

Alberta's Disproportionate Contributions to Federal Finances



ALSO INSIDE

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First Budget

History of
Federal Debt

Measuring Protected
Industries



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

As the cover of this issue of *The Quarterly* highlights, Alberta makes major contributions to Canada.

Indeed, our recent study, *How Albertans Continue to keep Federal Finances Afloat*, finds that the federal government's deficit in 2017 would have reached a staggering \$39 billion—instead of the \$19 billion actually recorded—if not for the disproportionate net revenue contributions from Alberta. In fact, between 2014 and 2017 Alberta sent Ottawa \$92 billion more than it received in federal transfer payments and services (see page 2).

Alberta also contributes to programs like the Canada Pension Plan. Another recent study, *Albertans Make Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study*, finds that over the past decade, workers in Alberta paid \$28 billion more into the Canada Pension Plan than Alberta retirees received in CPP payments (see page 28).

The rest of Canada, including Ottawa and other key provinces, would be well advised to understand these, and the many other real and significant contributions that Albertans make to the country.

It is no wonder that Alberta's frustration is palpable and rising. Despite its many and large contributions to Canada's economy, successive federal governments have been unable to increase pipeline capacity in any meaningful way to ensure the province can get its oil to market.

Yes, the recent Trans Mountain approval is welcome news. But as my colleagues Elmira Aliakbari and Ashley Stedman note on page 26, it's far from a cure-all for Alberta or Canada's embattled energy sector.

Another key policy that is adversely affecting our economy and ability to attract investment is Canada's tax rates, which are uncompetitive with those in the US. Our recent study, *Canada's Rising Personal Tax Rates and Falling Tax Competitiveness* (reviewed on page 14) generated a great deal of interest across the country including in the *Globe and Mail* and throughout Sun Media and Post Media newspapers.

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

As always, thank you for your ongoing support.

Best,

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

Niels

New Research



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Even in a Weakened State, Alberta Still Props Up Federal Finances

Ben Eisen, Steve Lafleur, and Milagros Palacios



Albertans have endured more than their share of economic pain over the past several years. The province is still emerging from one of the worst recessions in its history and the recovery has been tepid and uneven, leaving many people behind.

And yet, despite Alberta's economic challenges, one important thing hasn't changed—Albertans still make a hugely disproportionate contribution to Canada's financial health. Without that contribution, the federal government's finances would be in even worse shape than they are today.

Just how much do Albertans contribute? In 2017, they paid over \$20 billion more to Ottawa in federal taxes

than they received in federal services and transfers. That's by far the largest contribution in Canada. For context, second-place Ontario paid around \$10 billion more than it received, despite having approximately three times as many residents as Alberta.

A quick thought experiment underscores the importance of Alberta's contributions. In 2017/18, the federal government ran a deficit of roughly \$19 billion. If Alberta's net contribution were removed from the equation, the deficit would have eclipsed \$39 billion. In other words, without help from Alberta, Ottawa's deficit would have been twice as big. And this isn't unusual. In recent years, Alberta's net contribution has been as large, or even larger—again, despite the economic pain Albertans have experienced.

So why does Alberta contribute so much to Canada's economic wellbeing? Because it remains, generally speaking, a high-income province for workers—and those workers pay federal income taxes. Further, the province does not receive equalization payments from Ottawa and has fewer seniors drawing Old Age Security and other benefits than other provinces.

These facts should make it crystal clear that a prosperous Alberta is good for the whole country. All that tax revenue from Albertans helps fund the services that all Canadians enjoy, and helps prevent the federal deficit and federal debt (and subsequent debt interest payments, paid for by taxpayers) from being even bigger. Unfortunately, however, despite its outsized contributions, the golden goose isn't laying as many golden eggs as in past years.

In 2017/18 Alberta contributed more than \$20 billion (on net) to the federal government. But as recently as 2014/15, that number was more than \$27 billion, so there's been a decline of approximately \$7 billion in just a few years. This is primarily due to the economic struggles in Alberta that have hurt income tax receipts from that province.

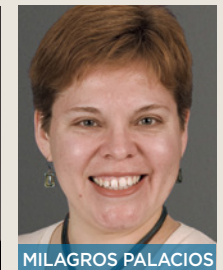
Yes, in 2017/18 Alberta contributed more than \$20 billion (on net) to the federal government. But as recently as 2014/15, that number was more than \$27 billion, so there's been a decline of approximately \$7 billion in just a few years. This is primarily due to the economic struggles in Alberta that have hurt income tax receipts from that province.

This is a substantial decline in a short period of time, and if Alberta continues to struggle, its large contributions to Canada could continue to dwindle. What could

this mean over time? In a recent study, *How Albertans Continue to Keep Federal Finances Afloat*, we found that without Alberta's net contribution (assuming all else equal) the federal government would have accrued an additional \$92 billion in debt from 2014 to 2017. If Alberta's economy continues to struggle, Canada may have to deal with similar big numbers in the future.

Despite Alberta's economic challenges, one important thing hasn't changed—Albertans still make a hugely disproportionate contribution to Canada's financial health.

Simply put, Canada can't reach its full economic potential without a strong Alberta. Despite this reality, some policymakers across the country seem determined to impede Alberta's recovery by obstructing the development of badly needed energy infrastructure, including pipelines, that can help the province thrive. As we've seen lately, when policymakers in Ottawa, British Columbia, and elsewhere engage in such behaviour, they don't just hurt Albertans, they hurt all Canadians. [FI](#)



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Canada's Energy Sector Lost \$20.6 billion in 2018 Due to Pipeline Shortage

Elmira Aliakbari and Ashley Stedman



With pipeline shortages driving down the price of Canadian oil, the losses for the energy sector—and for Canada's economy—are staggering. According to a new study, *The Cost of Pipeline Constraints in Canada, 2019*, insufficient pipeline capacity cost Canada's energy sector \$20.6 billion—or one percent of the country's economy—in foregone revenues in 2018.

Consider how we got here. Despite increased oil production in recent years, Canada has been unable to build any new major pipelines. High-profile projects including the Northern Gateway and Energy East have been cancelled. And the Trans Mountain expansion, Line 3 replacement, and Keystone XL pipeline remain mired in delay.

Take the Trans Mountain pipeline expansion project, for example. After years of regulatory delays and political

interference, the project's future remains uncertain. The proposal to expand the existing Trans Mountain pipeline between Edmonton and Burnaby, British Columbia, was first approved in 2016. However, the Federal Court of Appeal rescinded that decision last year, ruling that neither the environmental review nor the Indigenous

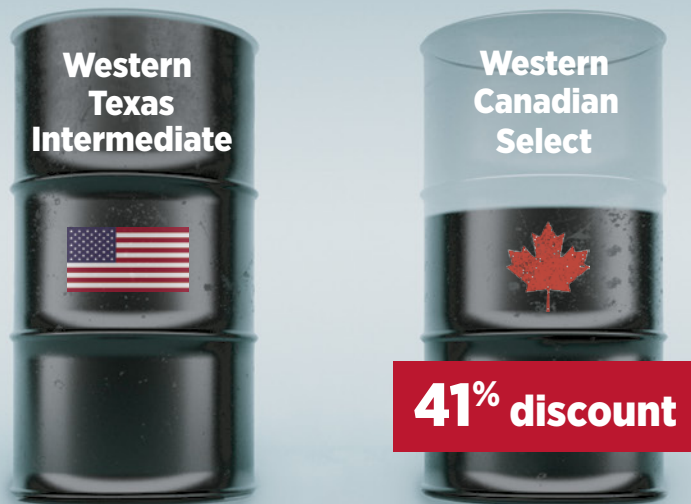
consultation had been properly completed.

And despite a revised National Energy Board ruling that deemed the project in the public interest, the BC government continues to oppose the project and is pursuing legal means to block the expansion. Such delays and political opposition raise serious concerns about whether the pipeline will ever be built.

So what are the consequences of all these delays? How is insufficient pipeline capacity affecting our economy?

Canada has an overdependence on the US market, an increased reliance on more costly modes of energy

INADEQUATE PIPELINE CAPACITY HAS INCREASED THE PRICE DIFFERENTIAL BETWEEN CANADIAN AND US OIL, RESULTING IN A LOSS OF \$20.6 BILLION FOR THE ENERGY SECTOR



transportation, and in Western Canada oil inventories are rising. And crucially, oil producers are shipping their crude by rail, a higher cost mode of transportation (and a less safe mode as pipelines are 2.5 times less likely to experience an oil spill than rail transport). Higher rates of crude shipped by rail mean that Canadian oil producers absorb higher transportation costs, leading to lower prices for Canadian crude and a wider price differential between Western Canadian Select (WCS) and US crude West Texas Intermediate (WTI).

Of course, it hasn't always been this way. Between 2009 and 2012, the price differential was roughly 13 percent (of the US crude price). And that difference was seen by producers as one of the costs of doing business in Canada.

