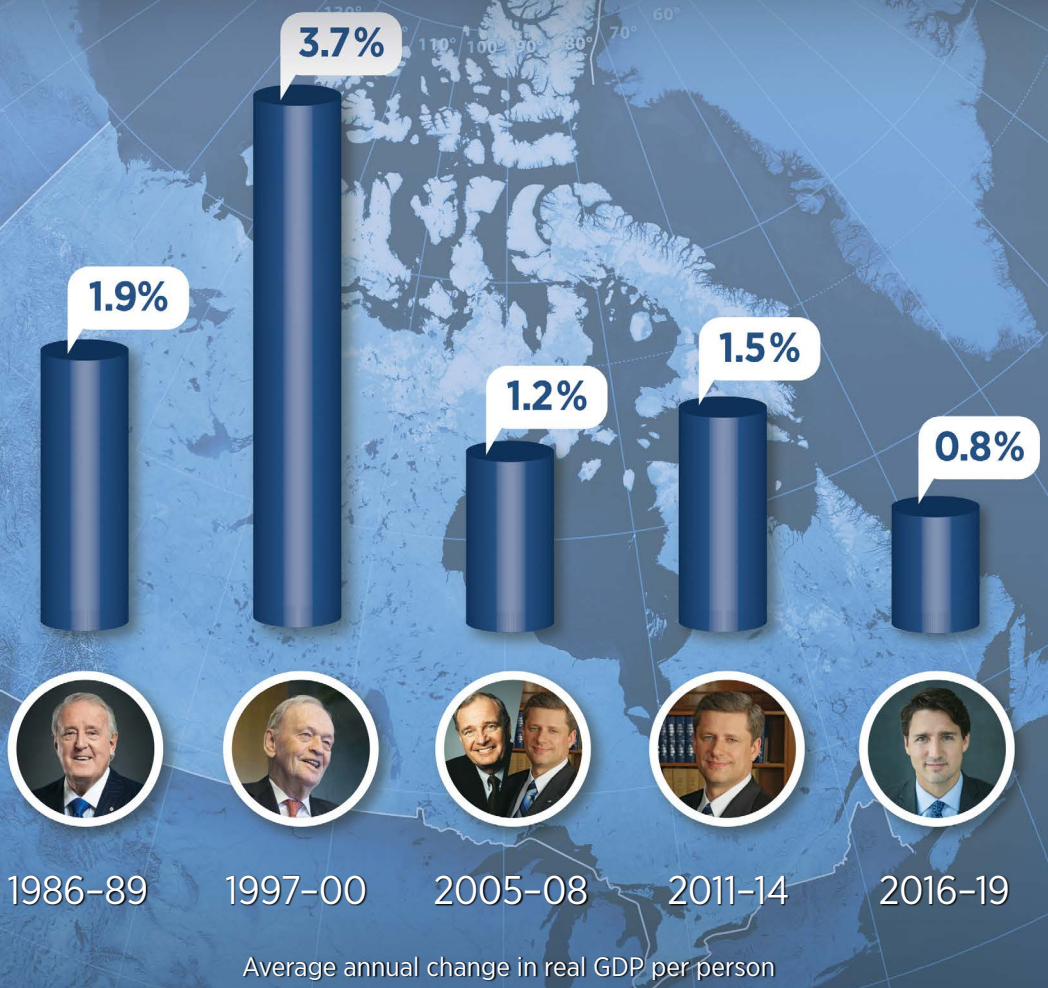
NEWS AND INFORMATION FOR SUPPORTERS AND FRIENDS OF THE FRASER INSTITUTE

FRASER INSTITUTE

THE Quarterly

SPRING 2021

Comparing Pre-Recession Economic Performance under the Five Most Recent Prime Ministers



FRASER INSTITUTE

MESSAGE FROM THE INSTITUTE'S PRESIDENT

Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

What are the right polices to enhance prosperity as Canada emerges from the COVID recession? It's a great question and one the federal government is asking Canadians in its online questionnaire in preparation of its 2021 budget: "How can the federal government position our country for a robust economic recovery that benefits all Canadians?"

Before answering that question, it's important to gain some historical perspective. That's exactly what we did in our recent study, *Comparing Economic Performance in Five Pre-Recession Periods* (see page 2). The study examines pre-recession economic performance under the five most recent prime ministers: 1986-89 (Mulroney), 1997-00 (Chrétien), 2005-08 (Martin-Harper), 2011-14 (Harper), and 2016-19 (Trudeau).

As we've repeatedly highlighted, since the current federal government was first elected in 2015, it has dramatically changed the fiscal and regulatory policies of its predecessors—both Conservative and Liberal. Previous federal governments focused on fiscal prudence (controlled spending, balanced budgets, and lower debt) and improving Canada's investment climate through lower and competitive taxes, reductions in the regulatory burden, and freer trade. The current Liberal government has reversed course on nearly all fronts.

How has is worked out for Canadians? As our study finds, the economy performed weakest during Trudeau's period (2016-19):

- The Trudeau era has the lowest rates of economic growth per person. Growth was 4.8 times greater during the Chrétien era than it has been in the Trudeau era.
- Business investment actually declined under Trudeau (pre-COVID recession) compared to robust growth under all four other prime ministers—i.e., it grew at an average rate of 8.1 percent during the Mulroney period, 7.5 percent during the Chrétien era and 5.1 percent during the Harper era.
- The Trudeau period also experienced lower rates of private sector job creation (1.5 percent) compared to the Mulroney and Chrétien eras (3.3 and 2.9 percent respectively).

Despite these damning results, Finance Minister Chrystia Freeland has indicated that the Liberal government is going to double down on its policies in the coming budget: more spending, new entitlement programs, more debt, and likely higher taxes. This government is simply not interested in actually encouraging growth and attracting business investment. As such, beyond a short-term bump in economic activity that should occur in a post-COVID world, it's unlikely that a robust and sustained economic recovery will take hold in Canada.

That is why educating Canadians about the federal government's damaging policies is such an important area of research and outreach for the Fraser Institute.

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

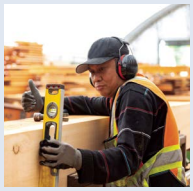
Stay safe!

Best,
Niels

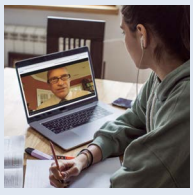
THE Quarterly

New Research

Recent Columns



Education Programs



Staff Profile

RETURN UNDELIVERABLE CANADIAN ADDRESSES TO: The Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, British Columbia Canada V6J 3G7

Canada's Economic Performance Heading into COVID Recession was Weakest of Last Five Pre-Recession Periods

Jason Clemens, Milagros Palacios, and Niels Veldhuis

The contrast between the current Trudeau Liberal government and its Liberal predecessor under Jean Chrétien could not be more stark. As the Trudeau government prepares its 2021 budget, which by all accounts will include massive new spending and transformative economic policies, Canadians should understand the difference in policy between these two Liberal governments.

For example, as noted in our new Fraser Institute study, *Comparing Economic Performance in Five Pre-Recession Periods*, the Chrétien government famously balanced the federal budget in 1997-98 largely from spending cuts that saw federal spending (excluding interest costs) reduced by 9.7 percent over two years. (If you adjust for inflation and population, the Chrétien government actually reduced per-person federal spending by 16.5 percent.)

Once the budget was balanced, the Chrétien government imposed discipline, requiring at least a balanced budget each year, leading to a long string of surplus budgets that reduced the national debt. The balanced budget also allowed for important tax cuts, which made the country more attractive for domestic and foreign entrepreneurs, investors, business owners, and professionals.

Flash-forward to today's Trudeau era. It's hard to understate the complete reversal of these successful policies. In the four years prior to the 2020 recession (in other words, pre-COVID), the Trudeau government increased federal spending (excluding interest costs) by 36.1 percent, reaching $338.5 billion in 2019-20. All this new spending was financed by borrowing, with the four-year accumulated deficit reaching $91.3 billion. And Ottawa has increased taxes on workers, professionals, businesses, and investors. Put simply, the Chrétien government oversaw a rationing of the federal government while the Trudeau government has overseen a marked expansion.

As such, it's useful to compare the four-year performance (1997 to 2000 vs. 2016 to 2019) of the Canadian economy prior to the 2001 and 2020 recessions.

Per-person GDP, one of the broadest measures of income, increased by 3.7 percent annually (on average) during the 1997-2000 period under the Chrétien government compared to 0.8 percent under the Trudeau government (2016-2019). In other words, per-person GDP growth was 4.8 times greater during the Chrétien period than the Trudeau period. Similar results apply to total GDP or more narrow measures of income for households

and individuals. The growth rates during the Chrétien years are markedly higher than those for Trudeau.

Canada's unemployment rate remains the one measure of comparative strength for the Trudeau era, which averaged 6.2 percent compared to 8.0 percent during the Chrétien era. However, the Chrétien period enjoyed almost double the average rate of private-sector job creation (2.9 percent) of the Trudeau period (1.5 percent). How can you reconcile these two seemingly contradictory statistics?

> ***"Per-person GDP growth was 4.8 times greater during the Chrétien period than the Trudeau period.*** *Similar results apply to total GDP or more narrow measures of income for households and individuals. The growth rates during the Chrétien years are markedly higher than those for Trudeau."*

The answer lies in how unemployment is measured—essentially, it's the ratio of unemployed people (relative to the population) over 15 years of age who are either employed or unemployed. After peaking in 2003 at 67.6 percent, the labour force participation rate fell to 65.7 percent in 2019. Subsequently, there's a smaller share of the population over the age of 15 active in Canada's labour market.

So, had the Trudeau period maintained a similar average labour force participation rate as the 2005-2008 period just before the 2009 recession, an extra 448,000 to 576,000 workers would have been employed or looking for work. But again, the Trudeau period experienced comparatively weak growth in private-sector employment. Assuming that the larger number of workers did not affect private- and public-sector employment growth, the revised average unemployment rate for the Trudeau period would have been 8.5 percent, higher than the Chrétien period's rate.

Finally, the starkest difference between the two governments relates to business investment, the foundation for sustainable job creation and long-term prosperity. The average annual growth in total business investment during the Chrétien period was 7.5 percent compared to an annual average *decline* of 0.2 percent during the Trudeau period.

As most Canadians are aware, the residential housing sector has experienced a boom for years. If we exclude business investment in residential construction and focus more narrowly on investment in factories, plants, machinery and equipment, the difference is even larger. The average annual increase in this narrower measure of business investment was 9.3 percent during the Chrétien years compared to a *decline* of 1.5 percent during the Trudeau years.

While many factors affect economic performance, including factors within the control of governments (i.e., policy) and beyond government control, it's fairly clear from the data that the economic performance of Canada was considerably weaker during the Trudeau years from 2016 to 2019 than in the equivalent period under the Chrétien government (1997-2000).

