converge with the rest of Canada’s. The study draws on the experiences of other fast-growing jurisdictions, and on international macroeconomic literature to support the view that this target is plausible—particularly if the region adopts pro-growth policy strategies such as have been adopted in jurisdictions like Ireland and Michigan.

Clearly, forces outside the control of policymakers will help determine whether living standards in Atlantic Canada fully converge with those in the rest of the



Ben Eisen is a Senior Fellow, Milagros Palacios is Associate Director in the Addington Centre for Measurement, Fred McMahon is a resident fellow and holder of the Dr. Michael A. Walker Chair in Economic Freedom, and Alex Whalen is a policy analyst at the Fraser Institute. They are the co-authors of the study *Catching Up with Canada: A Prosperity Agenda for Atlantic Canada*.



Trudeau Government Rejects Almost Every Principle of Historic 1995 Chrétien Budget

REUTERS / Reuters Photographer - stock.adobe.com

Jason Clemens and Niels Veldhuis

February 2020 is the 25th anniversary of the 1995 federal budget, the most important and historic in at least a half century. Not only did the 1995 budget solve a three-decade long problem of overspending that led to large and increasing deficits and debt, but it also reformed federal-provincial relations for the better and laid the foundation for tax relief that strengthened Canadian competitiveness and improved economic performance. As we celebrate the enormity of the Chrétien government's achievements, it's worth considering how the current government has rejected almost every principle of the 1995 budget.

The first and most obvious difference is the two governments' approach to deficits (or the willingness to borrow money to finance spending today that exceeds available revenues). As the book *End of the Chrétien Consensus?* details, the Chrétien government took decisive action to eliminate a near \$40 billion deficit when it took office.

In contrast, the Trudeau government purposefully went into deficit to finance increased spending. While initially promising to run deficits for just three years totaling \$25.1 billion, the Trudeau government ended up running deficits estimated at \$77.0 billion with no end in sight.

Moreover, as one chapter in a recent study, *The Budget that Changed Canada: Essays on the 25th Anniversary*

of the 1995 Budget explains, the Chrétien government imposed a comparatively strict fiscal rule on itself—continue to balance the budget and pay down the national debt, which meant running surpluses each year. This enabled it to reduce the national debt (specifically, the accumulated deficit) from \$562.8 billion in 1996-97 to \$481.5 billion in 2005-06 when the Liberals were unseated by the Tories.

“ The current Liberal government ... has increased the personal income tax rate imposed on entrepreneurs, business owners, and professionals from 29 percent to 33 percent.”

The Trudeau government, on the other hand, has imposed a much weaker rule on itself—lowering the level of debt compared to the size of the economy. This weaker rule allows the government to continue borrowing and increasing the debt so long as it increases at a rate less than the economy is growing. This has resulted in the national debt increasing from \$628.9 billion the year before the Trudeau government took office to an estimated \$713.2 billion this year (2019-20).

And it's not even clear the degree to which the government will actually hold itself to this rule since between 2018 and 2019 the debt-to-the-economy ratio increased in violation of the rule.

Another key difference between the 1995 budget and today's budgets are taxes. As the Liberals explained then, tax cuts should only be considered when the budget is balanced otherwise taxes are simply being deferred to the future. In addition, the Liberals then were committed to tax relief that improved the country's competitiveness and the "incentives for Canadians to learn, work, save and invest." This led to major personal income tax reductions as well as cuts to the capital gains tax.

In contrast to the 1995 budget and its own rhetoric, the current Liberal government has increased personal income, payroll, and capital gains taxes. It has increased

the personal income tax rate imposed on entrepreneurs, business owners, and professionals from 29 percent to 33 percent. And while it has lowered the personal income tax rate for middle-income earners, it has simultaneously eliminated a host of tax credits, which has resulted in personal income taxes being higher for 81 percent of middle-income families.

The government (along with the nine participating provinces) also increased the Canada Pension Plan tax. All told, once the CPP tax increase is fully implemented, 98.8 percent of middle-income families will experience a tax increase.

Unlike the Chrétien government and the 1995 budget, which empowered the provinces through decentralization and led to generally improved federal-provincial relations, the Trudeau government has favoured a much more centralized muscular approach to federal-provincial relations, leading to increasing strains.

The enormous successes of the 1995 budget should inform Canadians and policymakers about the benefits of sound fiscal policies—balanced budgets, lower debt, prioritized spending, and lower taxes to ensure competitiveness. The 25th anniversary of the '95 budget gives the current federal government an opportunity to genuinely reflect on its successes—and its own markedly different approach. [FI](#)



JASON CLEMENS



NIELS VELDHIJS

Jason Clemens is Executive Vice-President and Niels Veldhuis is President of the Fraser Institute. They are co-authors, with Milagros Palacios and Matthew Lau, of *End of the Chrétien Consensus? They are also contributors to the recent *The Budget that Changed Canada: Essays on the 25th Anniversary of the 1995 Budget.**

Focus on Economic Growth— Not Redistribution through Tax Hikes on the Rich



Philip Cross

Two of the most misleading myths about recent economic trends in Canada are that the distribution of income is becoming more skewed to “the rich” and that these same “rich” largely avoid paying taxes. In fact, as I show in the recent Fraser Institute study, *Should Upper-Income Canadians Pay More Income Tax?* the top decile’s share of income declined between 2007 and 2017, from 36.1 percent to 34.2 percent. This top tenth of earners includes anyone earning \$96,000 or more as of 2017, a threshold few would regard as anything other than middle class.