But recently, this price difference has skyrocketed. In November 2018, the price differential reached almost 70 percent of the US crude price, meaning that Canadian heavy oil (WCS) was sold at only 30 percent of the value of US oil (WTI). In addition to the negative effects for oil producers, these high price differentials also result in lower than expected royalties (the government's cut of every barrel produced) and lower corporate income tax revenue for energy-producing provinces and the federal government. This is revenue that could have been used for vital services such as health care and education and/or reduced taxes.

In response to the drastic price discount, in late 2018, the previous Alberta government introduced a temporary production limit on oil producers in an attempt to address excess supply and insufficient export capacity.

Since this limit was implemented the price differential has narrowed. But clearly, building new export pipelines remains the only long-term solution to ensure Canada's valuable exports receive prices closer to those available in the world market.

The real issue is that Canadian heavy oil producers lost a staggering \$20.6 billion in forgone revenues last year compared to what other producers of similar products received. Again, that's roughly one percent of our economy lost because we can't deliver our product to international markets to secure better prices. This loss of revenue has far-reaching consequences—it means less investment, less job-creation, and ultimately less prosperity for Canadians.

Unless Canadians are willing to continue to incur large losses and less investment, Ottawa and several key provincial governments must cooperate to get pipelines built. **FI**



ELMIRA ALIAKBARI



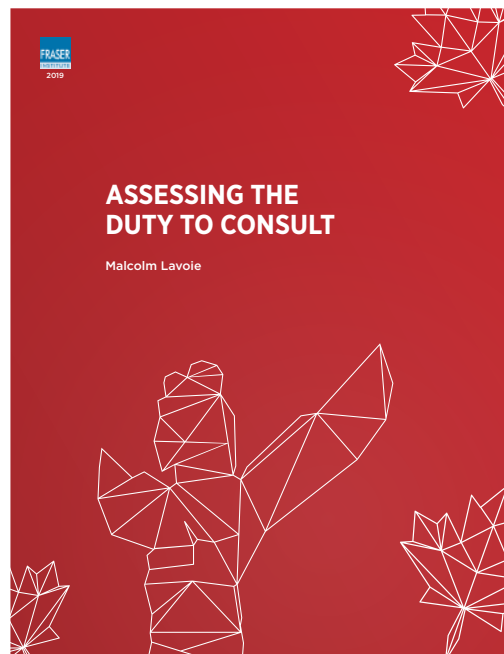
ASHLEY STEDMAN

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Establishing Clear Consultation Guidelines, Recognizing Indigenous Property Rights Key to Providing Certainty for Pipelines, Resource Projects

Malcolm Lavoie

The duty to consult Indigenous peoples is a constitutional obligation that applies to a wide range of government decisions that could affect constitutionally protected Aboriginal and treaty rights. It has come to play an important role in determining whether and under what conditions major resource development projects can be built in Canada. A recent Fraser Institute study, *Assessing the Duty to Consult*, seeks to determine how the duty to consult has functioned in this role.



The study begins by setting out the origins and purpose of the duty to consult, which seeks to reconcile the Crown governance authority with the rights of pre-existing Indigenous nations. While this is a vitally important purpose, the duty to consult has also given rise to significant legal uncertainty. There are several reasons for this, including the fact that the duty to consult is structured as an

open-ended procedural standard, with specific requirements determined on a case-by-case basis.

The uncertainty associated with the duty to consult is exacerbated in cases involving major projects like pipe-

lines. Where a project affects a large number of Indigenous communities, the likelihood that all parties will reach agreement is low. Moreover, in these cases the practical challenges associated with consultation are elevated, making meaningful two-way dialogue more difficult to achieve. Legal uncertainty and delay can, in principle, raise the cost of capital for private-sector project proponents to such a degree that a project will no longer be viable. In these cases, the threat of litigation over the duty to consult can give rise to a *de facto* veto power. A veto power of ill-defined scope, and with the potential to apply to projects that extend beyond a group's traditional territory, fails to affirm the Crown's authority to make policy decisions in the public interest. This is particularly troubling in the context of projects that are supported by some affected Indigenous communities but opposed by others. In these cases, the exercise of an effective veto systematically privileges the interests and views of communities opposed to development over those that support it.

Legal uncertainty and delay can, in principle, raise the cost of capital for private-sector project proponents to such a degree that a project will no longer be viable.

The second part of the study seeks to help policymakers find a way forward. It begins by providing a legal context for the duty to consult. The duty to consult is only one mechanism by which the rights of Indigenous peoples are reconciled with Crown sovereignty. A range of substantive rights in resources, including Aboriginal rights, Aboriginal title, treaty rights, and property interests in reserve lands can serve to delineate the authority of Indigenous communities and insulate Indigenous decision making from unjustified outside interference. Substantive rights can provide greater legal certainty than a process-based standard like the duty to consult. Accordingly, one important way to address the legal uncertainty associated with the duty to consult is to encourage greater reliance on

clearly defined substantive rights, including property rights, as an alternative means of reconciling Indigenous interests with the Crown's authority.

The study then proposes a range of possible policy solutions. Several of the proposed solutions are based on defining substantive Indigenous rights with greater precision. First, modern treaties between Indigenous groups and the Crown can help resolve the uncertainty associated with outstanding land claims. In principle, these agreements can provide for clearly defined substantive rights while reducing the scope of the duty to consult. Second, governments and courts can find ways to facilitate litigation over substantive rights. Unlike litigation over the duty to consult, litigation over substantive Aboriginal rights and title generally results in a judicial decision that provides guidance going forward as to the applicable substantive rights in relation to resources. Third, the content of substantive rights can be defined with greater precision. One important point that should be clarified relates to the circumstances under which constitutionally protected Aboriginal rights to resources can be subject to expropriation with just compensation.

In addition to finding ways to encourage greater reliance on substantive rights, policymakers can also seek to provide greater clarity on how the duty to consult itself functions. The first way to do this is to pursue litigation strategies that lead the courts to resolve outstanding ambiguities in consultation jurisprudence. A second step policymakers could take would be to adopt government consultation policies or develop consultation protocols in conjunction with Indigenous groups. In principle, these policies and protocols can provide guidance to parties regarding the specific content of consultation obligations, as well as applicable timelines. **FI**

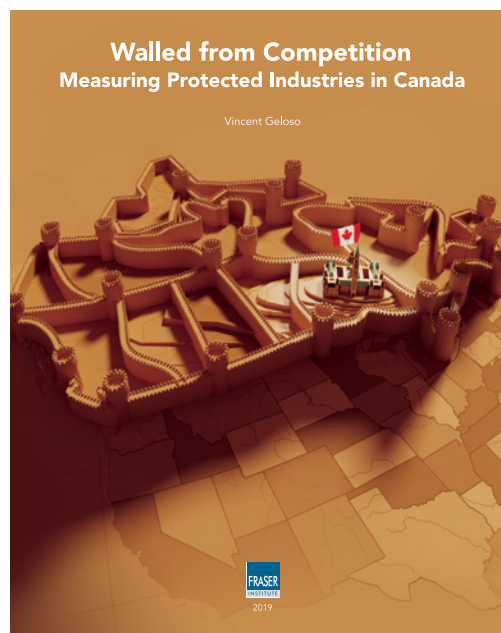


More than 30% of Canadian Economy Protected From Foreign Competition

Vincent Geloso

Consumers are best served by firms when the latter are exposed to the threat of competition. Absent the possibility of new firms threatening their incumbent status, established players have less incentive to cut costs and prices and improve services. The threat of entry by competitors disciplines firms in ways that serve consumer welfare. But there are many barriers to competition in Canada resulting from government interference—and these barriers affect a sizable share of the Canadian economy.

What constitutes barriers to competition? Some arise from the very nature of the goods produced or from external factors (for example, geography, distance, or technological limitations). However, many more barriers are the result of government interference. The federal government limits foreign investments in crucial sectors such as air transportation, telecommunications, and broadcasting. In telecommunications, no firm with a market share greater than 10 percent



can have more than 20 per-cent of the voting shares owned by non-Canadians. Similar rules apply to broadcasters and air carriers. In sectors like air transportation there are additional prohibitions, such as that preventing non-Canadian carriers from providing services between Canadian airports.

These restrictions on foreign activity in Canada are compounded by additional barriers to competition resulting from government monopolies. For example, most provincial governments (including those in Canada's two largest provinces, Quebec and Ontario) operate their own alcohol retail services that are shielded from private competition. As another example, Canada Post is a crown corporation with a monopoly on the domestic letter market. All these state monopolies, to which we can add other crucial sectors such as energy distribution and urban transit, are by definition shielded from competition. Finally, legislation shields still other sectors from competition. For instance, in many provinces, inter-city bus companies are given monopolies on certain profitable routes.

Such barriers to competition affect a sizable share of the Canadian economy. By adding up the economic output of all the sectors protected from competition by the aforementioned forms of barriers to entry, we find that close to a quarter of the Canadian economy is shielded from competition (22 percent). This is a low-bound estimate that includes only the most important government-imposed restrictions to competition.