As Canadians assess the Trudeau government's upcoming budget, which promises substantially more of the same, it's worth noting the marked differences in spending, taxes, borrowing and regulations—and economic performance—of these two periods in recent Canadian history. FI

Jason Clemens is Vice-President, Milagros Palacios is Associate Director for the Addington Centre for Measurement, and Niels Veldhuis is President of the Fraser Institute. They are co-authors of *Comparing Economic Performance in Five Pre-Recession Periods.*

Oklahoma and Texas Rank Far More Attractive for Oil and Gas Investment than Alberta

Jairo Yunis and Elmira Aliakbari

For the past few years, Canada has suffered a marked decline in business investment growth, particularly in the country's vital energy industry. If Canada is going to genuinely recover from the COVID recession, business investment must improve—including in our energy sector.

Investment in Canada's oil and gas sector (as a share of total business investment) has plummeted from 28 percent in 2014 to 12.4 percent in 2019. Although many factors are at play, investors continue to note Canada's unattractive policy environment as a self-inflicted deterrent to investment.

For example, according to the Fraser Institute's latest *Canada-US Energy Sector Competitiveness Survey*, which surveys oil and gas investors on the investment attractiveness of 21 energy-producing provinces and US states, all top-ranking jurisdictions are in the United States led by Oklahoma, Kansas, and Texas. No province made the top five.

Saskatchewan, the only province in the top 10, ranked 8th, British Columbia ranked 20th, and Alberta, Canada's largest energy-producing province, ranked 12th.

So why is this happening?

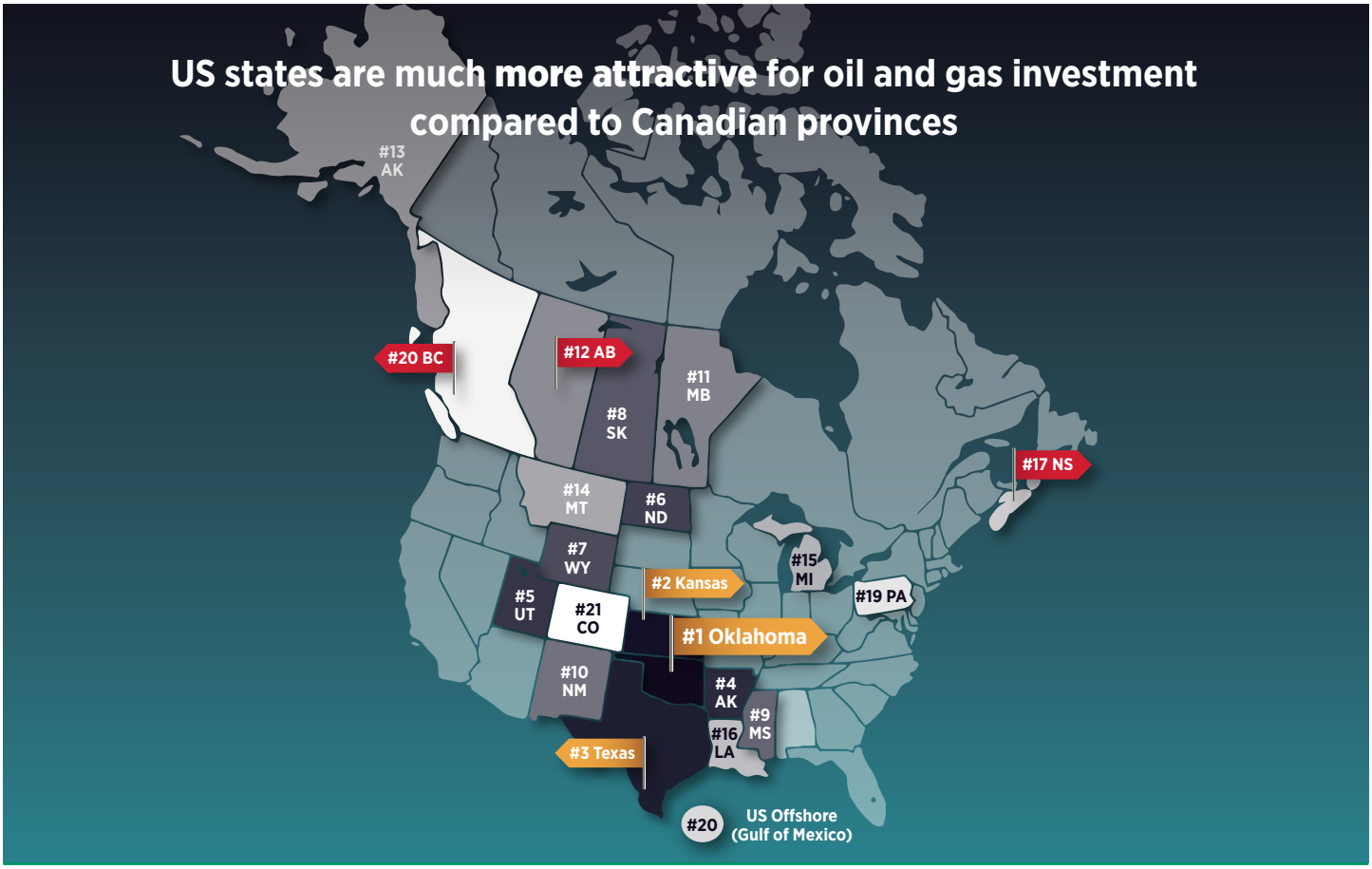
To understand why Canadian provinces underperform relative to their US competitors, look no further than Canada's unfavourable regulatory environment. Simply put, investors have a more positive view of the regulatory regime in the US, and Canada's energy sector is suffering as a result.

More specifically, investors indicated that uncertainty around environmental regulations, the cost of regulatory compliance, and regulatory enforcement are the three main policy areas where Canadian provinces underperform.

For instance, 80 percent of respondents for BC and 64 percent for Alberta cited uncertainty around environmental regulations as a deterrent to investment compared to 16 percent for Oklahoma and 24 percent for Texas.

Moreover, 67 percent of respondents for Manitoba and 47 percent for Alberta cited regulatory enforcement as a deterrent to investment while none of the respondents for Arkansas and Kansas, for instance, indicated it was an issue.

The negative view of Canada's regulatory environment is not surprising in light of recent developments. Last year the Trudeau government enacted Bill C-69, which created a new agency for reviewing major energy projects with additional review requirements. Under Bill

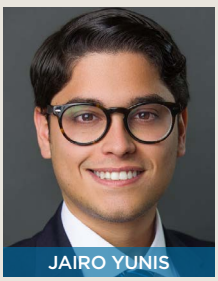


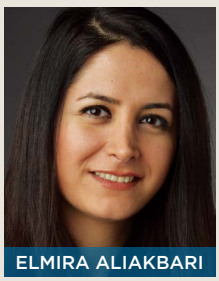
C-69, new and subjective criteria such as the "social impact" of energy investment and its "gender implications" have been added to the regulatory process, which has created massive uncertainty about how—and if—new infrastructure projects will get approved. Similarly, the Trudeau government passed Bill C-48, which bans large oil tankers carrying Canadian oil off BC's northern coast and limits access to new markets.

> *"Governments across the country should remove barriers and introduce reforms* ***to increase Canada's attractiveness to entrepreneurs and investors."***

And that's not all. Alongside these two bills, the federal government and many provincial governments have significantly increased energy regulations in recent years including new rules on methane emissions, stricter ethanol regulations, and a mandated coal phase-out, among other things, which have all hurt the country's energy industry.

Given our current unattractive regulatory regime and the urgent need to broadly encourage business investment in Canada, governments across the country should remove barriers and introduce reforms to increase Canada's attractiveness to entrepreneurs and investors. FI


JAIRO YUNIS


ELMIRA ALIAKBARI

Jairo Yunis is a Policy Analyst and Elmira Aliakbari is Associate Director of the Centre for Natural Resource Studies at the Fraser Institute. They are co-authors of *The Canada-US Energy Sector Competitiveness Survey 2020*.

Nearly 40% of Canadians Who Pay Capital Gains Taxes Earn Less than $100,000 a Year

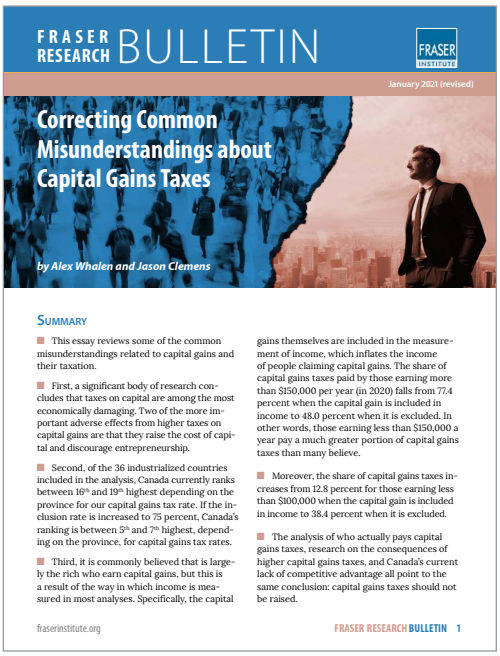
Alex Whalen and Jason Clemens

A key consideration in any serious discussion about taxes is what the general public—specifically voters—will support. This is the main reason why Ottawa has not raised the GST. It's also why advocates for higher taxes often favour tax hikes on businesses, high-income earners, and capital gains. Many Canadians assume such taxes are not paid by them and have no effect on their well-being.

There's fairly widespread agreement among economists that taxes on "consumption," such as the GST, are the least damaging to the economy while taxes on capital and income (business and personal income taxes, capital gains taxes) are the most damaging to the economy.

And yet, the Trudeau government continues to refuse to clarify whether it's considering—or indeed planning—to raise taxes on capital gains, which would do considerable damage to our economic recovery from COVID and the recession. As such, it's worth clarifying some common misunderstandings about capital gains taxes. For starters, who pays capital gains taxes in Canada?

Many Canadians are sheltered from paying capital gains taxes because their principal residence and savings in RRSPs, pensions, and TFSAs, etc. are exempt. Because most Canadians don't pay tax on capital gains, there's a common perception that only ultra-high-income earners pay such taxes. Indeed, when we examine who pays capital gains taxes by income level, it does appear that the tax is disproportionately paid by high-income earners. An estimate of 2020 data using a model provided by Statistics Canada indicates that 77.4 percent of capital gains taxes are paid by individuals earnings more than $150,000.