During NDP Leader Jagmeet Singh’s concession speech on election night, his supporters chanted “Tax the rich!”—as if somehow “the rich,” however defined, are not paying taxes. In fact, the top 10 percent of income

earners in Canada have long been the only group whose share of taxes paid is greater than its share of income. Over the past two decades it has paid more than half of all income taxes, including fully 54.1 percent in 2017.

The tax burden on the top decile increased noticeably during the debt crisis of the 1990s. More recently, the top decile has been asked to pay more in part to finance lower- and middle-class tax cuts and credits designed to counter the effect of years with little or no income growth for average Canadians. But marginal tax rates above 50 percent have not generated substantially higher revenues for governments, which means middle-class tax cuts have been financed largely by rising government debt. It’s hardly surprising that people resist tax rates above 50 percent, a level beyond which even former NDP Leader Thomas Mulcair said, “you’re not talking taxation, you’re talking confiscation.”

One reason for the shift in the tax burden to upper-income families has been the widespread misconception that they are prospering while everyone else stagnates. This is the modern variant of the 19th-century critique of capitalism that “the rich get richer, the poor get poorer.” But, as mentioned, the share of income going to the top decile has actually fallen over the past decade.

“ Marginal tax rates above 50 percent have not generated substantially higher revenues for governments, which means middle-class tax cuts have been financed largely by rising government debt.”

Average incomes have lagged, not because the top decile is consuming a larger share of incomes, but because GDP growth has slowed. If per-capita income growth after 2000 had been sustained at 2.5 percent a year instead of the 0.9 percent actually recorded, real incomes in Canada would be one-third higher today, the equivalent of \$18,498 more for every person. That is considerably more than recent increases in government transfers to the average Canadian.

The fact that Canada has bucked the trend of rising upper-incomes seen in most industrialized countries has largely gone unnoticed, even at home, as anti-inequality rhetoric imported from the U.S. and Europe has driven public discourse. The result has been an increasing focus on the distribution of income and taxes. When the economic pie stops growing, different groups in society conclude that lobbying for a larger slice is the only way to raise their disposable income.

The danger is that prioritizing redistribution reinforces the trend to slow growth. Robert Lucas, 1995 Nobel Prize winner in economics and one of the most influential macroeconomists of his generation, declared in 2004 that “of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution.”

Unfortunately, as the Cato Institute’s Alan Reynolds has put it, “the growth and inequality of incomes are topics that seem to inspire many people to form very strong opinions about very weak statistics.” The way the rich-poor divide is usually talked about creates the wrong impression that the same people occupy the same relative points in the income distribution over time—that a distinct group of “rich” people reaps above-average incomes year after year. That’s just wrong. The truth is that people move—a lot—from group to group over time. In this country, for example, 36.1 percent of people in the top decile in 2017 were not in the top decile five years earlier. Just over half of people in the top five percent in 2017 had experienced at least one year in the previous five when they were not in that group.

“ When the economic pie stops growing, different groups in society conclude that lobbying for a larger slice is the only way to raise their disposable income.”

Policymakers and researchers should focus on higher economic growth, not increasing taxes on small slices of the population. Canada should focus on boosting growth by stimulating investment, improving our trade competitiveness, opening large sectors of our economy that are still sheltered from international competition, lowering the cost of energy, and reducing the tax burden. [FI](#)



PHILIP CROSS

Philip Cross is a former Chief Economic Analyst for Statistics Canada and a Fraser Institute Senior Fellow. He is the author of *Should Upper-Income Canadians Pay More Income Tax?*

Carney's Climate Plans May Push Oil and Gas Production from Canada to State-Owned Firms Abroad



Elmira Aliakbari and Ashley Stedman

Soon, former Bank of Canada governor Mark Carney will join the United Nations as a special envoy on climate change and finance, where he will push financial institutions and banks to adopt new measures that account for climate risk. In a recent interview Carney stated, “Financial services have been too slow to cut investment in fossil fuels, a delay that could lead to a sharp increase in global temperatures.”

And while the details of Carney's vision are still vague, the new financial regulations will likely have a disproportionate impact on private fossil fuel companies over state-owned entities.

It's first important to understand what Carney generally intends to do with his new position. Carney (and others) want to use international financial regulations to make it

“ *If financial institutions and banks are squeezed by climate risk regulations, private energy companies will find it harder to secure external financing, which will likely result in less investment and production in the future.*”

more difficult (i.e., more costly) for financial institutions to invest in and lend to traditional energy companies. This is a backdoor way to divert investment dollars away from traditional energy and into other sectors.

The result? Future oil and gas production will likely be restrained in countries that rely on the private sector for financing (such as Canada and the United States), while expanding in countries where government provides the financing (such as Mexico and Venezuela).

“ State-owned energy companies, able to use government funds to circumvent financial market mechanisms that account for climate risk, will likely have a distinct advantage over private energy firms in Canada and countries that adopt climate financing.”

The energy industry in some countries—again, including Canada and the US—is largely in the private sector. To get external financing, privately owned companies access capital markets through financial intermediaries to secure equity or debt financing. However, if financial institutions and banks are squeezed by climate risk regulations, private energy companies will find it harder to secure external financing, which will likely result in less investment and production in the future.

Meanwhile, state-owned oil and gas companies such as PEMEX in Mexico and Petroleos de Venezuela SA (PDVSA) in Venezuela will have another option to access capital—funding from the state itself. Governments can provide direct investment funding to these companies to boost production. For example, last year the Mexican government provided PEMEX with a \$5 billion capital injection. In fact, according to Reuters, the Mexican government has acted as “an implicit guarantor for the company.”