... we find that close to a quarter of the Canadian economy is shielded from competition (22 per-cent). This is a low-bound estimate that includes only the most important government-imposed restrictions to competition.... The high-bound estimate of all restrictions exceeds a third (35 percent) of the economy. This is a sizable share of the Canadian economy that is protected from competition to some degree.

There are, however, two forms of barriers to competition not included in this definition. The first of these is interprovincial barriers. Numerous sectors are protected from competition coming from other provinces. In the case of alcohol, for example, there are strict limitations on the transportation of liquor across provincial borders. This means that, for provinces like Alberta where there is no state monopoly on the retail sale of alcohol, additional entry barriers protect incumbent firms from competition. While many, including the Canadian Senate, deem these barriers to be economically burdensome, they are not easy to quantify and were excluded from our low-bound estimate.

Second, our estimate does not include the impact of occupational licensing. Most economists consider occupational licensing to be an important barrier to entry. However, statistical agencies calculate output on the basis of industrial sectors, not on the basis of professions. As members of the same profession can work in different economic sectors, it is difficult to add the effects of occupational licensing to our calculations above.

Nevertheless, we can produce a cautious high-bound estimate that circumvents these two issues. That high-bound estimate of all restrictions exceeds a third (35 percent) of the economy. This is a sizable share of the Canadian economy that is protected from competition to some degree. In fact, Canada fares poorly amongst industrialized countries for its support of competition. International surveys of government-erected barriers against competition produced by the Organisation for Economic Cooperation and Development (OECD) show that municipal, provincial, and federal governments in Canada impose some of the greatest barriers to competition in the world. For example, Canada comes in at 48th out of 62 in the OECD's foreign direct investment restrictiveness index, slightly behind the Ukraine and just ahead of Mexico.

Canadian consumers would benefit greatly were these restrictions to be curtailed. Provincial and federal governments in Canada should consider removing those barriers to competition and provide a framework that is more amicable to economic growth. **FI**



VINCENT GELOSO

Vincent Geloso, PhD, is a Fraser Institute Senior Fellow and a visiting professor of economics at Bates College in Lewiston, Maine). He is the author of *Walled from Competition: Measuring Protected Industries in Canada*.

Examining Federal Debt in Canada by Prime Minister Since Confederation, 2019

Jake Fuss and Milagros Palacios

With this year's federal budget, Prime Minister Justin Trudeau firmly established his fiscal legacy. No Canadian prime minister has spent more money (per person, inflation-adjusted) or accumulated more debt (per person), outside a world war or recession, than Prime Minister Trudeau.

Canada's gross debt will increase this year by almost \$120 billion (again, adjusted for inflation) since the previous government tabled its last budget in 2015. On a per-person basis, each Canadian has acquired \$1,725 more in federal debt since Prime Minister Trudeau took office.

This is historically significant. A recent study, *Examining Federal Debt in Canada by Prime Ministers Since Confederation, 2019*, which measured the debt performance of all prime ministers since 1870, found that only three prime ministers who did not face a world



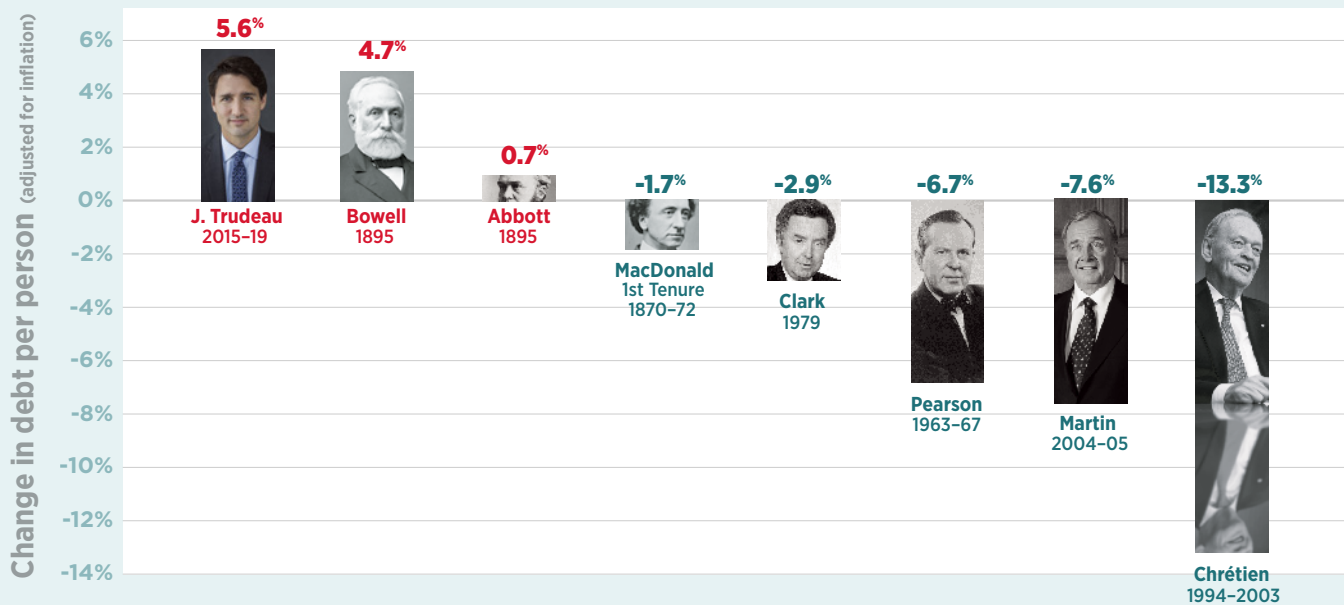
war or recession increased federal debt on a per-person basis—Mackenzie Bowell, John Abbott, and Justin Trudeau.

By the time Prime Minister Trudeau completes his current term, federal debt per person (inflation-adjusted) is projected to increase by 5.6 percent, more than any prime minister who did not

preside over a world war or recession. Further, Bowell and Abbott served as prime ministers in the late 19th century, which means that Justin Trudeau is the only prime minister this century or last to increase federal per-person debt without a global conflict or economic downturn.

Rising public debt matters. With mounting debt comes rising interest costs, consuming resources that could otherwise be used to fund important public services or provide tax relief. By raising debt today, the federal government burdens future generations, who must pay higher taxes tomorrow to finance benefits consumed today.

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



This recent and sudden accumulation of debt is due to the rapid increase in program spending that immediately followed the fall 2015 federal election. The Trudeau government has steadily ramped up program spending, by 25 percent over four years, reaching \$323.5 billion for the year ended March 2019.

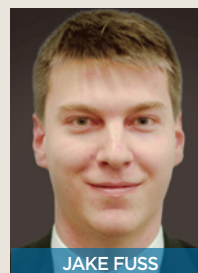
On a per-person basis, each Canadian has acquired \$1,725 more in federal debt since Prime Minister Trudeau took office.

Had the federal government simply frozen per-person program spending (in real terms) at 2016 levels, total program spending last year would have been \$6.3 billion lower. The federal government's current appetite for spending has brought federal per-person program spending (again, after adjusting for inflation) to an all-time high, at \$8,869 last year. That figure eclipses the previous high (\$8,847) recorded by Prime Minister Harper during the Great Recession in 2009.

As well, the current Trudeau government has recorded the third and fourth highest per-person spending years (adjusted for inflation). It's easy to see how the federal government has amassed so much debt so quickly.

However, it's harder to understand why the Trudeau government has chosen to rapidly accumulate debt and increase program spending, at unmatched levels, during a period of economic growth. This is a prescription for trouble when the economy slows.

Rapidly accumulating debt, accompanied by repeated and hasty spending increases, is not a sustainable financial strategy. At the end of his first term, Prime Minister Trudeau will have established an oddly chosen legacy. **FI**



JAKE FUSS



MILAGROS PALACIOS

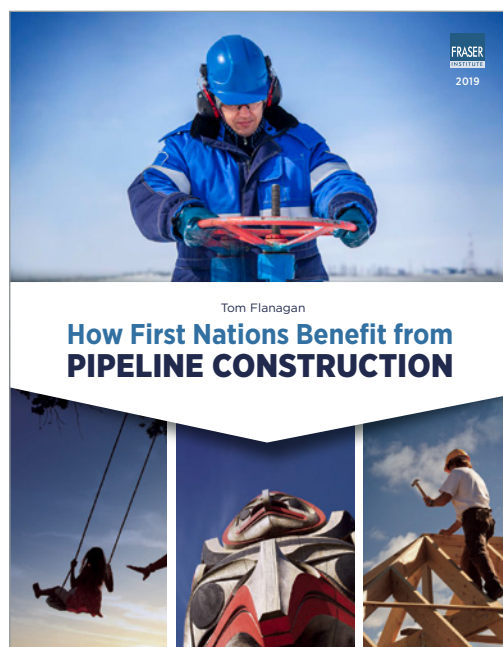
Jake Fuss is a Policy Analyst and Milagros Palacios is Associate Director in the Addington Centre for Measurement at the Fraser Institute. They are co-authors of the study *Examining Federal Debt in Canada by Prime Ministers Since Confederation, 2019*.