FRASER RESEARCH BULLETIN

FRASER INSTITUTE

January 2021 (revised)

Correcting Common Misunderstandings about Capital Gains Taxes

by Alex Whalen and Jason Clemens

SUMMARY

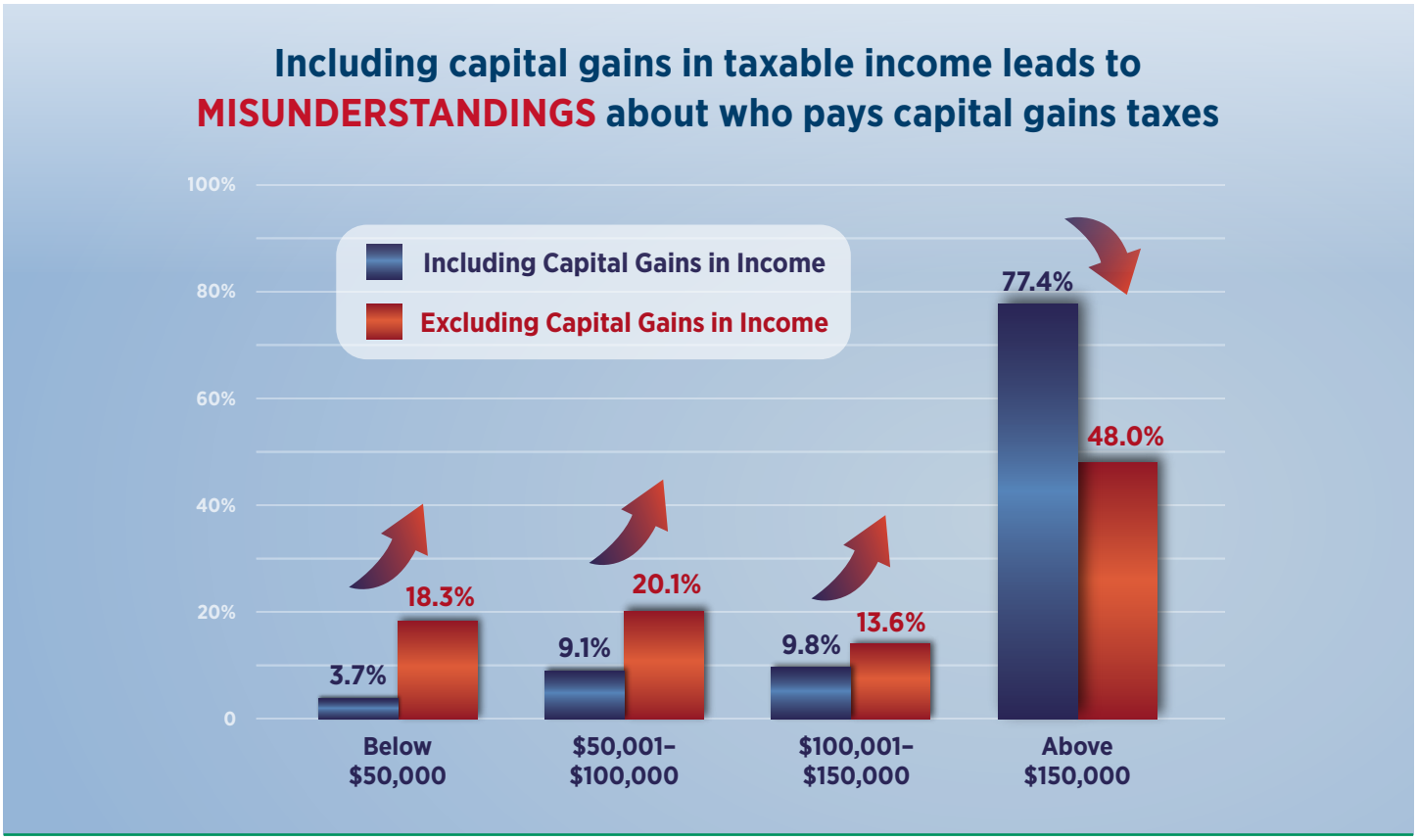
- This essay reviews some of the common misunderstandings related to capital gains and their taxation.
- First, a significant body of research concludes that taxes on capital are among the most economically damaging. Two of the more important adverse effects from higher taxes on capital gains are that they raise the cost of capital and discourage entrepreneurship.
- Second, of the 36 industrialized countries included in the analysis, Canada currently ranks between 16th and 19th highest depending on the province for our capital gains tax rate. If the inclusion rate is increased to 75 percent, Canada's ranking is between 5th and 7th highest, depending on the province, for capital gains tax rates.
- Third, it is commonly believed that is largely the rich who earn capital gains, but this is a result of the way in which income is measured in most analyses. Specifically, the capital gains themselves are included in the measurement of income, which inflates the income of people claiming capital gains. The share of capital gains taxes paid by those earning more than $150,000 per year (in 2020) falls from 77.4 percent when the capital gain is included in income to 48.0 percent when it is excluded. In other words, those earning less than $150,000 a year pay a much greater portion of capital gains taxes than many believe.
- Moreover, the share of capital gains taxes increases from 12.8 percent for those earning less than $100,000 when the capital gain is included in income to 38.4 percent when it is excluded.
- The analysis of who actually pays capital gains taxes, research on the consequences of higher capital gains taxes, and Canada's current lack of competitive advantage all point to the same conclusion: capital gains taxes should not be raised.

fraserinstitute.org

FRASER RESEARCH BULLETIN 1

However, the problem with this approach to measuring who pays capital gains taxes is that the underlying "capital gain" is included in the individual's income. Consider a small business owner who toiled for years to build their business and who has decided to sell that business in advance of their retirement. The "gain" from the sale of the business is included in that person's income and presents a distorted view of their normal year-to-year income.

To further clarify, let's use a hypothetical example. Consider people who win the Millionaire's Lottery. Using the approach currently applied to capital gains, one would conclude that every person who won the Millionaire's Lottery was already a millionaire because the lottery earnings are included in their income. Obviously, this approach produces misleading results when trying to explain the income levels of people who win lotteries or earn capital gains.

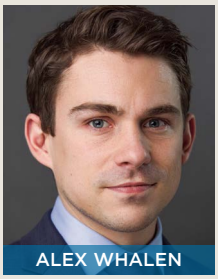


But when you remove capital gains to reveal a person's normal year-to-year income, the share of capital gains taxes paid by Canadians with incomes over $150,000 falls from 77.4 percent to 48.0 percent, or less than half.

> *"Capital gains taxes are not paid exclusively—or even largely—by ultra-high-income earners. Rather,* ***Canadians with much lower levels of income, including many entrepreneurs and small business owners cashing out after a lifetime of work, pay the majority of capital gains taxes in Canada."***

This clearly indicates that a considerable number of people are paying capital gains taxes in situations like the small business owner cited above, where the "capital gain" is a one-time event rather than a regular ongoing source of income.

Put differently, capital gains taxes are not paid exclusively—or even largely—by ultra-high-income earners. Rather, Canadians with much lower levels of income, including many entrepreneurs and small business owners cashing out after a lifetime of work, pay the majority of capital gains taxes in Canada. Therefore, any increase to the capital gains tax would affect Canadians across a variety of income levels—not simply the rich, as is often claimed. FI


ALEX WHALEN


JASON CLEMENS

Alex Whalen is a Policy Analyst and Jason Clemens is Executive Vice-President of the Fraser Institute. They are co-authors of *Correcting Common Misunderstandings about Capital Gains Taxes.*

Eliminating Unnecessary Red Tape Could Save Canadian Businesses Nearly $11 Billion per Year

Steven Globerman

According to a recent survey by the Angus Reid Institute, a majority of Canadians believe a 30-hour workweek is a good idea. However, to achieve this goal without a commensurate reduction in compensation for Canadian workers requires a significant increase in the labour productivity growth rate.

Indeed, employers in competitive industries could only afford to maintain current compensation levels for workers—while offering their employees substantially more time off—if the value of output produced by the average worker increased to offset the reduction in work hours.

Specifically, if labour productivity growth in Canada averaged 2 percent per year from 2018 to 2030, Canadian workers in 2030 could work a four-day workweek year-round while also enjoying a higher standard of living than in 2018. However, given that labour productivity growth in Canada has averaged only around 1 percent per year in recent years, the required increase in productivity growth seems daunting. While Canada's business sector averaged a labour productivity growth rate of around 2 percent per year from 1961 to 2012, restoring that 2 percent annual growth rate over the long term will require policymakers and corporate managers to implement measures to improve efficiency.

The vast majority of Canadians work in small- and medium-sized businesses (SMEs). Hence, increasing labour productivity growth in SMEs would go a long way toward achieving a four-day work week. There are many initiatives that can potentially improve labour productivity growth in SMEs including a systematic effort by government to cut regulatory red tape. To comply with undue regulations, SMEs must divert money and time away from productivity-enhancing initiatives such as investing in new machinery and equipment and upgrading employee skills.

To be sure, some regulations aim to achieve worthwhile objectives including carbon emission reduction and food and pharmaceutical safety. However, many regulations are "non-functional"—that is, they fail to promote worthy social objectives or, when they do, create costs for the economy that are greater than the social benefits. In a recent Fraser Institute study, *The Drag on Productivity from Excessive Regulation*, researcher Laura Jones reports the results of a survey conducted by the Canadian Federation of Independent Business whose members

are mostly SMEs. Fully 63 percent of the respondents reported that excessive regulations discourage them from growing their businesses while 68 percent indicated that excessive regulations significantly reduce the productivity of their businesses.

> *"Many regulations are "non-functional"—that is, they fail to promote worthy social objectives or, when they do, create costs for the economy that are greater than the social benefits."*

The survey respondents also estimated that roughly 30 percent of the costs they incur to meet regulatory obligations do not contribute to improving health, safety, or environmental outcomes of their business activities. Eliminating this sort of red tape would save SMEs collectively roughly $10 billion a year, which could be used to improve the productivity of their businesses. Clearly, fewer resources dedicated to complying with excessive regulatory rules would free up a substantial amount of time and money SMEs could use for capital investments, innovation, and worker training.

Given the grievous harm that COVID-19 has inflicted on Canada's private sector, pruning red tape should be at or near the top of any government's agenda to restore Canada's economic health, especially as many businesses must invest in new lines of business or new ways of doing business in response to today's profound economic and social changes spurred by the pandemic. FI


STEVEN GLOBERMAN

Steven Globerman is resident scholar and Addington Chair in Measurement at the Fraser Institute, and professor emeritus, Western Washington University.

Canada's Health Care Wait Times Hit 22.6 Weeks in 2020—Longest Ever Recorded

Bacchus Barua and Mackenzie Moir

As we continue our battle against COVID-19, another separate health care crisis rages on. Wait times. Patients in Canada face the longest wait time for elective surgery on record—22.6 weeks (between referral from a family doctor to receipt of medically necessary treatment).

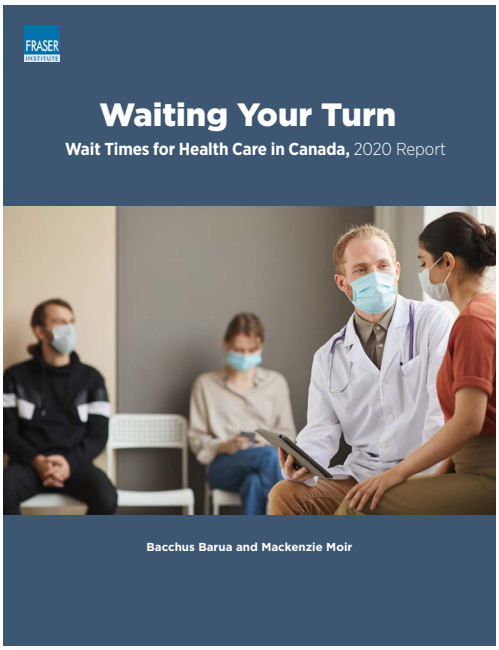
Of course, the pandemic and the pre-emptive cancellations of procedures have influenced this historic median wait time. However, it's also the result of decades of policy inertia and disregard for international data.