Consequently, state-owned energy companies, able to use government funds to circumvent financial market mechanisms that account for climate risk, will likely

have a distinct advantage over private energy firms in Canada and countries that adopt climate financing.

As a result of this disproportionate negative impact on private energy firms, and given the rising global demand for oil and gas, future oil and gas production will likely shift away from countries dominated by private energy firms to countries with large state-owned enterprises. Such a production shift would likely undermine the intended purpose of climate financing, which is to reduce investment in fossil fuels.

And so long as the demand for energy continues to increase, there will continue to be investment opportunities in regions able to access capital and build new projects. As conversations about climate financing ramp up, fuelled by Carney and many others, state-owned firms may rise to meet global oil and gas demand at the expense of private firms in Canada and the U.S. That should be a major concern for policymakers. [FI](#)



ELMIRA ALIAKBARI



ASHLEY STEDMAN

Elmira Aliakbari is Associate Director of Natural Resource Studies and Ashley Stedman is a Senior Policy Analyst at the Fraser Institute.

Trudeau Sets Another Record— and Not in a Good Way



Tegan Hill and Jake Fuss

Prime Minister Justin Trudeau has set another record. He has increased the federal debt (per person) more than any other prime minister (not facing a world war or recession) since 1870.

He earlier set a spending record, as the Trudeau government has spent more money (per person) than any other prime minister in Canadian history. Rapid debt accumulation accompanied by unprecedented levels of spending is simply not sustainable—and Canadians will be left to deal with the consequences.

Let's take a closer look at some of Justin Trudeau's historic achievements.

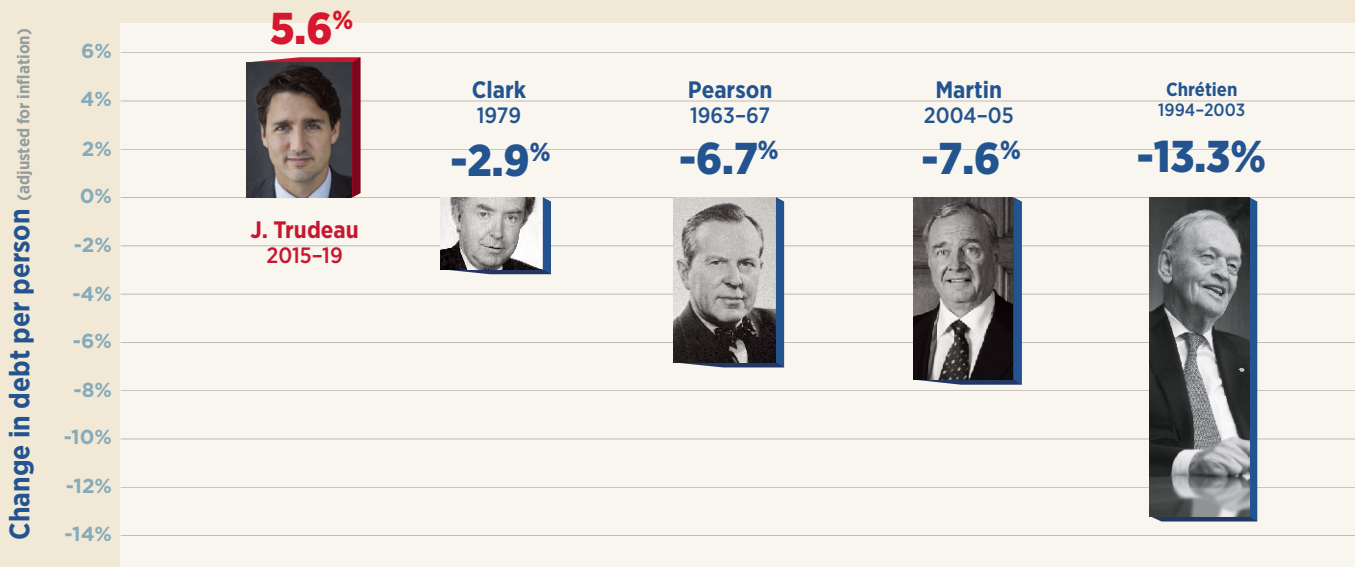
As noted in the new Fraser Institute study, *Examining Federal Debt in Canada by Prime Ministers Since Confederation, 2020*, Justin Trudeau has overseen the largest increase in federal debt (per person) of any prime minister who did not face a world war or recession during

his or her tenure. Federal government debt has grown 5.6 percent (\$1,723 per person) over the last four years under the Trudeau government. And Ottawa's total debt (technically referred to as gross debt) is expected to reach \$1.2 trillion in 2019.

For comparison, consider that since the nineteenth century, every former Liberal prime minister who, like Justin Trudeau, did not experience world war or recession, reduced the federal per-person debt. Indeed, Lester B. Pearson reduced per-person debt by 6.7 percent. So did Paul Martin (by 7.6 percent) and Jean Chrétien (by a striking 13.3 percent).

Clearly, Justin Trudeau is an outlier by choosing to increase the debt during relatively good economic times. In fact, some prime ministers including Arthur Meighen and Mackenzie King even reduced per-person debt despite experiencing an economic downturn.

Prime Minister Trudeau set to **increase federal debt** more than any other PM not facing a world war or economic downturn



Back to the present, a significant reason for Ottawa’s growing debt burden is the proclivity for deficit-financed spending, also known as spending by borrowing. (Again, 2019 marks the highest level of federal inflation-adjusted per-person spending in Canadian history—Trudeau’s other recent historic achievement.)