Pipelines Key to Raising Living Standards in Remote, Poor Indigenous Communities

Tom Flanagan

The highly visible opposition of some British Columbia First Nations to pipeline construction has created the impression that all Indigenous people are opposed to resource development. That impression, however, is false. Forty-three First Nations and other Indigenous groups support the proposed Trans Mountain pipeline, while only 12 signalled their opposition in the *Tsleil-Waututh* litigation. All 20 First Nations along the route of the Coastal GasLink pipeline, which has been planned to feed LNG exports from Kitimat, endorse that proposal, apart from some internal disagreement within the Wet'suwet'en.

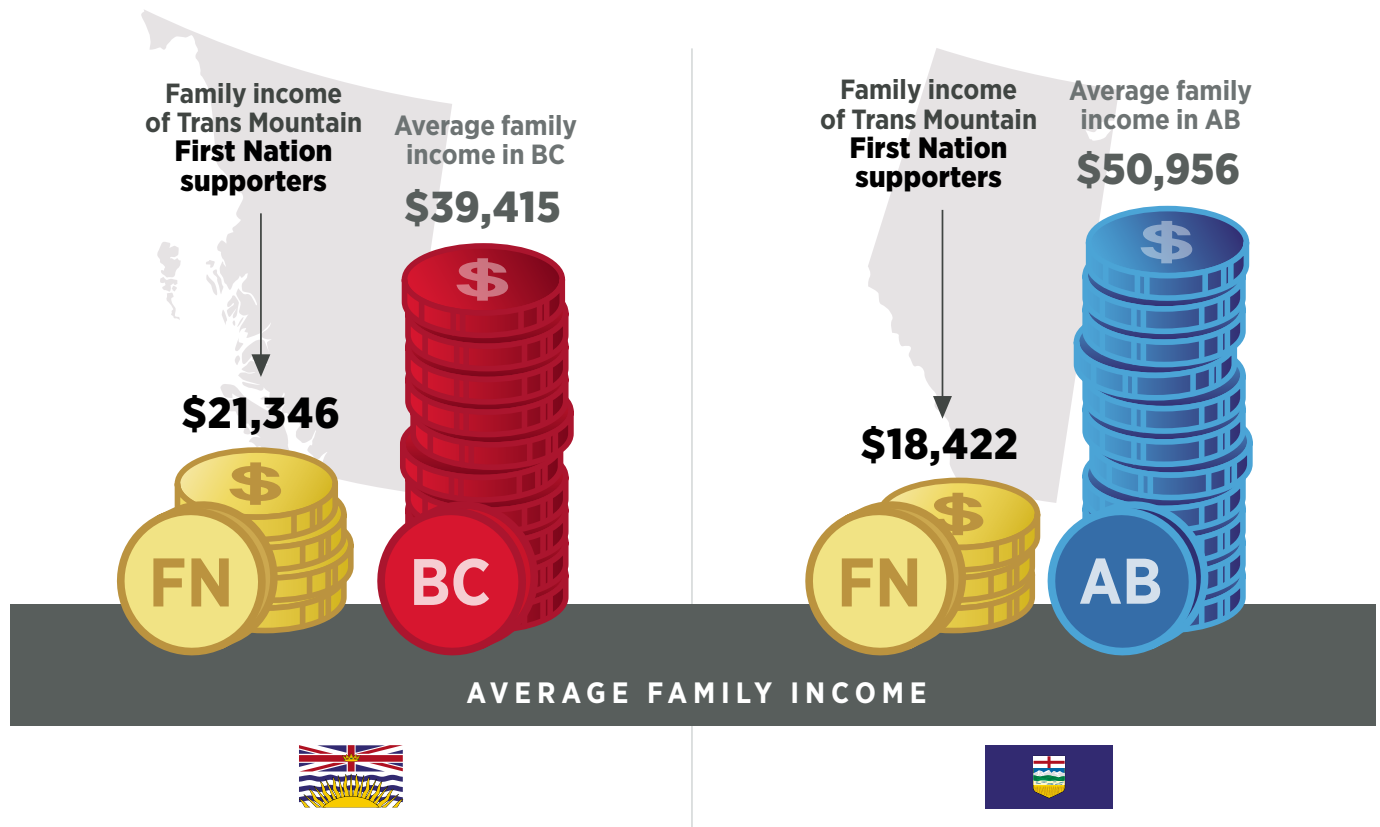
First Nations have good economic reasons to support pipelines because their right to be consulted has enabled them to negotiate lucrative mutual-benefit agreements (MBAs) with the proponents. Although many details remain confidential for business reasons, such an agreement typically offers a First Nation several million dollars up front, plus tens of millions of dollars over the



life of the pipeline. First Nation supporters of Coastal GasLink will also receive cash payments from British Columbia's resource revenue sharing policy. Beyond these cash payments, MBAs also include valuable guarantees of employment, job training, and contract set-asides, which in the long run may be worth more than the cash.

The First Nations who negotiate MBAs generally have three characteristics in common: their populations are small, their locations are remote, and their incomes are much lower than the regional average. The mean family income of First Nations supporting these pipelines is half or less than that of the provinces of Alberta and British Columbia in which they are situated. Their average Community Well-Being Index is also 20 points or more lower, on a scale from 1 to 100, than the average in their province. If you went looking for people who could benefit from more economic opportunity, you would immediately notice these First Nations. Yet they do not have the same chances for hospitality industries and real estate development as urban First Nations. Natural re-source development is their best, perhaps their only way, to escape poverty. For them, pipelines could become lifelines.

Pipelines are *economic lifelines* for remote, low-income First Nations



In contrast, the smaller number of First Nations who oppose pipelines are mostly located on the coast and/or near Vancouver, where they have other economic opportunities. The Tsleil-Waututh and Squamish First Nations, who were prominent in the opposition to Trans Mountain, are active in real estate development. Squamish also has a lucrative contract with a small LNG export facility. And Tsleil-Waututh’s opposition has been funded for the last decade by the Tides Foundation, which also subsidizes a broad array of environmentalist organizations opposed to Trans Mountain and other pipelines.

Ironically, the opportunities created for many First Nations by pipeline proposals are being blocked by a smaller number of more fortunately situated First Nations. This is a general problem of long, linear projects such as pipelines, railways, highways, and electric-power transmission lines. Proposals, especially for pipelines designed to bring hydrocarbons to the coast for export, are of no value unless they can be completed from beginning to end.

The right to be consulted, which First Nations employ to negotiate mutual-benefit agreements, has been articulated by the courts in the context of individual proposals

such as mines and oil wells, forestry clear-cuts, and ski resorts. The courts have not yet faced up to the complexity of long, linear projects involving dozens of First Nations. Analogous problems in the wider economy are resolved by governments’ power of expropriation with compensation for easements or other takings. Existing provincial legislation, however, does not apply to “lands reserved for Indians” (*Constitution Act, 1867, s. 91(24)*). Some combination of federal legislation and judicial decisions will probably be required to break the impasse. Otherwise a small number of First Nations, in concert with green activists and NIMBY politicians, may continue to frustrate the hopes of many more First Nations for a better standard of living. [FI](#)



TOM FLANAGAN

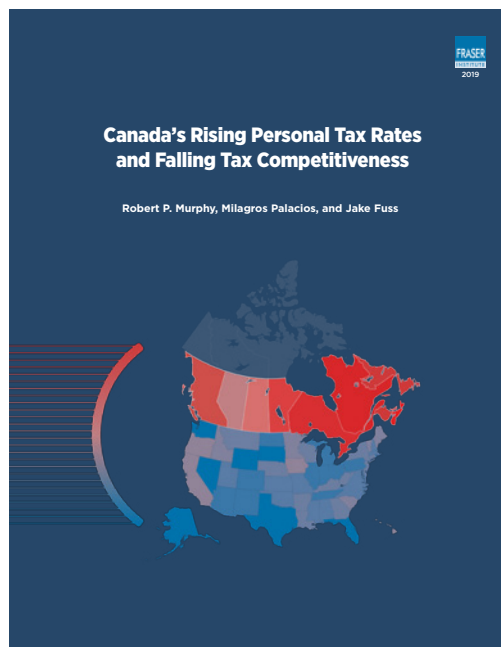
Tom Flanagan is a Fraser Institute Senior Fellow and Professor Emeritus of Political Science and Distinguished Fellow at the School of Public Policy, University of Calgary. He is the author of *How First Nations Benefit from Pipeline Construction*

Canada's Rising Personal Tax Rates and Falling Tax Competitiveness

Jake Fuss and Milagros Palacios

Over the last few years, the federal and many provincial governments have weakened incentives for entrepreneurs by raising personal income taxes—a fact documented extensively in the study *Canada's Rising Personal Tax Rates and Falling Tax Competitiveness*. This budget season provides an opportunity for governments across Canada, including the federal government, to reverse this trend and introduce tax policies that would attract, encourage, and retain entrepreneurs.