Despite the name, elective surgery does not usually refer to optional treatment, but rather scheduled or planned treatment (in contrast to emergencies). These include hip and knee surgeries and scheduled neurosurgery and cardiovascular procedures.

To document the extent of delays for patients in need of these treatments, researchers—for almost three decades—have consistently surveyed physicians across 12 specialties in Canada. This year's national wait time (again, 22.6 weeks compared to 20.9 weeks last year) is not just the longest on record, but is more than twice as long as the 9.3 weeks Canadians waited in 1993 when the first national estimates were calculated.

Physicians in Nova Scotia (43.8 weeks), Alberta (29.4 weeks) and Ontario (17.4 weeks) each reported the longest wait times on record in their respective provinces. Meanwhile, patients across the country could expect to wait more than eight months for ophthalmology and otolaryngology (ENT) treatments. It should come as no surprise that physicians routinely report their patients wait longer than clinically reasonable.

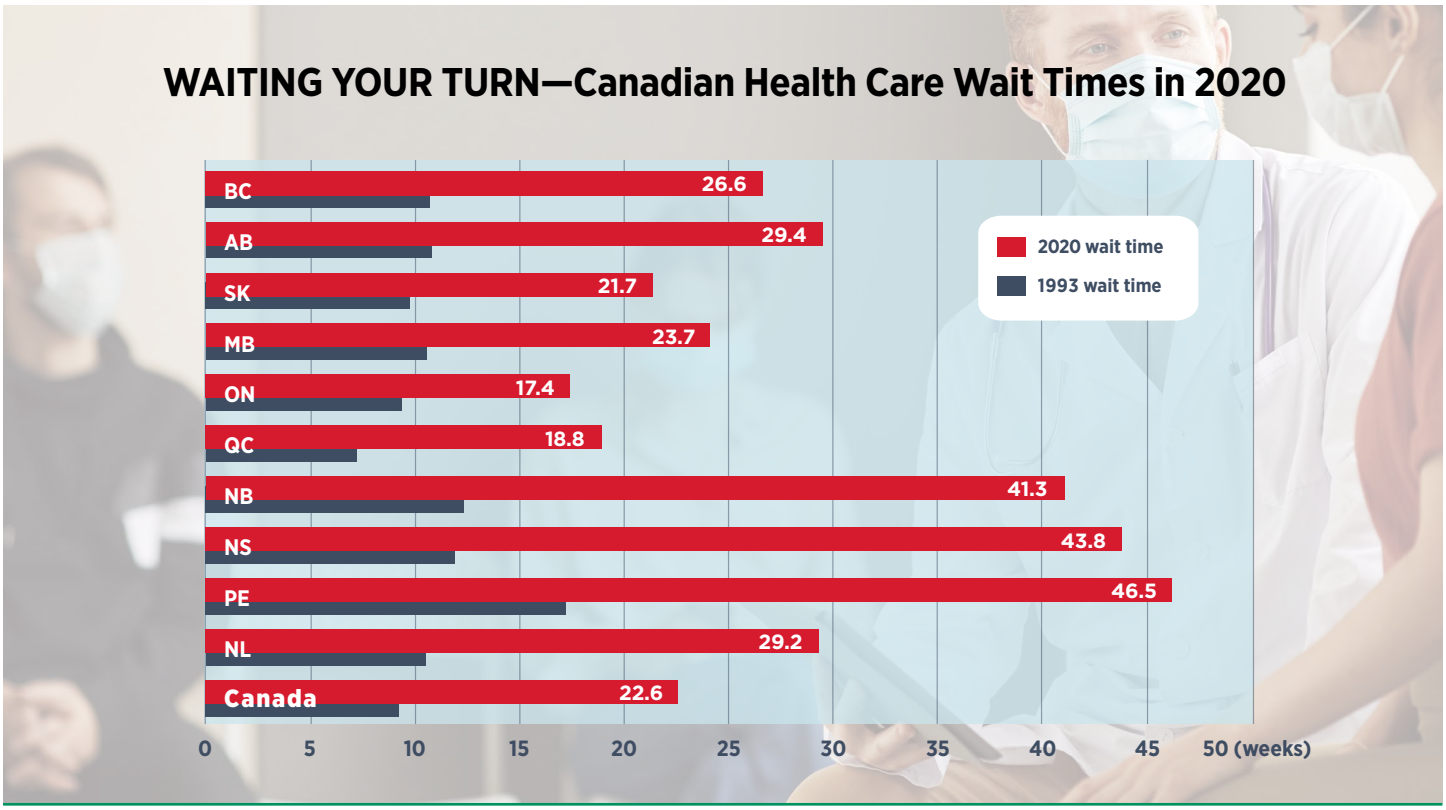
It would be easy to blame these current wait times on COVID. And yes, patients are likely waiting longer this year than they would have otherwise. Unfortunately, decades of pre-COVID data tell the same story—wait times in Canada are not just long, but have gotten progressively longer. The survey's lower response rate this year (11 percent) invites caution when interpreting its results. But again, it would be a mistake to ignore the 1,258 physicians who did respond this year and clearly indicated their patients wait longer than clinically reasonable.



Other comprehensive international surveys have also documented Canada's failure to tackle wait times. According to the Commonwealth Fund, 18 percent of patients in Canada reported waiting four months or longer for elective surgery compared to Switzerland (6 percent) and Germany (0 percent). And that's in 2016, long before the pandemic began.

So what's to be done?

While today's priority is to combat COVID and support health care workers, we should also use this opportunity



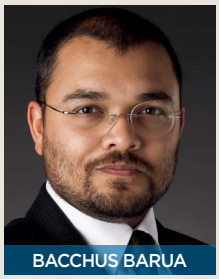
to study other universal health care models and plan for the future.

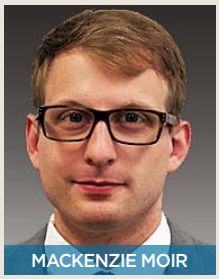
While just about every country around the world has been affected by COVID, many will return to a very different "normal" than Canada. Specifically, universal health care countries such as Switzerland, the Netherlands, Germany, and Australia will likely return to much shorter wait times than Canadians routinely face.

> *"While COVID has limited our ability to deliver timely care, we have an opportunity to choose the kind of health care system we return to in the future."*

Our policymakers should understand how these countries have formed partnerships with the private sector to tackle wait times and better deliver universal health care. Let's study how Switzerland and the Netherlands use cost-sharing for patients to provide the incentives to more efficiently use medical resources (while simultaneously protecting their vulnerable populations). And let's consider following their more modern approach to funding hospitals according to actual usage instead of the archaic "global budgeting" formula used in Canada.

Simply put, while COVID has limited our ability to deliver timely care, we have an opportunity to choose the kind of health care system we return to in the future. Let's find a way to return to a "better normal" in Canada—one where long wait times are no longer the norm. FI


BACCHUS BARUA


MACKENZIE MOIR

Bacchus Barua is Associate Director of the Centre for Health Policy Studies and Mackenzie Moir is a Policy Analyst at the Fraser Institute. They are co-authors of *Waiting Your Turn: Wait Times for Health Care in Canada, 2020*.

Indigenous Spending up 50% since 2015
Despite Evidence that More Money Won't Solve Chronic Problems

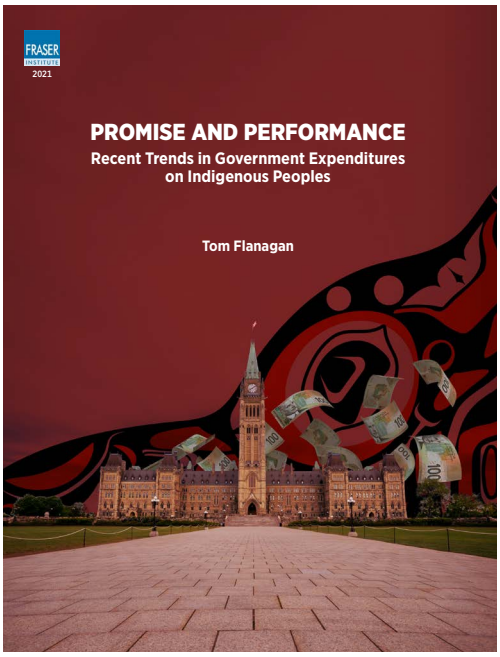
Tom Flanagan

From the fiscal crisis of the mid-1990s to the end of Stephen Harper's Conservative government in 2015, federal spending on Indigenous programs grew at a compound annual rate of 2.5 percent (constant dollars). In the name of reconciliation, the Trudeau government has more than doubled that rate of increase since 2015.

In fact, federal budgets project a total increase of at least 505 percent by fiscal year 2021-22. As outlined in my recent Fraser Institute study, *Promise and Performance: Recent Trends in Government Expenditures on Indigenous Peoples*, spending totals from the "main estimates" and public accounts suggest that actual increases in Indigenous spending are even higher than budgetary projections. Indigenous spending is now the federal government's second-largest operating program expense, behind only national defence.

Meanwhile provincial expenditures, although still small compared to federal outlays, continue to increase even more rapidly than federal appropriations. Own-source revenues earned by First Nation governments through their business activities also continue to increase. Taken together, these trends mean that far more money is being spent in the name of Indigenous peoples than we've seen for 25 years (though the majority of spending goes to civil servants and consultants—not Indigenous people).

The stated goal of reconciliation through increased spending on government programs is to attain economic equality between Indigenous people and other Canadians. Yet there are serious questions about the effectiveness of these programs. The most high-



ly-touted promise of Justin Trudeau's 2016 Budget was to eliminate all long-term water advisories on reserves by March 2021 (at a cost of $1.8 billion). But we now know that deadline will not be met, even though the estimated expenditure has more than doubled.

Clearly, a flood of money has not overcome the intractable problems of small size, remote location, and lack of economic pricing for water and sewerage.

Another high priority is education, and federal budgets have promised additional hundreds of millions of dollars for school operating expenses and capital construction. Of course, money can pay for higher teacher salaries and nicer buildings, but not necessarily better education results. Renowned Cree educator Waubgeshig has identified parental support as the crucial variable. "If a majority

of parents continue to low-ball education success and achievement," he said, "their children will too."