“Higher debt means more tax dollars go to pay interest on the debt, which leaves less money for important programs such as health care, social services, and tax relief.”

By spending through borrowing, thus producing budget deficits, the federal government is sticking future generations with the bill for today’s spending. And just as households must pay interest on mortgages and credit cards, the federal government must pay interest on its debt. Higher debt means more tax dollars go to pay interest on the debt, which leaves less money for important programs such as health care, social services, and tax relief.

So not only will Canadians bear the burden of higher debt accumulation and the associated debt-interest costs,

they will eventually pay higher taxes to repay the debt—for the same or lower level of government services.

Clearly, the federal government’s current fiscal strategy is unsustainable.

With budget season fast approaching, this government continues to set the wrong records. A growing debt burden accompanied by historically unprecedented levels of federal spending is diverting tax dollars away from important programs and services, preventing the implementation of tax relief for hardworking Canadians, and will eventually increase the tax burden on Canadians. The sooner the Trudeau government recognizes this reality and charts a course for reform, the better. [FI](#)



TEGAN HILL



JAKE FUSS

Tegan Hill and Jake Fuss are economists at the Fraser Institute. They are co-authors of the study *Examining Federal Debt in Canada by Prime Ministers Since Confederation, 2020*.

Struggling First Nations Share Common Characteristics



Grise Flord, Nunavut Flickr photo

Tom Flanagan

Earlier this year the Canadian government released new Community Well-Being (CWB) index numbers based on the 2016 census. It measured a combination of income, employment, housing, and education. One piece of good news for First Nations is that their average CWB has continued to increase. Less encouraging, however, is that the gap between First Nations and other Canadian communities, after seeming to narrow a little in the 1990s, widened again and was as great in 2016 as it was in 1981. Least encouraging is that while some First Nations made rapid cumulative progress from 2001 to 2016, almost 20 percent of First Nations actually lost ground in that 15-year period.

As noted in a recent study, *Gaining Ground, Losing Ground: First Nations' Community Well-Being in the*

21st Century, the First Nations who have been improving rapidly in recent years look very much like the First Nations who had earlier achieved prosperity. They are taking control of their own affairs: using off-ramps from the Indian Act, such as imposing their own taxes, joining the Land Management Regime, and borrowing through the First Nations Financial authority; treating land and resources as a source of income; taking advantage of local opportunities to become self-supporting through own-source revenue; and developing accountable governance practices that avoid secrecy and conflict of interest while observing the rule of law.

Some First Nations with urban locations are prospering from casino gaming (Enoch Cree) or real estate development (Kamloops). More, however, are pursuing the development of natural resources including oil and gas (Onion Lake), forestry (McLeod Lake), or fisheries (We'koqma'q).

Natural resource development will be particularly important in the future. Relatively few First Nations have the advantage of being located near a city, and many of those who have that advantage are already capitalizing on it. Most First Nations are in remote locations where natural resource development is the only likely source of economic advancement.

“ Those First Nations that have improved their standard of living have done so through their own efforts at capitalizing on economic opportunities.”

A common characteristic for First Nations that are losing the most ground is their low level of own-source revenue. In most cases it is about 20 percent or less of total revenue in the last year for which audited returns are available. Few are taking steps to escape from the pervasive control of the Indian Act and the Indigenous Affairs bureaucracy.

Remoteness from urban locations is an obvious problem for the group of First Nations with the most seriously declining CWB scores. They are disproportionately in what is known as Zone 4, which means they have no year-round road connection to a service centre. Shoal Lake, which has had the biggest CWB decline, is notorious for its lack of year-round road connection to Winnipeg, even though it is not that far away. Remoteness, however, cannot be the only factor involved in losing ground, because some First Nations, such as Roseau River in southern Manitoba, whose CWB scores have been declining for the last 15 years, are in relatively favourable locations with good road connections.

One conclusion stands out from the research: those First Nations who have improved their standard of living have done so through their own efforts at capitalizing on economic opportunities. Government could increase those opportunities by investing in something like the Northern Corridor Concept—a network of roads, railways, pipelines, and hydro lines extending across the northern

areas of Canada—that would enhance prospects for economic development where many First Nations live. In contrast, scattering cash around through greater fiscal transfers increases dependency but does not create long-term prosperity.

More frankness about CWB scores would also be useful. News releases emphasizing the steady increase of First Nation average scores promote happy talk about progress but obscure the tragic fact that many First Nations are losing rather than gaining ground.

“ Government could increase economic opportunities by investing in something like the Northern Corridor Concept—a network of roads, railways, pipelines, and hydro lines extending across the northern areas of Canada—that would enhance prospects for economic development where many First Nations live.”

Finally, government needs to continue what it has already done to some degree—create off-ramps from the Indian Act, making it easier for First Nations to improve their own standard of living. Both Ottawa and the western provinces have caught on to the idea of First Nations’ owning pipelines so they can become players in the resource economy, not just suppliers of land and labour. Now, if we can just get those pipelines built... [FI](#)



TOM FLANAGAN

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 *Gaining Ground*, *Losing Ground: First Nations' Community Well-Being in the 21st Century*.

Ontario Won't Be “Open for Business” Without Business Property Tax Reform



Josef Filipowicz

The Ford government wants to project its “open for business” ethos in 2020 and beyond. Indeed, Queen’s Park recently focused heavily on business competitiveness in its fall economic statement, announcing a reduced corporate income tax rate for 2020, among other measures.

But what about another significant tax expense faced by Ontario businesses—property taxes, which represent about half of the total tax burden on business investment in major Canadian cities including cities in Ontario? How fair and efficient are these taxes?