In 2015, the federal government introduced a new 33 percent tax bracket for entrepreneurs, professionals, and successful business owners. Similar tax changes in Ontario, Alberta, British Columbia, and several other provinces compounded this higher federal tax rate. Consequently, the personal income tax rate imposed on these Canadians now exceeds 50 percent in seven provinces with the remaining provinces within a hair of 50 percent.



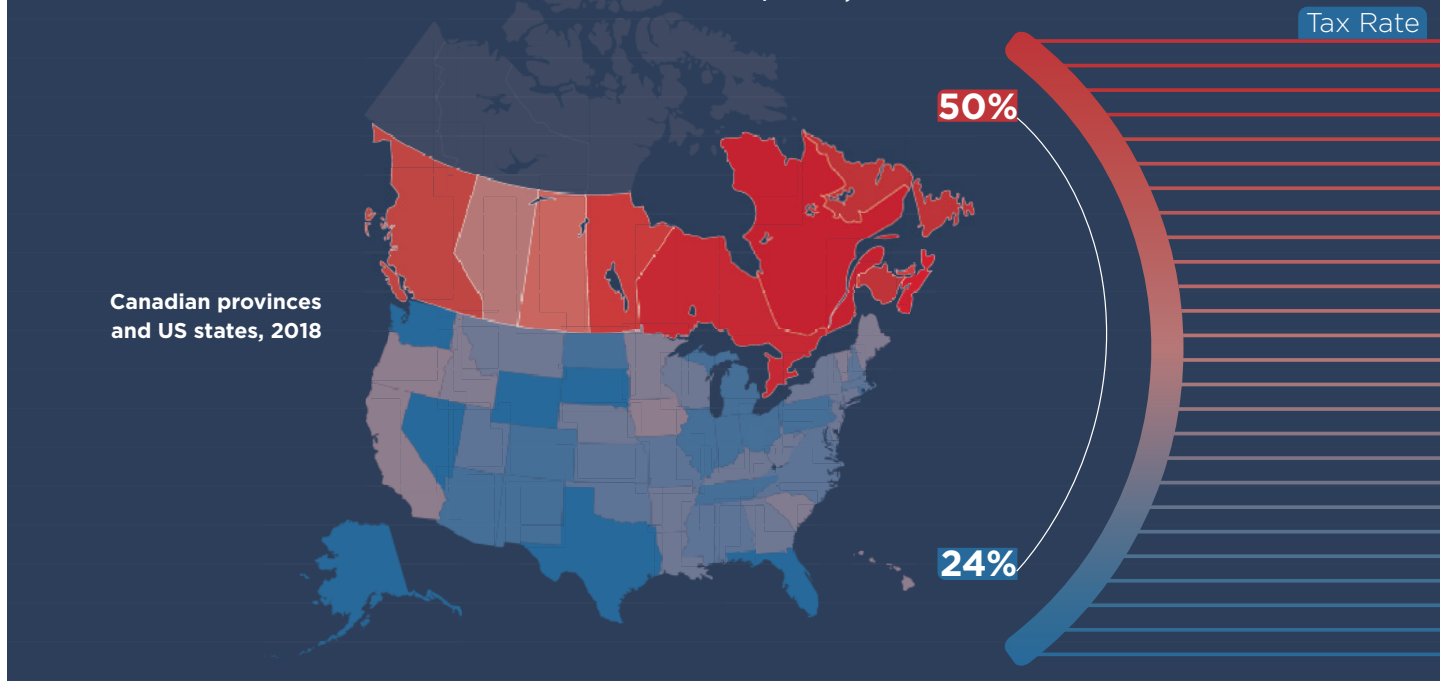
In addition to higher personal taxes, new and expanded federal and provincial regulations have made Canada a much less hospitable and attractive place to start a business, expand an existing business, or invest new capital.

Consider a recent study that analyzed provincial data from 1984 to 2015. In *The Effects on Entrepreneurship of Increasing Provincial Top Personal Income Tax Rates in Canada*, author Ergete Ferede found that

higher top income tax rates discourage entrepreneurship and decrease the rate of small business startups—a commonly used measure of entrepreneurship. And that a one percentage point increase in the top rate can prevent up to almost 700 new businesses from being started. (Remember, some provinces have experienced a more than eight percentage-point increase in their top tax rate when the federal increases are included.)

Moreover, the decision about where to locate a new business is, in part, influenced by differences in income tax rates between jurisdictions.

Combined federal and provincial/state personal income tax rate at CAD\$150,000



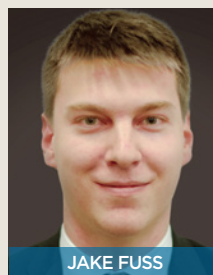
Take the example of an engineer who's considering whether to start her new firm in Canada or the United States. Among several factors, the differences in personal income tax rates between the countries stand out. Despite taking on considerable personal risk, she would face a combined top tax rate of between 47.5 and 54.0 percent in Canada compared to a low of 37.0 percent in the US. Her time and effort in starting the new business provides a much lower reward in Canada. She will likely decide to live and work in the lower tax jurisdiction.

Indeed, the US is Canada's largest and most direct competitor in attracting and retaining entrepreneurs. A recent study demonstrated that Canada's personal income tax rates are markedly less attractive for entrepreneurs than rates south of the border. For instance, the list of 10 jurisdictions with the highest combined tax rates at \$150,000 of income among the US states and Canadian provinces are exclusively Canadian provinces. In other words, no US state—including high tax jurisdictions such as New York, California, and New Jersey—have higher personal income tax rates at this level of income. Canadian tax increases come at a time when the US government has implemented sweeping tax reforms to push tax rates down for business owners and entrepreneurs.

To make matters worse, Canada's top combined personal income tax rates are among the highest in

the industrialized world. Out of 34 OECD countries, Canada had the seventh highest combined top tax rate in 2017. This should be eye-opening for policymakers, as Canada is at a huge tax disadvantage for attracting and retaining entrepreneurs who we rely on for innovation, employment growth, and general economic prosperity.

Clearly, high personal income tax rates have made Canada a less desirable place for entrepreneurship. During this year's budget season, the federal and provincial governments must reduce personal income tax rates to create an environment conducive to entrepreneurship, risk-taking, and growth. [FI](#)



Jake Fuss is a Junior Policy Analyst and Milagros Palacios is Associate Director in the Addington Centre for Measurement at the Fraser Institute. They are co-authors with Robert P. Murphy of the study *Canada's Rising Personal Tax Rates and Falling Tax Competitiveness*.

All of Canada Benefits From Prosperity in Alberta

Ben Eisen



On a Tuesday in June, thousands gathered outside the Global Petroleum Show in downtown Calgary in support of the oil and gas industry, prior to Ottawa's final decision on the Trans Mountain Pipeline expansion.

Over the past five years, much has changed in Alberta's economy. A sharp downturn in oil prices in 2014 led to one of the worst recessions in the province's history. Since then, the recovery has been tepid and uneven and many are still feeling the economic pain.

Although much has changed since the boom-times, one thing has remained the same—Albertans continue to pay far more to the federal government in taxes than they receive in services and transfers to their provincial government. Indeed, if it weren't for Alberta's large net contribution to Confederation (even during the province's brutally difficult last half-decade), federal finances would be in far worse shape than they are today.

Let's take a look at the numbers. Back in 2014/15, Albertans' net contribution to federal finances (taxes paid minus services and transfers received) was a whop-

ping \$27 billion. For context, that's more than \$6,000 per Albertan.

Since then, with weak economic performance in Alberta and a severe slowdown in the rate of growth of tax revenue from the province, the size of this net contribution has shrunk—but not by as much as some might expect. In the most recent fiscal year of available data (2017/18), Albertans' net contribution to federal finances was still more than \$20 billion.

Again, for a bit of context, that's nearly twice as large as the net contribution of the second-largest contributor, Ontario—a province with three times the population of Alberta. Simply put, Alberta continues to make an outsized contribution to the health of federal finances. Without Alberta, Ottawa would be in deep trouble. In fact, over the last four fiscal years combined, Albertans' net contribution to the federal bottom line has been \$92 billion. In other words, tax dollars flowing in from Alberta helped avoid nearly \$100 billion in accumulated federal deficits.

If it weren't for Alberta's large net contribution to Confederation (even during the province's brutally difficult last half-decade), federal finances would be in far worse shape than they are today.

Now, there's nothing wrong Alberta paying more in taxes than it receives in programs and services—primarily because per-capita incomes in the province are still higher than anywhere else in Canada. Still, it's critical for Canadians across the country to recognize the magnitude of Alberta's contribution to the health of the country's finances, and therefore to understand how important a prosperous Alberta is to the well-being of the country.