> *Clearly,* ***a flood of money has not overcome the intractable problems of small size, remote location,*** *and lack of economic pricing for water and sewerage."*

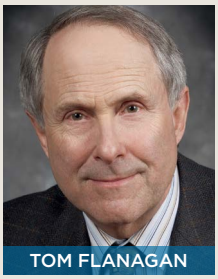
Housing is a third area where large additional amounts of money are to be spent. Of course, it's always possible to build more homes, but their useful life will be short without private ownership or rental. Government-owned housing is a recipe for long-term failure because it does not create incentives for further investment and maintenance. As with clean water and education, more money may be helpful in some ways, but inadequate funding is not the root of the problem.

> ***Better transportation and communication to enhance economic opportunities for Indigenous peoples in remote locations is a more promising path out of poverty*** *than more government programming."*

How do we know this? Because if better-funded government programs were the answer to Indigenous poverty, we would have seen the results by now. Between 1981 and 2016, the latest year of comparable data, Ottawa multiplied federal spending on Indigenous programming by more than four times, yet the gap in the average Community Well-Being Index, which measures the well-being of individual Canadian communities, between First Nations and other Canadian communities barely budged. In 1981, the gap was 19.5. In 2016, it was 19.1.

The biggest single problem facing First Nations is lack of economic opportunity. Seventy percent of First Nations are located more than 50 kilometres from the nearest town or city, and almost 20 percent have no all-weather road connection. As such, development of natural resources such as forestry, oil and gas, and minerals remains by far the best hope for prosperity for remote First Nations.

Government can overcome distance by fostering infrastructure including roads, railways, pipelines, powerlines, communication towers and harbours. Governments may have to build some of these facilities, but private investors would build many of them if governments would get out of the way. Indeed, better transportation and communication to enhance economic opportunities for Indigenous peoples in remote locations is a more promising path out of poverty than more government programming. FI



TOM FLANAGAN

Tom Flanagan is professor emeritus of political science at the University of Calgary and senior fellow at the Fraser Institute. He is the author of *Promise and Performance: Recent Trends in Government Expenditures on Indigenous Peoples.*

Personal Freedom on the Wane Worldwide

Fred McMahon

As freedom recedes globally, the question is whether the tide has turned for good. Pessimism is in order for the short-run, but history provides hope for the long-run.

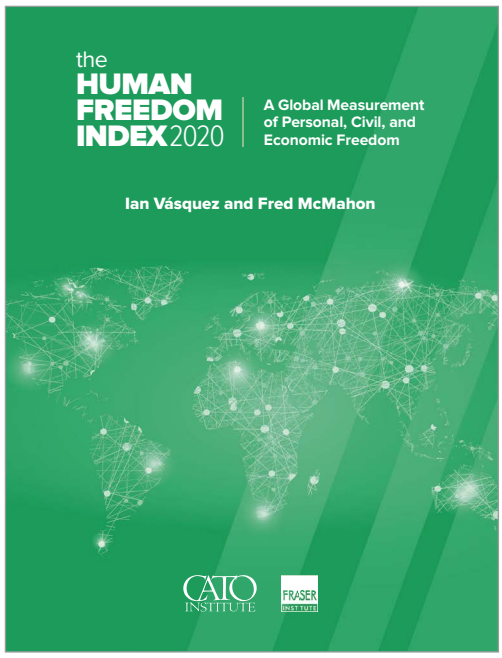
The just released *Human Freedom Index 2020: A Global Measurement of Personal, Civil, and Economic Freedom*, published by Canada's Fraser Institute and the US-based Cato Institute, shows a steady decline of freedom from 2008 to 2018, the most recent comprehensive data. (Ian Vásquez, director of Cato's Center for Global Liberty and Prosperity, and I co-authored the report.)

The index is the first to measure all crucial aspects of freedom, including personal freedom, such as freedom of speech, freedom of assembly, and personal safety, as well as economic freedom, the ability of individuals to make their own economic decisions without government or crony interference.

Further declines in freedom, perhaps large declines, are likely as data become available for 2019 and 2020. The Chinese Communist Party (CCP) has intensified its attack on freedom at home and abroad. Regimes in Hungary, Poland, and Turkey undermine the rule of law and suppress media freedom. Dictatorships in Egypt, Russia, Venezuela, Iran, and many other countries have redoubled repression.

Why is this happening?

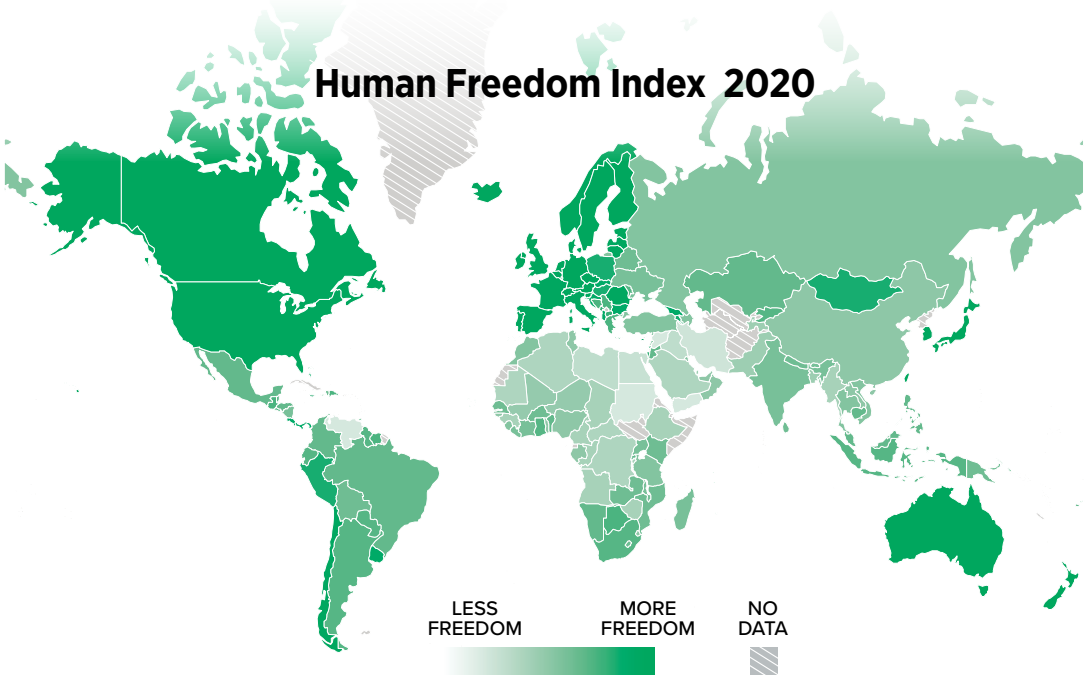
In the early 1990s, with freedom surging after the fall of the Soviet Union, historian Samuel Huntington famously proposed three waves of democratization. The first began with the American Revolution and spread to a handful countries. It receded with the rise of fascism and communism after the First World War. The defeat of fascism in the Second World War propelled the second



wave and then it too receded as the Soviet Union extended its grip and semi-fascist populist and militarist regimes gained ground.

Huntington's happy third wave began with the downfall of remaining fascist states in Europe, starting with Portugal in 1974. It became a tidal wave with the collapse of the Soviet Union in 1991 and the spread of democracy across post-Soviet states.

The Human Freedom Index measures freedom while Huntington's waves were about democracy or, more accurately, liberal democracy where freedom accords the people the ability to make rational democratic choices about their government. Elections in Iran and Venezuela hardly make these countries democratic. True and stable democracy is impossible without freedom and in the long-run it's likely only democracy can safeguard freedom.



So freedom tracks Huntington's democracy waves. But just as giant waves recede far back down the shore, Huntington's huge third wave is in full retreat. Several forces drive the relapse. One is disappointed expectations.

People living under dictatorship, communist or otherwise, were mired in poverty. Liberal democracies generated unprecedented prosperity. It seemed so easy to repressed people—replace the dictatorship and become as rich as Germans, everyone driving a Mercedes. With such unreasonable expectations, democracy disappointed many.

Few of the new democracies had a history of sustained democracy and thus the institutions required to support democracy—rule of law, tolerance of different ideas and people, trust, minority rights, the willingness to support democratic outcomes, etc.

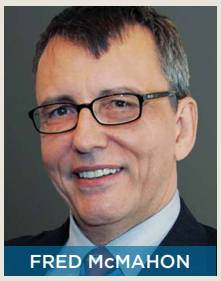
Then there's greed and hunger for power. Without institutions protective of democracy, political leaders often strove to turn temporary conditional power into permanent power. They capitalized on disappointment and tribalism to do so.

The CCP has replaced the Soviet Union as the great enemy of freedom as it tries to export its "Chinese model." But unlike old-style Marxism, the CCP has no philosophical appeal. All it demands is obeisance and no criticism of the CCP, and that does require the suppression of freedom. The collapse of the CCP would return freedom to Hong Kong, secure it in Taiwan, and free other countries from CCP pressure. No one knows when or if this will happen.

But I am optimistic for the rest of the world. A fourth wave will come, due to the same forces that propelled the other waves. Free countries simply create better lives for their citizens than unfree ones. All you have to do is look around the world—and back through history—to see that the best places for people to live are liberal democracies.

This becomes a living testament to the failures of regimes that promised better lives as they stole freedom and democracy. People begin to understand that while liberal democracy may not create overnight miracles, it does lay out a path to improved lives.

As Huntington's three waves retreated, each left more freedom than it found. Even at the height of fascism, more countries were democratic than when the first wave started. Even when communism spread its gospel after the war, there were more free countries than when the second wave began. And now, as the third wave recedes, there are far more free countries than when this wave began with the end of fascism in Portugal. FI


FRED McMAHON

Fred McMahon is a Fraser Institute Resident Fellow and holder of the Dr. Michael A. Walker Chair in Economic Freedom. He is the co-author of *Human Freedom Index 2020: A Global Measurement of Personal, Civil, and Economic Freedom.*

Horgan Government Eyes Labour Law Change that Would Further Stifle Investment in BC

Jason Clemens, Alex Whalen, and Milagros Palacios

British Columbia, like the rest of the country, must encourage business investment to spur economic growth as the foundation for economic recovery now and post-COVID. With its recent majority mandate, however, the Horgan government seems intent on resurrecting extreme pro-union legislation that will discourage investment and recovery.

A recent analysis of business investment in BC found that the province underperformed compared to other provinces in attracting investment outside the residential housing sector. Indeed, the most recent available data from Statistics Canada indicates that BC ranked 5th among provinces in average business investment (again, excluding residential housing) between 2015 and 2019 on a per-worker basis (after adjusting for inflation).

And the province's comparatively inhospitable labour laws are part of the problem. BC has a long history of favouring unions over individual workers and employers. Indeed, a comprehensive analysis of labour laws in 2014 covering the Canadian provinces, the federal government, and the US states, ranked BC 4th worst in terms of balanced labour laws.

Despite the province's already biased labour laws, the Horgan government seems poised to introduce even more radical laws including so-called "card check" for the certification of unions.

Currently, unions require 45 percent of workers to sign union cards to trigger a secret ballot vote to certify the union as the exclusive bargaining representative of workers in any firm. Card check eliminates the need for a secret ballot vote—a hallmark of our democratic decision-making process—if 50 percent plus one of workers sign union cards.