In its fall economic statement, the Ontario government said it will seek input “over the coming months” on how to improve business property taxation, with an eye to boosting competitiveness. Thankfully, it doesn’t have to look very far for answers.

Before discussing solutions, it helps to recap the problem. In Ontario, as elsewhere, property tax rates are typically higher for businesses than for residents. For example, according to the study *Who Bears the Burden of Property Taxes in Canada’s Largest Metropolitan Areas?* in the City of Toronto in 2017 (the latest year of comparable data), property tax rates for commercial properties (a.k.a. businesses) were almost four times higher than for residential properties.

Unfortunately, city hall does not provide a rationale for this tax disparity—where businesses pay relatively high rates for what they receive in local services. But it’s likely bowing to political pressure by shifting a higher share of the tax burden away from homeowners (who vote in local elections) and towards businesses (who don’t, or more accurately, can’t).

Which brings us back to potential solutions.

Back in the 1990s, the Harris government, aware of the imbalance between residential and non-residential property tax rates, instituted “ranges of fairness,” which bound municipalities to reduce this imbalance over time. Fast-forward two decades, and Ontario municipalities are indeed more balanced in the way they levy property taxes on residents and businesses (especially when compared to cities in other provinces). Across the Greater Toronto and Hamilton area’s 29 municipalities, municipal rates for businesses are typically less than 1.5 times residential rates.

However, the province levies its own property tax to fund public education. Across the same 29 municipalities, the ratio of commercial-to-residential property tax rates levied by the province was almost 6-to-1 (on average) in 2017. In other words, decisions made at Queen’s Park—not city hall—largely drive the relatively high property tax rates on Ontario businesses.

Consequently, property taxation in Ontario remains unfavourably tilted against businesses (again, thanks in large part to the province), which hurts the province’s competitiveness, its ability to attract and retain entrepreneurs and businessowners, the ability of business owners to prosper, expand, and hire Ontarians, and the ability of existing businesses to remain open and serve their communities.

“In the 1990s, the Harris government, aware of the imbalance between residential and non-residential property tax rates, instituted “ranges of fairness,” which bound municipalities to reduce this imbalance over time.”

The good news, however, is that the Ford government can learn from the past. The “ranges of fairness” appear to have been relatively successful at reducing the tax imbalance at the municipal level, so Queen’s Park could institute a similar set of guidelines for the province’s

slice of the property tax pie to further reduce this tax imbalance.

“Decisions made at Queen’s Park—not city hall—largely drive the relatively high property tax rates on Ontario businesses.”

The Ford government has repeatedly said it wants to make Ontario a friendlier place for entrepreneurs and businesses. But this is unlikely to happen without some relief on property taxes. Years ago, the provincial government helped shrink the gap between residential and non-residential rates at the municipal level, so there’s a clear blueprint for a similar reduction at the provincial level.

The sooner the Ford government addresses this issue, the sooner Ontario can become a friendlier and fairer place for businesses and job creators. [FI](#)



JOSEF FILIPOWICZ

Josef Filipowicz is a senior policy analyst at the Fraser Institute. He is the co-author, with Steven Globberman, of *Who Bears the Burden of Property Taxes in Canada’s Largest Metropolitan Areas?*

Quebec and BC Spend Less on Education than Other Provinces—While Outperforming Most



Tegan Hill and Ben Eisen

One of the great advantages of Canada's federation—composed of federal, provincial, and local powers—is that subnational governments can experiment with different ways of providing public services and adopt the best system based on those experiments. In the case of public education (a provincial responsibility), other provinces can look to Quebec and British Columbia to learn about successful models of spending and delivery.

Let's review education spending across provinces.

A recent Fraser Institute study, *Education Spending in Public Schools in Canada, 2020 Edition*, found that for

K-12 education, inflation-adjusted per-student spending increased in seven out of 10 provinces between 2012/13 to 2016/17, the most recent year of available Statistics Canada data.

The level of per-student spending varied significantly by province. Quebec (\$11,543) and British Columbia (\$11,879), were the lowest-spending provinces while Saskatchewan (\$15,423) and New Brunswick (\$14,768) were the highest-spending.

Put differently, the lowest-spending province (Quebec) spent 25 percent—or \$3,880—less per student than the highest-spending province (Saskatchewan). And crucially, despite lower levels of spending, students in Quebec and BC outperform students in many higher-spending provinces.

Indeed, according to PISA scores, the gold standard of international testing, students in Quebec and BC outperform students in Saskatchewan and New Brunswick in all three PISA test subjects—math, science, and reading. In fact, Quebec and BC have consistently led in student performance in Canada.

Why? One possible explanation may relate to the very different approaches among provinces on how to deliver K-12 education.

Quebec and BC have fairly simple public education systems, relying on independent schools to provide the bulk of educational choice including religious-based education, alternative educational approaches, and content-focused programs such as STEM. In contrast, other provinces (including the highest-spender, Saskatchewan) offer religious education and other programs within their public schools. And these provinces tend to have a more complex public school system (Saskatchewan has three competing school systems, for example).

“ Quebec spent 25 percent— or \$3,880—less per student than Saskatchewan. And crucially, despite lower levels of spending, students in Quebec and BC outperform students in many higher-spending provinces.”

In BC and Quebec, approximately one in eight students attend independent schools, the highest proportion of all provinces, compared to less than one in 100 students in New Brunswick (the lowest rate of all provinces). Remember that in Quebec and BC the government provides financial support to eligible independent schools. In the Atlantic provinces and Ontario, the government provides no financial support for students attending independent schools.