We've already seen over the past half-decade how economic weakness has reduced (but not eliminated)

Developments that help Alberta's economy—including the timely completion of much-needed energy infrastructure projects such as the Trans Mountain pipeline expansion—don't just help Alberta, they're good for the whole country.

Alberta's ability to contribute to federal coffers. If Alberta's economy remains weak, that ability will erode further. But if the Albertan economy recovers, so too will its ability to help keep federal finances afloat. That's why developments that help Alberta's economy—including the timely completion of much-needed energy infrastructure projects such as the Trans Mountain pipeline expansion—don't just help Alberta, they're good for the whole country.

Canada simply can't meet its full economic potential without a strong, prosperous Alberta. The more that Canadians from coast to coast understand this reality, the better off we'll all be. [FI](#)



BEN EISEN

Ben Eisen is a senior fellow with the Fraser Institute's Alberta Prosperity Initiative.

On Earth Day, Canadians Should Celebrate Our Environmental Record

Elmira Aliakbari
and Ashley Stedman



Each year, Earth Day marks an international celebration of environmentalism. Canadians recognize this occasion because we care about the environment, especially the quality of the air we breathe, the water we drink, and our vast natural habitat. Fortunately, and contrary to rhetoric from elements in the environmental movement, our environmental record gives Canadians much to celebrate this Earth Day.

Consider the results from three recent studies on Canada's environmental performance. The first, *Canada's Air Quality Since 1970: An Environmental Success Story*, analyzes Canada's air quality, focusing

on emissions and the amount of pollutants in the air (ambient concentrations) including ground level ozone, fine particulate matter, sulphur dioxide, nitrogen dioxide, and carbon monoxide.

Across almost all measures, Canada's performance has improved over the last four decades or so. Specifically, ambient levels of ground-level ozone, a key component of urban smog, decreased 27 percent from 1979 to 2015. And from 1974 to 2015, Canada's ambient levels of sulphur dioxide, a pollutant largely associated with the combustion of oil and coal, plummeted by 92 percent. Likewise, Canada experienced substantial reductions in nitrogen dioxide and carbon monoxide—two pollut-

ants largely associated with automobiles—with national levels decreasing by 74 percent and 90 percent, respectively, from 1974 to 2015.

Fortunately, and contrary to rhetoric from elements in the environmental movement, our environmental record gives Canadians much to celebrate this Earth Day.

Interestingly, these reductions occurred despite considerable growth in population, energy use, motor fuel consumption, and the Canadian economy, which means that Canada has effectively managed to decouple air pollution from economic growth.

The second study, *Evaluating the State of Fresh Water in Canada*, looks at the quantity and quality of Canada's fresh water resources. According to federal government data from monitoring stations across the country, in 2015, the most recent year of available data, 90 percent of Canadian rivers had normal or above normal water quantity, while only 10 percent had lower than normal water quantity.

Not only does Canada have abundant freshwater resources, our record on water quality is also good. Most measures indicate stable or modest improvements in water quality over the past few years, with reductions in the amount of pollution that enters our waterways. Despite some localized issues primarily in the Great Lakes and St. Lawrence River regions, the study found improvements in several areas including municipal wastewater treatment, regulatory compliance of mining operations, and releases of metals into waters from pulp and paper plants and sewage treatment plants.

Clearly, Canadians can celebrate significant improvement in our air and water quality.

Now consider how Canada fares internationally. A recent study, *Environmental Ranking for Canada and the OECD*, compared and ranked 33 high income

countries in the Organisation for Economic Co-operation and Development (OECD) based on 17 measures (including air and water quality, greenhouse gases, and biodiversity), to produce an aggregate score (0 to 100) for each country. Canada ranked 10th with a score of 68.5—well above the OECD average (62.9) and only five points behind third place New Zealand. Sweden ranked first with a score of 78.9.

These results show that Canadians enjoy high levels of environmental quality compared to residents of other high-income countries. And in areas where Canada's ranking is low (greenhouse gases, for example), it's sometimes unavoidable due to our geography or climate, which includes cold winters.

... reductions [in pollutants in the air] occurred despite considerable growth in population, energy use, motor fuel consumption, and the Canadian economy, which means that Canada has effectively managed to decouple air pollution from economic growth.

Overall, the evidence is clear—Canadians enjoy good air and water quality and our comparative standing internationally is impressive. These are achievements we should celebrate this Earth Day. [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.

Ford Government Following Fiscal Strategy of Its Predecessors

Ben Eisen



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

In April, Premier Ford's government tabled its budget for the 2019/20 fiscal year. Those hoping for a fast

path to fiscal recovery were likely disappointed. The budget forecasts another deficit of more than \$10 billion this year without a return to balance until 2023/24.

To be sure, if implemented, this fiscal plan will represent a marked improvement over the pre-election spending binge of the past two years. This year's budget calls for a slowdown in spending growth to approximately one percent annually.

Still, given how critical the Ford team was of the Wynne government's spending habits, it's surprising it hasn't

rolled back some of the nominal spending growth of the past two years and is instead pushing forward with spending increases—again, albeit at a slower rate.

In other words, the Ford government has accepted the high spending levels of the later Wynne years as a baseline instead of reforming and reducing government spending. In the process, it has committed the province to many more years of deficits and substantial new debt accumulation.

What's perhaps most striking about the Ford government's first budget is that, despite any rhetoric, it closely resembles the deficit-reduction strategy that Ontario's Liberal governments pursued in the years following the 2008/09 recession. Back then, the Liberals tried to slowly shrink the deficit by slowing their high rate of spending growth and hoping for revenue to catch up over time.

Specifically, prior to its pre-election spending surge, the Wynne government reduced the deficit slowly by restraining nominal spending growth. From 2011/12 to 2016/17, nominal program spending in Ontario grew at an average annual rate of 1.4 percent.

The Ford government's Wynne-like strategy means that Ontario's net debt is forecast to reach \$391.6 billion by the time the budget is finally balanced.

The problem was that Ontario's fiscal hole was so large that even with this slowdown in spending, deficits persisted and the province's debt burden grew.

The Ford government's Wynne-like strategy means that Ontario's net debt is forecast to reach \$391.6 billion by the time the budget is finally balanced.

Another similarity between the Ford government (so far) and its predecessors is an unwillingness to act meaningfully to make the province's tax system more competitive. Neither has the new government made any moves to reduce the province's top combined provincial/federal marginal income tax rate—the second highest in

North America. Nor has it made the corporate income tax rate more competitive by finally making good on a broken promise of governments past and lowering the rate from 11.5 percent to 10 percent.

While the return to modest spending restraint after two years of unsustainable growth is a step in the right direction, the lack of action on tax competitiveness, the long and risky path to balance, and the continued plan for more debt accumulation define the Ford government's fiscal policy.

Recent tax reform in the United States has made this policy change even more urgent, and yet on the general corporate income tax rate, the Ford government has so far chosen to maintain Liberal policy.

So while the return to modest spending restraint after two years of unsustainable growth is a step in the right direction, the lack of action on tax competitiveness, the long and risky path to balance, and the continued plan for more debt accumulation define the Ford government's fiscal policy. Only time will tell if this government decides to get serious about Ontario's finances. [FI](#)



Ben Eisen is a senior fellow with the Fraser Institute's Ontario Prosperity Initiative.

“Medicare for All” Proponents Should Heed Canada’s Health Care Woes

Regina E. Herzlinger and Bacchus Barua



Many powerful Americans believe “Medicare for All” will solve US health care problems by providing universal coverage, controlled costs, and more equitable access. As Senator Bernie Sanders, frontrunner for the Democratic presidential nomination, noted, his “Medicare-for-all legislation... would provide comprehensive health care to every man, woman and child... [with] no more insurance premiums, deductibles or co-payments” and “would allow all Americans, regardless of their income, to get the health care they need when they need it.”

Not so fast.

Expanding Medicare’s government monopoly over the financing and delivery of US health care is not only

potentially harmful, but also not the best way to achieve the stated goals.

Canada’s taxpayer-funded universal health care system—without premiums, deductibles, or co-payments—provides a cautionary tale. While regularly held up as the poster child for US health care reform, objective measures of performance show it’s a comparatively expensive system that achieves only mediocre (and sometimes very poor) results.

For example, a recent study, *Comparing Performance of Universal Health Care Countries, 2018*, examined 28 universal health care systems across 45 indicators of performance. Canada performed well on only five of the 12 indicators of clinical performance and quality (including survival rates for breast cancers). Its performance on the others (including obstetric traumas and diabetes-related amputations) were poor or average.

Crucially, after adjusting for differences in the proportion of seniors, Canada ranked among the top spenders—fourth highest as a percentage of GDP and 10th highest per capita. Despite these levels of spending, it had fewer medical resources and painfully long wait times for specialist care. For example, Canada ranked 26 out of 28 for number of physicians, 22 out of 27 for MRI units, and 25 out of 26 for hospital beds.