Card check clearly violates basic democratic norms. Workers who do not support unionization can be subject to intimidation and harassment because their preference is publicly known. This is why virtually all elections in modern democracies are held by secret ballot, protecting individual privacy.

This is also borne out by BC's previous experiment with card check during the NDP's last reign in the 1990s (the province reverted back to secret ballot voting in 2001). Research showed that unionization rates were 19 percentage points lower under the secret ballot system. In other words, when employees were afforded the choice of a private anonymous vote, their support for unionization was markedly lower than under card check.

> *"**At a time when BC badly needs investment to help strengthen the economy, adopting "card check" is hard to justify given its likely economic impacts.** The province should maintain its secret ballot system of union certification and focus on becoming more attractive to business investment and entrepreneurs."*

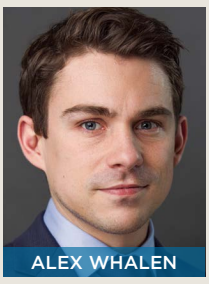
Indeed, an expert panel convened by the Horgan government to advise the provincial labour minister on labour law reforms explicitly rejected card check. The majority of the panel supported retaining the secret ballot system, explaining that it's "the most consistent with democratic norms."

Crucially, however, BC is already a labour law outlier. For example, it's one of only two jurisdictions in North America to prohibit temporary workers during strikes. Clearly, the province's laws already tilt the balance profoundly in favour of unions at the expense of individual workers and employers, which creates a competitive disadvantage when trying to attract business investment and entrepreneurship.

> *"A recent analysis of business investment in BC found that **the province underperformed compared to other provinces in attracting investment outside the residential housing sector."***

At a time when BC badly needs investment to help strengthen the economy, adopting "card check" is hard to justify given its likely economic impacts. The province should maintain its secret ballot system of union certification and focus on becoming more attractive to business investment and entrepreneurs. FI


JASON CLEMENS


ALEX WHALEN


MILAGROS PALACIOS

Jason Clemens is the Executive Vice-President, Alex Whalen is a Policy Analyst, and Milagros Palacios is Associate Director for the Addington Centre for Measurement at the Fraser Institute.

Biden's Keystone Cancellation **Another Blow to Canada's Energy Sector**

Elmira Aliakbari and Jairo Yunis

Despite pushback from governments across Canada, on his inauguration day President Joe Biden revoked the permit for the $10 billion Keystone XL pipeline, citing environmental concerns. This is more bad news for Albertans and yet another blow to Canada's energy industry, which has suffered from a combination of insufficient pipeline capacity and a barrage of poor policies in recent years.

Insufficient pipeline capacity has been a major issue undermining the competitiveness of energy producers in Western Canada. Several pipeline projects have been cancelled or delayed in recent years mainly due to political opposition or regulatory impediments.

For example, the Trudeau government rejected the previously approved $7.9 billion Northern Gateway pipeline in 2016 and imposed new regulatory hurdles (including consideration of downstream emissions, which was never part of prior assessments) on TransCanada's proposed Energy East project. Consequently, TransCanada deemed the pipeline economically unviable and scuttled the project. And of course, infrastructure giant Kinder Morgan withdrew from the Trans Moun-

tain Expansion project, forcing Ottawa to purchase the project in a last-ditch effort to save it.

Now, President Biden, despite committing to improving relations with Canada, has scuttled the Keystone XL pipeline, which would have carried up to 830,000 additional barrels per day from Alberta to refineries along the US Gulf Coast.

> ***"The US Energy Information Administration recently forecasted that US oil consumption, which will return to pre-pandemic levels by next year, cannot be satisfied solely by domestic supply.*** *Scrapping Keystone XL will likely constrain the oil supply for US refineries in the Gulf Coast and will force them to increase their reliance on other countries such as Venezuela and Russia."*

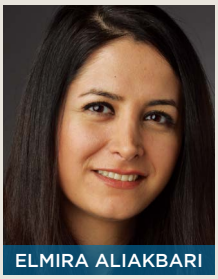
The lack of adequate pipeline capacity and related restricted market access has meant that Canadian producers received far less value for their oil than do their international counterparts. For example, in November 2018, the price differential between Canadian heavy crude (WCS) and comparable US crude (WTI) was almost 70 percent. The insufficient pipeline capacity and its associated depressed prices for Canadian heavy crude resulted in C$20.6 billion in foregone revenues for the energy industry in 2018 alone. That's roughly one percent of GDP lost because we were unable to deliver our product to international markets to secure better prices.

Clearly, cancelling Keystone XL will not only further impair Canada's energy industry but also hurt Albertans, as the Alberta government invested at least $1.5 billion in the project. This cancelation will jeopardize jobs in Alberta (and in the United States) linked with the pipeline's construction. It will also result in billions of dollars of lost revenue for governments in the form of lower corporate income taxes and royalties.

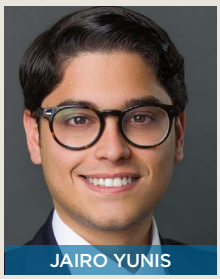
Ironically, cancelling Keystone XL will do nothing to lessen US oil dependency and could very well result in more, not less, emissions. The US Energy Information Administration recently forecasted that US oil consumption, which will return to pre-pandemic levels by next year, cannot be satisfied solely by domestic supply. Scrapping Keystone XL will likely constrain the oil supply for US refineries in the Gulf Coast and will force them to increase their reliance on other countries such as Venezuela and Russia. (Of course, Canada's environmental record is much better than Russia's or Venezuela's.)

Moreover, there will be additional greenhouse gas emissions linked with the transportation of crude from these countries, whereas the Keystone XL pipeline would have eliminated all emissions from transportation. Put simply, cancelling Keystone XL will not affect the demand for oil in the US—it will simply alter the suppliers.

By scuttling Keystone XL, the new president has inflicted further economic damage on an industry and province already reeling from years of bad policies (mostly from Ottawa) and ongoing insufficient pipeline capacity. And while the announcement may satisfy some campaign promises, it will worsen US relations with its neighbour and number one trading partner while doing little or nothing for the environment. FI



ELMIRA ALIAKBARI



JAIRO YUNIS

Elmira Aliakbari is Associate Director of the Centre for Natural Resource Studies and Jairo Yunis is a Policy Analysts at the Fraser Institute. They are co-authors of *Canada-US Energy Sector Competitiveness Survey 2020.*

Ontario's New Finance Minister Must Recognize the Importance of Budget Balance

Steve Lafleur and Jake Fuss

With the resignation of Rod Phillips, Ontario's incoming finance minister Peter Bethlenfalvy inherits a difficult job. The province's fiscal challenges long pre-date the global pandemic. Queen's Park has mostly run uninterrupted budget deficits since 2008/09. Both the McGuinty and Wynne governments sketched out long paths to budget balance, neither of which came to pass. The Ford government also planned a gradual approach to deficit-reduction to start its mandate, but then COVID hit. Deficits have now grown much larger and the government has not charted a new path to balance.

Clearly, it's dangerous to gradually balance the budget over an extended time period. Minister Bethlenfalvy should heed the following lessons and create a credible plan to quickly, once the pandemic has abated.

Lesson one—there's always a reason to run deficits. The global financial crisis, which began in 2008, kicked-off our current deficit run. Back then, there was a rationale for short-term deficits driven largely by a temporary drop in government revenue, but many of the difficult

policy decisions required to restore balanced budgets never happened over the course of the following decade. Then COVID hit, and Ontario's deficits ballooned.

> *By failing to balance the budget when the economy was still growing, the government failed to set itself up to handle the bad times; then the bad times came on strong.* ***Once the pandemic has passed, the new finance minister must urgently restore Ontario's fiscal health."***

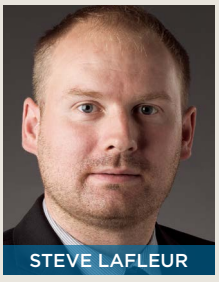
Lesson two. Deficits might seem like an abstract problem for our future selves (or future generations), but in Ontario, this simply isn't the case. Ontario's debt-to-GDP ratio (a key measure of fiscal sustainability) has climbed from 26.6 percent to 47.0 percent over the past 13 years and is projected to grow larger as the province runs at least two more years of deficits in the ballpark of $30 billion.

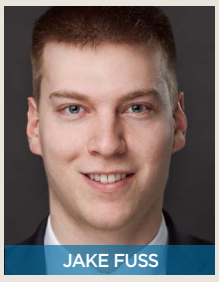
> *The Ontario government spent $12.5 billion on government debt interest in 2020/21, up from the $10.0 billion 10 years ago.* ***That amounts to $845 per person and 8.2 percent of provincial revenue."***

Which brings us to lesson three—the cost of borrowing. The Ontario government spent $12.5 billion on government debt interest in 2020/21, up from the $10.0 billion 10 years ago. That amounts to $845 per person and 8.2 percent of provincial revenue. Money spent on debt interest is money unavailable for key priorities such as health care, education and pro-growth tax relief. All else equal, the more the provincial government borrows, the higher these costs will become.

Finally, while we can't blame the Ford government for the global pandemic that has sideswiped its governing agenda, even before the pandemic this government planned to run deficits until 2022/23. In other words, the Ford government didn't recognize the urgency and importance of budget balance.

Indeed, by failing to balance the budget when the economy was still growing, the government failed to set itself up to handle the bad times; then the bad times came on strong. Once the pandemic has passed, the new finance minister must urgently restore Ontario's fiscal health. Otherwise, we'll be having this very same discussion again during the next recession, but with fewer resources left to deal with the problem. That's a risk the new finance minister, and the Ford government generally, should not take. FI


STEVE LAFLEUR


JAKE FUSS

Steve Lafleur is a Senior Policy Analyst and Jake Fuss is a Senior Economist at the Fraser Institute.

Despite Spending Less on Public Schools, **Quebec Outperforms Most Other Provinces**

Tegan Hill and Ben Eisen

As the provinces face large budget deficits, governments across Canada should find ways to deliver services more efficiently. Fortunately, Canada's federation—composed of federal, provincial, and local governments—allows provinces to experiment with different ways of providing government services and adopt the best system. In the case of public education, other provinces can look to Quebec for successful models of both education spending and delivery.

Let's start by looking at spending. A new study by the Fraser Institute, Education *Spending in Public Schools in Canada 2021 Edition*, found that inflation-adjusted per-student spending in K-12 public schools increased in eight out of 10 provinces between 2013/14 to 2017/18, the most recent year of available Statistics Canada data.

It's important to note that our study examines spending *in public schools*—not overall spending on public education. As a result, spending on independent schools, which includes some public spending in Quebec and the four western provinces, is excluded. The study also adjusts for public school enrolment.

The level of per-student spending in public schools varied widely by province, with the lowest in Quebec ($12,430) and British Columbia ($12,641), and the highest in Saskatchewan ($16,038) and New Brunswick ($15,000).