As a result, Quebec and BC rely much less on the public school system to provide choice to students than do

other provinces. Clearly, providing greater educational diversity through independent schools helps these provinces achieve better student performance—at a lower cost.

“ The combination of strong student outcomes and relatively low costs to government (and taxpayers) in Quebec and BC suggests other provinces could learn from their approach. The evidence suggests many provinces could spend less—and improve student performance—through education reform.”

Provinces should take advantage of one of federalism’s great benefits—the fact that it allows subnational (in our case, provincial) jurisdictions to experiment and innovate with different policy models to find out what works and what doesn’t. The combination of strong student outcomes and relatively low costs to government (and taxpayers) in Quebec and BC suggests other provinces could learn from their approach. The evidence suggests many provinces could spend less—and improve student performance—through education reform. [FI](#)



TEGAN HILL



BEN EISEN

Tegan Hill is an economist at the Fraser Institute. She is the co-author of the study *Education Spending in Public Schools in Canada, 2020 Edition*. Ben Eisen is a Senior Fellow at the Institute.

Any “Fair Deal” for Alberta Requires a Fundamental Rethink of Fiscal Federalism in Canada



Niels Veldhuis and Jason Clemens

On February 4, we had the honour of presenting to Alberta’s “Fair Deal Panel,” which will make recommendations to the province on how it can secure a fair deal for Alberta within Confederation. As we noted to the panel, Albertans are right to feel frustrated. Albertans, after all, send Ottawa \$20 billion more in federal taxes than they get back in federal spending. That’s \$20 billion annually from Albertans to help keep taxes lower and fund government services in other provinces—including provinces that are actively trying to restrict Alberta’s economy.

As with most things, the first step is the hardest part of making significant change. In Alberta’s case, it must force the other provinces and the federal government to come to the table and negotiate a new fiscal arrangement. As University of Calgary Professor Rainer Knopff recently noted in the Fraser Institute research bulletin *Refining Alberta’s Equalization Gambit*, this is perhaps best done through an equalization resolution by Alberta’s legislative assembly. Such a resolution would unambiguously impose the “duty to negotiate” on the other provinces and Ottawa, and could be used to force a broader national discussion on relations between Alberta, other provinces, and the federal government.

In our view, Alberta should push for three large-scale changes.

First, significant reforms to equalization, a program that's clearly broken.

Reforms to equalization should include scrapping the “GDP growth rate rule,” which mandates that total equalization payments grow each year even when the fiscal capacity of recipient and non-recipient provinces converge. Reforms should also link equalization to the cost of providing government services. It makes no sense that the current equalization program implicitly assumes that the cost of providing services is similar—if not identical—in each province. And Alberta should push for consistent treatment of resource revenues, both renewable and non-renewable across the country.

“Albertans send Ottawa \$20 billion more in federal taxes than they get back in federal spending. That’s \$20 billion annually from Albertans to help keep taxes lower and fund government services in other provinces—including provinces that are actively trying to restrict Alberta’s economy.”

Finally, in addition to changes to the actual equalization program, Alberta should also emphasize what scholar David MacKinnon has coined “unseen equalization”—the “equalizing” aspects found in other major federal programs including employment insurance, federal employment, regional economic development agencies, and cultural programs. The regional subsidies in these programs may be much larger than the equalization program itself.

Second, decentralization of health care.

Right now, Ottawa significantly influences provincial decisions on health care by threatening to withhold part or all of its Canada Health Transfer to Alberta (\$4.7 billion in 2019-20) unless it abides by the current federal government’s interpretation of the sometimes vague Canada Health Act. Given that the Alberta government is

ultimately responsible for delivering health care, it should be allowed to determine health policy without federal interference, with the only condition being that the system remains universal and portable across provinces. This would allow Alberta to make changes to health care that would more closely align with the world’s best-performing universal health care countries.

Third, an exploration of Alberta’s participation in national programs such as the recently-expanded Canada Pension Plan (CPP) and employment insurance.

Albertans contribute disproportionately to the CPP. From 2008 to 2017, Albertans made a cumulative net contribution of \$28 billion to the program. Simply put, this national program relies on Albertans’ contributions and that reliance must be understood and recognized in the rest of Canada.

Like the CPP, employment insurance (EI) has normally relied on Alberta providing a relatively large net contribution. Indeed, between 2007 and 2018, Alberta workers contributed a net \$12.3 billion to EI, and while Alberta’s net contribution has narrowed, the province still provides a positive net contribution despite its severely wounded economy. Moreover, there will be increasing pressures for EI reform as Canada’s population continues to age. Alberta has an opportunity to start the discussion about how best to reform and improve EI for the reality of a 21st century workforce.

While we applaud Alberta Premier Jason Kenney and the Fair Deal Panel for seeking ideas for reforming Alberta’s role within Canada, real change is needed. Acting now offers the entire country an opportunity to improve and modernize fiscal federalism in Canada. [FI](#)



NIELS VELDHUIS



JASON CLEMENS

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

You Can Believe in Climate Science Without Supporting Every Proposed Climate Policy



Ross McKittrick

There's an assumption out there that if you "accept" the science of climate change, you are obliged to support drastic measures to cut greenhouse gas (GHG) emissions. This is not true. The one does not follow from the other. Mainstream science and economics do not support much of the current climate policy agenda and certainly not the radical extremes demanded by activist groups.