While Canada's universal system performs well on isolated metrics, overall its cost, resources, access, and outcomes differ dramatically from other countries with universal coverage particularly Switzerland, the Netherlands, and Germany.

In Commonwealth Fund data comparing 11 developed countries, Canada reported the largest percentage of patients waiting more than four weeks for a specialist appointment (56 percent) compared to top performers such as Switzerland (22 percent) and the Netherlands (23 percent). And more than four months for elective surgery (18 percent of patients) compared to top performers France (2 percent) and Germany, where the number was zero.

So while Canada's universal system performs well on isolated metrics, overall its cost, resources, access, and outcomes differ dramatically from other countries with universal coverage particularly Switzerland, the Netherlands, and Germany.

Why? The key differences are in who does the buying and supplying of services.

Unlike Canada's government-run monopoly insurance system, the Swiss, Dutch, and German systems rely on consumers buying from many private for- and non-profit insurers. Government offers financial assistance with premium payments for needy households. In Germany, enrollees can use the public system (composed of 145

competing independent not-for-profit sickness funds) and some may purchase insurance from 24 for-profit and 19 non-profit companies.

In the Netherlands and Switzerland, residents must select a standard insurance package from private insurers—27 health insurance companies in the Netherlands (in 2011, the market leader was a for-profit company), and 67 social health insurers in Switzerland (in 2014, 33 were registered shareholder corporations).

This competition is one major reason for the results these countries achieve. And unlike the United States, with Medicare and its massive trillion dollar unfunded liabilities, they cannot pass unreimbursed current expenses onto future generations. If the expenses of private insurers exceed their revenues, they face bankruptcy.

These relatively successful universal health care systems also rely on private hospitals and physicians—42 percent of German hospitals, for example, were for-profit in 2012 with almost all of them open to patients with public insurance. Among other benefits, these for-profit vendors, which are regulated by various government strictures, can readily access private capital to fund the purchase of medical innovations, unlike government-run systems, which must obtain approval for tax revenues.

Individual consumers and the private sector drive the health care systems in these countries, which accomplish exactly what Senator Sanders and his supporters say they want—controlled costs with high quality and ready access. In contrast, as Canada's experience indicates, the "Medicare for All" model is not the solution that will achieve these goals. [FI](#)



Regina Herzlinger is the McPherson Professor at the Harvard Business School. Bacchus Barua is Associate Director of the Centre for Health Policy Studies at the Fraser Institute. He is co-author, with David Jacques, of *Comparing Performance of Universal Health Care Countries*, 2018.

Federal Climate Report Uses Natural Weather Events to Spark Scary Headlines

Ross McKittrick

A recent report, commissioned by Environment and Climate Change Canada (also known as the federal Department of the Environment), sparked a feverish bout of media coverage. Much of *Canada's Changing Climate Report* keyed off the headline statement that Canada warmed “twice as fast” as the entire planet since 1948. If that is self-evidently a bad thing, what to make of the finding that the Canada’s Atlantic region warmed twice as fast as the Prairies? Or that Canadian winters warmed twice as fast as summers?

I’ll bet you didn’t know that the Maritimes warmed twice as fast as the Prairies. But now that I’ve told you,

you might tell yourself it makes sense based on what you’ve seen or heard. That’s called confirmation bias. In fact, I was lying. It’s the other way around. The Prairies warmed almost three times faster than the Maritimes.

Would you have known either way? One of the psychological effects of a report like this, and the attendant media hype, is that it puts ideas in peoples’ heads. Tell everyone over and over that the climate is changing, and soon they will see proof of change everywhere. Rain, snow, wind, floods, or dry spells; it will all seem to eerily confirm the theory, even though we have always had these things.

Most of what people are noticing, of course, are just natural weather events. Underneath, there are slow

trends, both natural and (likely) human-caused. But they are small and hard to separate out without careful statistical analysis. A few years ago, climatologist Lennart Bengtsson remarked, “The warming we have had over the last 100 years is so small that if we didn’t have meteorologists and climatologists to measure it we wouldn’t have noticed it at all.”

Tell everyone over and over that the climate is changing, and soon they will see proof of change everywhere. Rain, snow, wind, floods, or dry spells; it will all seem to eerily confirm the theory, even though we have always had these things.

And so we get reports with charts and graphs to tell us about the changes we didn’t notice. Remember last summer when the media hyped a report from the Intergovernmental Panel on Climate Change warning that warming 1.5 degrees Celsius (compared to preindustrial times) was a disaster threshold we must avoid crossing at all costs? Now we learn that Canada warmed 1.7 degrees Celsius since 1948. Far from leaving the country a smoking ruin, we got wealthier and healthier, our population soared, and life improved by almost any measure of welfare you can imagine. If only every catastrophe was like this.

We deal with lots of changes over time. Go back to Bengtsson’s thought experiment. Today’s 80-year-olds entered their teens in 1950. Ask them what changes they experienced over their lives, and they will have plenty to say. Then ask if fall warmed more than spring where they live. Without peeking at the answer, most will have no idea. Yet, according to the federal government’s latest report, depending on the province, one likely warmed twice as fast as the other. Which one? If you can’t tell without looking it up, that’s the point.

Alarming news headlines are always part of the ritual (though you’d think journalists would be getting a bit jaded by now, after all the hyperventilating caused by the only-ten-years-left blockbuster claims over the past 30 years). Saying Canada warmed twice as fast as the whole planet doesn’t prove anything. Pretty much any large country warmed faster than the global average, because countries are on land. Oceans cover 70 percent of the Earth, and the way the system works, during a warming trend the land warms faster than the oceans. So the scary headline only confirms that we are on land.

The best antidote, if you find yourself alarmed by the press coverage, is to turn to chapter four of *Canada’s Changing Climate Report* and start reading. The section on the observed changes in 1948 is factual, data-focused, and decidedly non-alarmist. But there are some points I would quibble about—2016 was a strong El Niño year, so the end point of the data is artificially high. Some of the bright red heat maps would probably look different if they stopped in, say, 2014. And most of the report’s comparisons start in 1948 to maximize data availability, but this boosts the warming rate compared to starting in the 1930s, which were hot. When the report talks about attributing changes to greenhouse gases versus natural variability, it doesn’t explain the deep uncertainties in such calculations. And it makes projections about the century ahead without discussing how well—or how poorly—the models can forecast for the long term.

If you want to learn about changes to the Canadian climate, read the report. But if you need to look at the report to know what changes you lived through, that tells you how much they mattered to you at the time. [FI](#)



ROSS MCKITRICK

Ross McKittrick is a Professor of Economics at the University of Guelph and Senior Fellow at the Fraser Institute.

Trans Mountain Approval is Welcome News—But It's Far From a Cure-All

Elmira Aliakbari and Ashley Stedman



Image courtesy Trans Mountain Pipeline Corporation

After years of missteps on energy issues, the federal government recently approved the long-stalled Trans Mountain Pipeline expansion, citing the national importance of the project for Canadians. But while encouraging, the approval is far from a cure-all for Canada's embattled energy sector.

First, let's consider how we got here. Unfortunately, building new pipelines in Canada has

proven to be nearly impossible in recent years, mainly due to political opposition and regulatory and environmental impediments. The Trans Mountain Pipeline expansion, which will run between Edmonton, Alberta, and Burnaby, British Columbia, was first approved by the federal cabinet in 2016 after a five-year approval process that included environmental assessments and Indigenous consultations. Of course, the expansion has yet to be built. And remember, the Trudeau government was forced to nationalize the project (that is, buy it with taxpayer dollars) in a last-ditch effort to

save it, after political opposition to the expansion left Kinder Morgan, one of the largest energy infrastructure companies in North America, reluctant to proceed.

Assuming the project can overcome ongoing political opposition from British Columbia's government, the project will help alleviate—but not solve—Canada's costly pipeline shortage.

This is not the first time a pipeline project in Canada has faced excessive delays or cancellation. The Trudeau government cancelled the previously approved \$7.9 billion Northern Gateway Pipeline in 2016 and imposed new regulatory hurdles on TransCanada's proposed Energy East project, including consideration of "downstream emissions" (those emissions generated by consumers), which were never part of prior assessments. In the latter case, TransCanada deemed the pipeline economically unwise and scuttled the project.

Which takes us back to the Trans Mountain Pipeline expansion. Assuming the project can overcome ongoing political opposition from British Columbia's government, the project will help alleviate—but not solve—Canada's costly pipeline shortage. This is welcome news given that insufficient pipeline capacity cost the energy sector \$20.6 billion (or one percent of the country's economy) in 2018.

Indeed, other serious issues are plaguing the energy sector including onerous and uncompetitive policies that are stifling investment.

Ottawa and several provinces, including Alberta, have increased taxes and regulatory requirements such as a provincial cap on greenhouse gas emissions, new regulations on methane emissions, stricter ethanol regulations, a mandated coal phase-out, and, of course, the federal carbon tax.