Put differently, in the province with the lowest spending on public schools per student (Quebec), spending was about 22.5 percent or $3,609 less per student than the province with the highest spending (Saskatchewan).

Impressively, according to the best available metrics, students in Quebec outperform students in many provinces with higher spending. Specifically, according to PISA scores, the gold standard of international testing, students in Quebec outperform students in Saskatchewan and New Brunswick in all three PISA test subjects—math, science, and reading. In fact, Quebec routinely leads in student performance in Canada.

So what's going on?

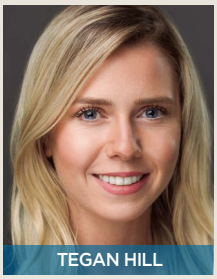
Better student performance, despite lower spending in public schools, may have something to do with the very different approaches to K-12 education among provinces. Quebec has a fairly simple public school system and relies on independent schools to provide the bulk of educational choice including religious-based education and alternative programs (such as English-language or special needs education). By contrast, other provinces (including highest spender Saskatchewan) offer religious education and other programs within their public system. And these provinces tend to have a more complex public school system (for example, Saskatchewan has three competing school systems).

> *"According to the best available metrics,* ***students in Quebec outperform students in many provinces with higher spending.***"

In Quebec, approximately one in eight students attend independent schools compared to fewer than one in 100 students in New Brunswick (the lowest rate of all provinces). Crucially, the Quebec government provides financial support to eligible independent schools, which may explain the higher level of independent school enrolment. In the Atlantic provinces and Ontario, the government provides no financial support for students in independent schools. In the face of today's daunting fiscal challenges, provinces should take advantage of one of Canadian federalism's great benefits—that it allows provinces to experiment and innovate with different policies to discover what works and what doesn't.

> ***"The combination of strong student performance and relatively low costs to government (and taxpayers) in Quebec suggests that other provinces should carefully examine Quebec's education funding and delivery model*** *and consider whether adopting a similar approach could produce better outcomes for students—at a lower cost."*

The combination of strong student performance and relatively low costs to government (and taxpayers) in Quebec suggests that other provinces should carefully examine Quebec's education funding and delivery model and consider whether adopting a similar approach could produce better outcomes for students—at a lower cost. FI


TEGAN HILL


BEN EISEN

Tegan Hill is an Economist at the Fraser Institute and is a co-author of *Education Spending in Public Schools in Canada 2021 Edition*. Ben Eisen is a Senior Fellow in Fiscal and Provincial Prosperity Studies at the Fraser Institute.

Governments in Atlantic Canada Should Increase Space for the Private Sector

Fred McMahon

The scale of Atlantic Canada's dependence on Ottawa and the inflow of "gift money"—the difference between federal expenditures and revenues—is seldom understood. But this influx of money-from-elsewhere is under attack outside Atlantic Canada, particularly as revenues shrink from Alberta and provinces struggle to recover from the COVID recession.

Surprisingly, there might be a silver lining for Atlantic Canada. As noted in my new study, *Fiscal Federalism and the Dependency of Atlantic Canada*, the huge federal presence here remains responsible for many of the region's economic ills.

Federal spending equals more than a quarter of the Atlantic economy, averaging 27.5 percent of regional GDP between 2007 and 2019, the most recent year of comprehensive data. Net federal transfers—the difference between federal spending and revenues—equals 12.8 percent of the region's economy. In other words, one in four dollars spent in Atlantic Canada comes from Ottawa, and half of these dollars are gift money.

Looked at another way, from 2007 to 2019, Ottawa spent nearly $178,466 per person in Atlantic Canada but raised only $95,513 per person from the region. That's $82,953 more spending per person in Atlantic Canada than Ottawa raised in revenue (amounts are inflation-corrected to 2018 dollars). Consider what this means. To

maintain current spending without federal subsidies, each Atlantic Canadian would have to pay $6,381 more in taxes each year.

Crucially, equalization payments, a continuous issue in certain provinces, represent only about a quarter of net federal transfers to Atlantic Canada. The rest comes through imbalances in other programs including employment insurance.

The picture is nearly a mirror image in Alberta. From 2007 to 2019, Ottawa raised $156,471 per person in Alberta but spent only $84,908, for a net transfer out of the province of $71,563 per person. Federal revenues in Alberta averaged 14.1 percent of the Alberta economy but spending equaled only 7.7 percent, for a net outflow of 6.4 percent.

With Alberta's energy industry saddled by low prices and roadblocks to transportation infrastructure (see the recent death of the Keystone XL pipeline), Alberta taxpayers are no longer able to provide massive federal surpluses to Ottawa. The province faces a budget deficit of $21.3 billion for 2020, but damage doesn't stop at the provincial border.

Ottawa's surplus from Alberta averaged $21.6 billion annually from 2007 to 2019. Without this, Canada would be an additional $280.4 billion in debt. The Parliamentary Budget Officer projects a federal budget deficit of $382.8 billion for 2020/21 compared to $24.9 billion in 2019/20, with projected deficits of $121.2 billion in 2021/22 and $50.7 billion the following year.

Indeed, a looming fiscal crisis could lead to a re-evaluation of fiscal federalism, something voices in Alberta and Ontario, the other big contributor to regional transfers, have long demanded. Perhaps Atlantic Canadians should join the chorus. The region was rapidly catching up with the rest of Canada through the 1960s, before the first Trudeau government unleashed the fiscal floodgates in the 1970s and deluged the region with tens of billions of dollars though new or enriched federal programs including unemployment insurance, development subsidies, and transfers to provincial governments.

Innovation, entrepreneurship and hard work drove Atlantic Canada's rapid catch-up in the '60s when the region's per-person GDP grew from 55 percent of the national average to more than 60 percent. But, as federal dollars flooded the region, Atlantic Canada lost ground and ended the '70s with a lower relative GDP than when it started.

Throughout the 1970s, government dominated and politicized the economy, reducing space for free market competition to drive productivity and economic growth. Unemployment soared as UI subsidized workers for not working. By mid-1974, the Atlantic Provinces Economic Council said the three "chief underpinnings" of the region's economy were "government employment and transfer payments" along with resource exports.

By the early 1980s, Canada faced a looming federal fiscal crisis brought on by large budget deficits and growing debt. At the same time, the failure of regional policy became obvious. Over the next 15 years, Ottawa scaled back regional and development spending and partly reformed UI (while also renaming it).

Overall government spending diminished across Canada but particularly in Atlantic Canada, from an astonishing 65 percent of the region's economy (three quarters of that from Ottawa) at the end of the '70s to about 55 percent (with half from Ottawa) in the early 2000s. As government shrank, a miracle happened. Atlantic Canadian economic growth took off and Atlantic Canadian per-person GDP reached 80 percent of the Canadian average.

The drop in government spending was directly due to policy changes, followed by economic growth as government economic dominance diminished. However, by the late 2010s, federal and overall government spending in Atlantic stabilized at too high a level and the catch-up stagnated.

Perhaps the current fiscal crisis will lead to another re-evaluation of the role of government in Atlantic Canada and increased space for the private sector to drive growth. FI


FRED McMAHON

Fred McMahon is a Fraser Institute Resident Fellow and holder of the Dr. Michael A. Walker Chair in Economic Freedom. He is a co-author of *Fiscal Federalism and the Dependency of Atlantic Canada.*.

Despite Spending Hundreds of Billions during COVID, We Seem to Have Little to Show for It

Livio Di Matteo

As the Covid-19 pandemic moves into 2021, it's important to reflect on how Canada is dealing with its impact. After a summer that included a semblance of normality, the fall and winter have brought a resurgence that's taxing our ability to cope. As the second wave unfolds, various new lockdowns (with substantial rates of non-compliance) have been imposed, testing international air travellers on their return has begun nearly 10 months after the start of the pandemic, the vaccine rollout appears to be unfolding in slow motion, hospitalizations are rising, and death tolls are creeping upwards.

The current sentiment seems to be that while Canada may have made a few mistakes along the way, we've been doing relatively well and deserve a pat on the back. Yet despite spending hundreds of billions of dollars at the federal and provincial levels with combined budget deficits approaching $500 billion for 2020-21 and the largest deficit-to-GDP ratio of any developed IMF country, we seem to have little to show for it.

The virus is surging in our major cities, we lag behind in administering vaccines to the point where many have sat for a long time in freezers. And the virus still runs rampant through many long-term care homes.

One wonders if in the end, the disjointed, confused, and slow response to the pandemic was partly the result of the current interpretation of Canada's federal system by its leaders.

Federalism is a system of government where units are able to be both independent and coordinate and should accommodate regional preferences with the economies of scale and political direction of a larger country. The Canadian federation has been held up as a model for the world given our standard of living, the freedom of our population, and the stability and diversity of our political system.

While Canada's diversity has meant regional tensions between the federal and provincial governments and perpetual crises and tug-of-wars over jurisdiction, it has, remarkably, managed to stay aloft for more than 150 years. Indeed, one pundit has remarked that Canada is a "bumblebee nation" able to fly despite being aeronautically impossible. However, one wonders if the flight of the Canadian bumblebee is more attributable to luck than ability.

> *"While quite accomplished at spending large sums of money—especially at the federal level—our governments seem extraordinarily incapable of getting things done themselves or harnessing private initiative.... **when it comes to the private sector, our governments are experts in imposing rules and regulations rather than incentives."***

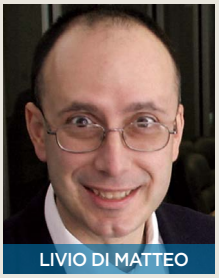
Given our high standard of living, we've come to think of ourselves as high-flyers, but it increasingly seems that we are mediocre flyers caught up in gusts of wind provided by the historic proximity to a relatively benign and wealthy southern neighbour and our abundant natural resources. Canada's leaders seem increasingly unable to solve problems. Our governments are increasingly bureaucratic and adept at planning but not at implementation. While quite accomplished at spending large sums of money—especially at the federal level—our governments seem extraordinarily incapable of getting things done themselves or harnessing private initiative. Indeed, when it comes to the private sector, our governments are experts in imposing rules and regulations rather than incentives. When some private companies stepped up to produce masks and hand sanitizer early in the pandemic, their reward was to be bypassed by foreign suppliers when the real money was being spent.

During COVID, governments across the country have issued inconsistent and contradictory statements about masks, the rules for gatherings, and so on. Consequently, many Canadians increasingly don't know what they're supposed to do to stay safe and some may think they're following the "rules" even when they're not. We're told these are unprecedented times—but obviously not unprecedented enough for politicians of all stripes who tell us to stay home while they gallop around the world demonstrating an appalling lack of leadership.

Our federal government intones that health is a provincial responsibility, but there are federal *and* provincial health ministries, and public health agencies and federal health transfers. Health as a provincial responsibility should allow for experimentation and flexibility in dealing with the pandemic. But there seems to be little learning going on given that the relative success of the Atlantic provinces has yet to rub off on other provinces.