In a recent peer-reviewed paper, my co-authors and I proved this using one of the economic models governments and academics around the world rely on. Policymakers compute the social costs of GHG emissions using tools called "integrated assessment models" (IAMs), which contain linked climate and economic models. They run the world forward in time for a few

hundred years and estimate the value of damages from a tonne of GHGs emitted today. Pardon all the acronyms but that's called the "social cost of carbon," or SCC, and it represents an upper bound on what we should pay per tonne to cut emissions.

The higher the SCC, the more aggressive climate policy should be. During the Obama years the US Environmental Protection Agency (EPA) convened an expert group to use the three best-known IAMs to estimate the SCC from now to the middle of this century to guide regulatory rule-making. Most of their results were in the US\$20 to US\$60 per tonne range, depending on the discount rate (which controls how much weight to put on far-future damages). The benefit of climate policy is to get rid of this future damage. If the damage is US\$60 per tonne, then policies costing more than \$60 per tonne of reduction

don't make sense. You wouldn't spend more than a dollar to save a dollar.

Like all models, IAMs depend on key parameters that are drawn from the scientific literature. It has long been known that although CO₂ is a greenhouse gas, it's also food for plants. So extra CO₂ in the air benefits plant growth. Yet two of the EPA's three IAMs assumed that boosting the carbon dioxide content of the air would have no effect on agriculture, which is overly pessimistic. Only one of the models allows for a small gain in agricultural productivity as CO₂ levels rise, based on estimates from the 1990s of the size of the effect. So that's the one we used.

However, we first updated the IAM to take account of the extensive research since the 1990s looking at effects on global plant growth from rising CO₂ levels. Results from satellite-based surveys and field experiments have shown larger benefits than people predicted in the 1990s, even in a warming climate, especially for the rice crop in Asia.

“Mainstream science and economics do not support much of the current climate policy agenda and certainly not the radical extremes demanded by activist groups.”

Also, all the IAMs assume the climate will warm by three degrees Celsius with every CO₂ doubling. This is based on simulations with large climate models, but there have been many recent studies in climate journals estimating lower sensitivity based on observed ground- and satellite-measured temperature changes. So we incorporated this information into the IAM as well.

Based on these updates alone, we showed that, even using a low discount rate, the social cost of carbon as of 2020 drops from US\$32 per tonne to about 60 cents, and there's a 50/50 chance it's below zero. It does grow over time but not by much. By 2050 it's still under \$3 per tonne and has a 46 percent chance of being less than zero.

Note that we did not say “climate change is a hoax so we shouldn't do anything.” We relied on scientific studies in mainstream journals, combined with one of the Obama-era EPA's own preferred economic models, to determine if costly climate policies are justified. The answer is no, at least not for the next few decades.

“We relied on scientific studies in mainstream journals, combined with one of the Obama-era EPA's own preferred economic models, to determine if costly climate policies are justified. The answer is no, at least not for the next few decades.”

Our paper was reviewed by three knowledgeable anonymous experts who were surprised by our findings and aggressively challenged them, with one strongly recommending our study be rejected. We had to rebut their extensive counterarguments in detail. We were able to defend our calculations and the journal decided in our favour.

If you don't believe the science of climate change, then you obviously won't support carbon taxes and other such policies. But it's important to note that if you do accept the science, you aren't obliged to support every policy, no matter how costly or inconvenient, that gets put forward. We should still focus on no-regrets strategies where the benefits outweigh the costs. [FI](#)



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

OVER TEN THOUSAND STUDENTS AND TEACHERS INFLUENCED

In the fall of 2019, high school students from across Canada took part in a full day of learning about how economics is relevant to their lives. With a newly updated curriculum, our exceptional economic educators kept students engaged throughout the day by using short lectures interspersed with video clips, activities, and incentives.

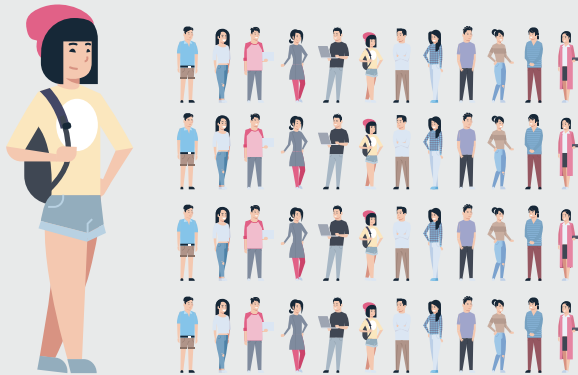
Students attending our post-secondary seminars enjoyed a day filled with engaging presentations and

“Every year that I attend the seminar there is one particular talk that **blows my mind and makes me think of the world in a different way.**”

—Thompson Rivers University student

engrossing discussions on various public policy issues affecting Canadians. [FI](#)

10,390

 students and teachers influenced in our fall programming


1374 High school students



556 Post-secondary students



94
Teachers
(X 90 students each)
= **8,460** students



NEW ECONOMICS OF SUPERHEROES CURRICULUM RELEASED

Our fall teacher workshops included the launch of our all-new Economics of Superheroes curriculum developed by the Fraser Institute for Canadian teachers by Brian O’Roark, professor of economics at Robert Morris University in Pennsylvania. An array of stunning visuals including videos, comics, and a wealth of interactive activities like Kahoot! quizzes all bring the material to life. The workshop covers topics such as opportunity cost,