While the discord of the US experience has not marked Canadian intergovernmental relations, one cannot help but wonder how much "politics" has affected public exchanges. Take the premiers asking for more health transfers, or the federal response to the provincial clamour for the federal government to provide vaccines, which was followed by the expression of federal "disappointment" over the lack of quick distribution by the provinces.

Finally, the federal government has not used its spending power to provide early testing and comprehensive quarantine facilities at international airports or to ramp up domestic vaccine manufacturing and distribution, but to dispense poorly-targeted transfers. And again, Ottawa has chosen not to do more to tackle the pandemic directly by hiding behind a strict interpretation of provincial jurisdiction over health. This federal government seems to act is if health is a provincial responsibility when necessary, but not necessarily a provincial responsibility. Sadly, all Canadians will pay the price for the failure of our governments. FI


LIVIO DI MATTEO

Livio Di Matteo is a Fraser Institute Senior Fellow and Professor of Economics at Lakehead University in Thunder Bay, Ontario.

Policymakers Must Recognize **Shrinking Gap between Rich and Poor Provinces**

Ben Eisen and Milagros Palacios

Many Canadians have long thought of their country as divided between affluent "have" provinces and poorer "have-nots." The traditional dividing line has been whether a province receives equalization payments.

But this bifurcation is outdated. Over the past 15 years, a process we call the "Great Convergence" has occurred. Simply put, the 10 provinces have moved closer together—closer than ever before—in terms of their ability to raise money to fund their own government services.

Before going any further, we should provide a loose definition of a wonky yet important term—"fiscal capacity," which measures a province's ability to raise "own-source" revenues at similar tax rates to fund government services. Richer provinces, or those with ample natural resource revenues, tend to have high fiscal capacities compared to lower-income provinces without similar resource revenues. Provinces with lower fiscal capacities are eligible for equalization.

Crucially, the "fiscal capacity" gap between provinces is shrinking—quickly.

In 2008, using the equalization formula's method for measuring fiscal capacity, the gap between the richest and poorest province was $11,350 per person (after adjusting for inflation). This year, the gap will shrink to

an estimated $3,754. In other words, the gap between provinces has all but collapsed. Why? Because the loss of natural resource revenue, coupled with declining personal and corporate income tax revenue due to recent economic downturns, has reduced the relative fiscal capacity of current "have" provinces Alberta, Saskatchewan, and Newfoundland & Labrador.

> ***Returning to the old rules,*** *which allowed the overall size of the equalization envelope to shrink if the gap between provinces grew smaller,* ***could potentially save money and help foster a greater sense of fairness in non-recipient provinces."***

Alberta's experience underscores this trend. In 2008/09, per-person fiscal capacity in Alberta was approximately twice that of the rest of Canada. Since then, this advantage has dwindled to almost nothing. This year, Alberta's per-person fiscal capacity will be an estimated four percent higher than the rest of the country. What's more, we estimate Alberta will lose its spot as the highest fiscal capacity province this year for the first time since the modern notion of fiscal capacity was developed in 1967. British Columbia appears set to take over first place.

So why should Canadians care? Because the "Great Convergence" is not just a matter of academic concern. It has profound policy implications for the country.

For starters, declining fiscal capacity in higher-income provinces—not fiscal capacity growth from the bottom—has primarily driven the convergence. Subsequently, governments in several of Canada's "have" provinces must recognize that their ability to generate revenue has declined and develop a plan to live within their reduced means.

On the other hand, governments in lower-income provinces must realize that if other provinces become eligible for equalization due to declining fiscal capacity, their own equalization payments are likely to shrink. The current equalization formula sets a fixed envelope of dollars to be doled out each year. New recipients will inevitably reduce the amount available for existing recipients, which rely heavily on equalization to fund their government programs. Again, these provinces should anticipate this possibility and develop spending plans accordingly.

At the federal level, a rethink of the equalization formula itself may be necessary. Program rules require spending on equalization to grow every year—even if the provinces move closer and closer together in economic strength. The Trudeau government should consider undoing this rule. Returning to the old rules, which allowed the overall size of the equalization envelope to shrink if the gap between provinces grew smaller, could potentially save money and help foster a greater sense of fairness in non-recipient provinces. (In a related move, the Trudeau government this week announced reforms to the "fiscal stabilization" program, which will increase support for provinces during the current crisis. But the long-term solution to reduced fiscal capacity is smart budgeting, not more help from Ottawa.)

More importantly, if the "Great Convergence" proves long-lived, we may need to change our very conception of the Canadian federation. We may no longer be a country with a stark divide between rich and poor provinces with dramatically unequal abilities to fund their own programs. FI

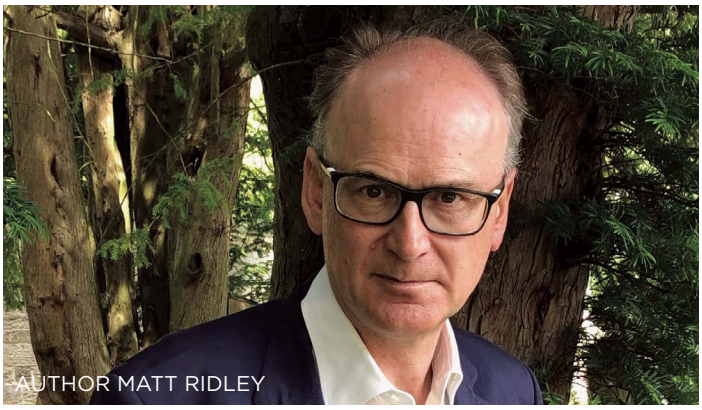
BEN EISEN

MILAGROS PALACIOS

Ben Eisen is a Senior Fellow in Fiscal and Provincial Prosperity Studies and Milagros Palacios is Associate Director for the Addington Centre for Measurement at the Fraser Institute. They are co-authors of *The Great Convergence: Measuring the Fiscal Capacity Gap Between "Have" and "Have-Not" Provinces.*

SPRING STUDENT WEBINARS IN FULL SWING

The Institute's 2021 policy webinars for post-secondary students are in full swing and over the coming months students will be able to hear from 15 policy experts including New York Times bestselling author Matt Ridley on his newest book, *How Innovation Works and Why It Flourishes in Freedom*.


AUTHOR MATT RIDLEY

Other speakers this semester include Manny Jules, Sonia Arrison, and Deirdre McCloskey, to name a few.

Here is what some students are saying about our webinars:

- ***"The content of theses webinars has been very formative for me as a student over the past 4 years. I am especially grateful for the online format this year, which makes these presentations so accessible! Thank you for your generosity and thoughtfulness as you invest in the next generation of leaders and scholars."***
- ***"As an engineering student, these webinars have helped me develop a more informed and well-rounded opinion about some of Canada's most pressing public policy issues!"***

If you are interested in viewing a recording of past presentations including those from Bjorn Lomborg, Hernando de Soto, and Arthur Brooks, visit **www.freestudentseminars.org**

OVER 300 TEACHERS HAVE REGISTERED FOR OUR SPRING PROGRAMS!

In addition to our post-secondary programming, we have received an overwhelming response from Canadian teachers about our 11 teacher workshop webinars this semester. Within one week, over 300 teachers had registered for our workshop webinars which included the release of two new economics curricula.

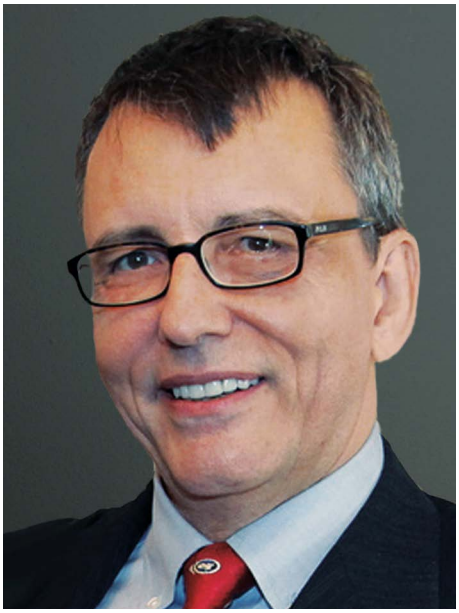
Our new *Understanding Poverty and Inequality* program sets the record straight and explains how economic inequality is measured in Canada, why it matters, and what causes it. Teachers receive eight lessons that examine the differences between poverty, inequality, income, and wealth, concepts that are so often misunderstood in traditional textbooks.

In addition, Brian O'Roark, Professor of Economics at Robert Morris University, has developed a workshop on the *Economics in Harry Potter*. Using video clips from the movie series, references to the novels, and games and competitions between the houses, teachers will receive four lessons that will help to explain and engage students in the economics of discrimination and economic concepts such as monopolies, money, and unemployment.

Here is what some teachers are saying about our webinars:

- ***"Because of what I have learned through these webinars, I am thinking of taking over the Econ course at our school. These webinars have truly inspired my thinking and interest in Econ. Thank you so much!"***

For more information please visit **fraserinstitute.org/education-programs**



Fred McMahon

What's your role at the Institute?

I manage the Economic Freedom of the World project, with a network of member institutes in nearly 100 nations. The Economic Freedom report and index, initiated in the mid-1980s by Michael Walker and Milton and Rose Friedman, is one of the world's most important indexes. It provides a measure of economic freedom so it can be determined whether free-market economies provide better lives for their citizens. Hundreds of peer-reviewed and policy articles have shown exactly that, and not just in economic progress but also other indicators of well-being such as health, happiness, education, and increased tolerance among others.

How did you arrive at the Institute?

I had written an award-winning book on the damage done to Atlantic Canada's economy by the billions of dollars that the federal government ships into the region. Michael Walker, then Fraser Institute executive director, offered me a job at the Institute. I was of course delighted and honored to join Canada's most prestigious and best think tank.

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

I also manage and co-author the *Economic Freedom of North America* report, with partner institutions in Mexico, and 58 members in 44 US states. The economic freedom project also publishes in cooperation with the US-based Cato Institute the *Human Freedom Index*, the most comprehensive available measure of overall human freedom globally.

As well, usually in partnership with the US-based Atlas Network or Germany's free market Friedrich Naumann Foundation, we have conducted economic freedom programs in 20 nations, designed to involve local leaders directly in the development of free market policies for their nation and to communicate the advantages of economic freedom.

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

My big hobby, not surprisingly given the job, is travel. I very much enjoy seeing other parts of the world, meeting people from different backgrounds, and working with them on policies known to increase prosperity and reduce poverty.

Leave a legacy

Leave a legacy of freedom and prosperity by making a commitment to the Fraser Institute in your will. You will be leaving a lasting testament to your devotion to a better Canada.

For further information on legacy giving and the Fraser Institute
please call: (604) 688-0221, ext. 579
or e-mail: development@fraserinstitute.org

FRASER INSTITUTE

STAY CONNECTED

Learn more about issues that matter, and stay up to date on current research, news and events.

FRASER INSTITUTE

Subscribe by visiting
fraserinstitute.org/stay-connected