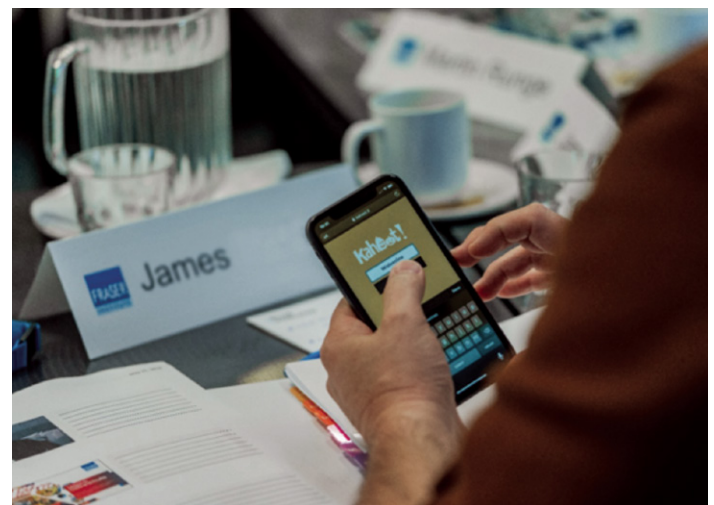
“ I was blown away by this workshop as a superhero fan. **What a novel concept and I learned a lot. Many resources to be taken and implemented in the classroom.”**

—BC teacher

comparative advantage, externalities, economic growth, and institutions. Through the curriculum students discover why superheroes have secret identities, why Batman hires Robin, and why the Joker, Mr. Freeze, and Doc Ock keep fighting, to name just a few. The first two programs held this fall had teachers on the edge of their seats. **FI**

97%
OF TEACHERS

Would recommend this workshop to their colleagues



“ I haven’t taught economics/business before. I now have more confidence to do so than I did last week.**”**

—Ontario teacher

For dates and locations, please visit fraserinstitute.org/education-programs



Tegan Hill

What's your role at the Institute?

I am an economist at the Institute. I work in fiscal policy and am responsible for assessing and communicating how things like government spending, taxation, and debt affect every day Canadians. My focus is on federal policy and provincial policy in Alberta; however, because the fundamentals of sound fiscal policy are consistent across jurisdictions and broadly affect other policy areas, I have the opportunity to be involved in a range of work.

How did you arrive at the Institute?

I enrolled in the School of Public Policy at the University of Calgary with the goal of shifting my career trajectory (I was previously working as a commercial underwriter). While completing my Masters of Public Policy, one of my professors, Tom Flanagan, recommended me for the Institute's Internship Program. I was familiar with the Institute and had been impressed by the quality and timeliness of its research. It was actually my top job pick. I was offered a full-time position during my internship and eagerly accepted.

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

I am particularly excited to be working on a number of Alberta-focused projects. I am from Alberta and I have seen first-hand the shift in the province's economic situation in recent years. Alberta is facing formidable challenges: attracting investment amid a growing regulatory burden, reduced tax competitiveness, and quickly growing provincial debt. This stands in stark contrast to years ago when the province enjoyed a thriving economy, the "Alberta Tax Advantage" and low provincial debt. We have several upcoming studies reviewing these challenges, a few of which I am fortunate to be a part of.

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

My colleagues might be surprised to hear that I play hockey in my spare time. I played all throughout school and recently joined a rec league to get back into it. I also love spending time with my dog, Winston Churchill, but this would probably not surprise my colleagues as I talk about him a lot.

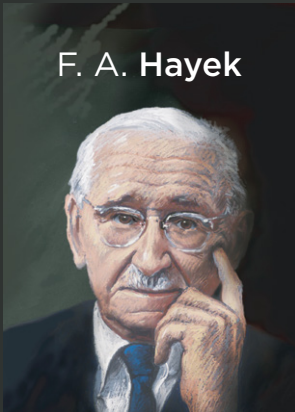
Made possible by a generous donation from the Lotte and John Hecht Memorial Foundation and the John Templeton Foundation.

A project of the Fraser Institute

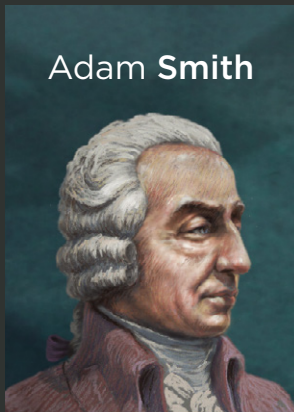
Essential Scholars

The Essential Scholars series consists of a growing number of educational modules, each summarizing the key ideas of a particular economist, philosopher, or school of thought in the classical liberal tradition. Each module consists of a short book outlining the main ideas of the scholar involved (written by a leading authority in accessible language), several short supporting videos summarizing some of the key insights, and links to additional learning resources. **Visit: www.essentialscholars.org**

F. A. Hayek



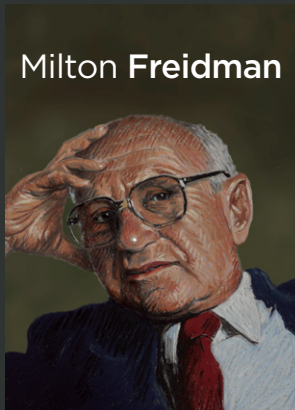
Adam Smith



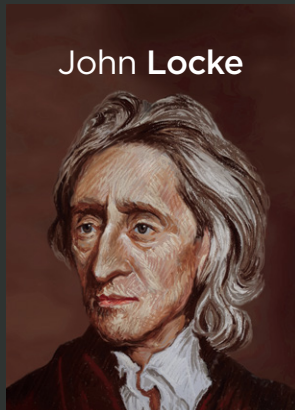
Watch for upcoming
Essential Scholar
Joseph Schumpeter



Milton Friedman



John Locke



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Issues That Matter Most**
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