In addition, the Trudeau government's proposed Bill C-69 and Bill C-48 will create more barriers to energy development. Instead of fixing Canada's broken regulatory process that helped cause excessive delays for pipeline projects, Bill C-69 adds even more red tape and subjective criteria—including the social impact of energy investment and its "gender" implications—to the review process. Tellingly, senators have adopted some 187 amendments to Ottawa's proposed legislation.

Finally, Canada's anti-energy policies have been particularly damaging given that deregulation and sweeping tax reduction in the United States have improved the business environment south of the border.

Clearly, the cumulative effects of Canada's policy changes and changes in the United States have damaged the investment climate for Canada's energy sector, with many investment analysts and industry executives now warning that investment for the oil and gas sector is increasingly moving from Canada to the US.

Not surprisingly, recent investment data underscore Canada's deteriorating investment climate. Between 2016 and 2018, the US upstream oil and gas sector (essentially, exploration and production) enjoyed an investment increase that was more than two-and-a-half times that in Canada.

In sum, various complex issues are collectively weighing heavily on Canada's energy sector. With the recent Trans Mountain Pipeline approval, one weight has been lifted after years of missteps by Ottawa and several provincial governments. While the approval is a positive move, it is not on its own enough to restore investor confidence in our energy sector. **FI**



ELMIRA ALIAKBARI



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Albertans Contribute Disproportionately to the CPP and Other Programs

Jason Clemens, Joel Emes and Niels Veldhuis



There's a palpable rising frustration in western Canada, particularly in Alberta, regarding the give-and-take of national programs—a growing sense (again) that Ottawa just doesn't understand the West. Unfortunately for the country—and something that Ottawa should recognize—is that increased western alienation could impose significant costs on the rest of Canada.

Countries such as Canada and the United States were forged in part on a compact of compromises by each province or state in exchange for the benefits

of belonging to a larger country. It's difficult to criticize Alberta's frustration with the current compact, given the province's disproportionate contributions to federal programs, when other provinces are doing little to assist Alberta during this challenging time. For example, the ongoing legal impediments to pipeline expansion imposed by British Columbia, the \$1.4 billion increase in equalization for Quebec at a time when Ottawa is effectively providing Quebec a veto over a west-east pipeline that both Alberta and New Brunswick support, and the inability of successive federal governments to increase pipeline capacity in any meaningful way all contribute to Alberta's frustration.

It seems clear that many provincial governments and the federal government are either unaware of frustration in Alberta or they are simply choosing to ignore it.

A recent report, *Albertans Make Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study*, documents the contributions of Albertans to the Canada Pension Plan (CPP) and provides specific, concrete information about what Alberta's withdrawal from the CPP—though not recommended—would mean for the rest of the country.

A recent analysis found that the basic CPP contribution rate (9.9 percent) would have to increase to 10.6 percent if Alberta withdrew, resulting in up to \$367 in additional contributions (in the form of payroll taxes) for workers outside of Alberta.

It's first important to understand why Albertans contribute disproportionately more to national programs such as the CPP. The province has a younger population (fewer retirees), a higher employment rate (less in unemployment payments) and higher incomes than the rest of the country. For example, in 2017, despite a weak economy, Alberta's employment rate (66.7 percent) was more than 5.0 percentage points higher than the rest of the country. Similarly, in 2016, Alberta's average income was more than \$7,400 higher than the corresponding average for the remaining provinces.

The combination of a younger workforce and fewer retirees meant that in 2017, Alberta workers accounted for 16.5 percent of the total contributions to the CPP while Alberta retirees consumed 10.8 percent of CPP expenditures. The result was a net contribution by Albertans to the CPP of \$2.9 billion in 2017 and \$27.9 billion over the last decade (2008–2017).

For context, the net contribution over the same 10-year period by Ontario, which has a much larger population

and workforce than Alberta, was \$7.4 billion, slightly more than one-quarter of the contribution Albertans made.

To illustrate the importance of the disproportionate contributions Albertans make to the CPP, it's helpful to imagine what would happen if the province withdrew from the program and administered its own parallel provincial plan (as Quebec decided originally in the mid-1960s).

Using the standard methodology employed by the Office of the Superintendent of Financial Institutions, which regulates and monitors the CPP's finances, a recent analysis found that the basic CPP contribution rate (9.9 percent) would have to increase to 10.6 percent if Alberta withdrew, resulting in up to \$367 in additional contributions (in the form of payroll taxes) for workers outside of Alberta. Meanwhile, Albertans would pay just 5.85 percent for a CPP-like program for the province.

This is not meant to encourage Alberta's withdrawal from the program—though a re-evaluation of the expanded CPP that began in 2019 is well warranted. Rather, it is to clearly illustrate the disproportionate contributions that Albertans make to national programs.

There will always be regional strains within federalist countries such as Canada. However, the status quo is increasingly unacceptable to Albertans. The rest of Canada, including Ottawa and other key provinces, would be well advised to understand the real and significant contributions Albertans make to national programs when denying them accommodation. [FI](#)



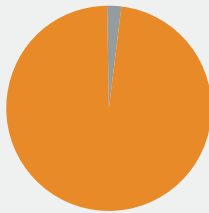
Jason Clemens is Executive Vice-President, Joel Emes is a Senior Fellow, and Niels Veldhuis is President of the Fraser Institute. They are co-authors of *Alberta's Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study*.



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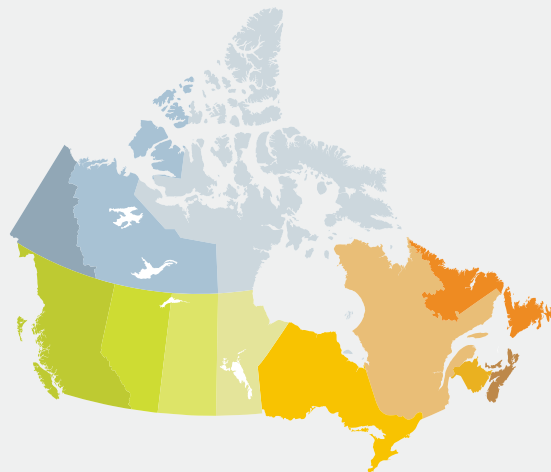


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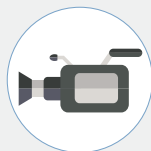
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EDUCATING THE NEXT GENERATION OF CANADA'S LEADERS

A second program the Education Programs department runs is the Student Leaders' Colloquium. This program helps to develop the next generation of leaders who will be responsible for creating a better Canada. [FI](#)



*As I look to my future, I think that the forum will help as it has given me a **lot of information and in-depth knowledge** that I can leverage when discussing these subjects with other people."*

21 Students

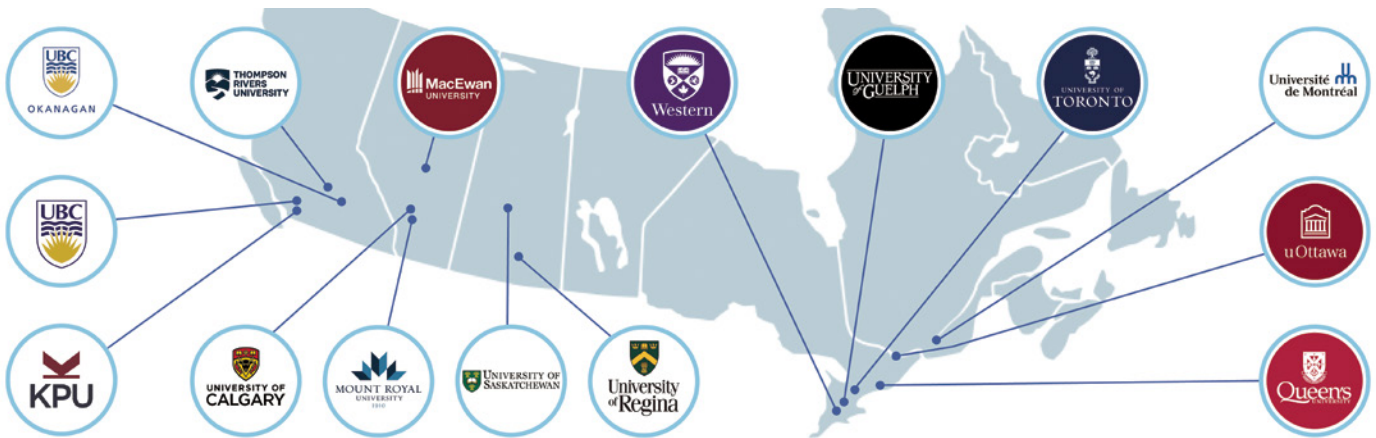
Flew to Vancouver from 15 different Canadian cities

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2019 Peter Munk Interns

This summer we have five student interns funded through the Peter Munk Centre for Free Enterprise Education. Selected through a competitive recruitment process, these university students are paired with Fraser Institute senior staff. The internship affords the students a unique learning opportunity where they can make a tangible contribution to the Institute's work. They also participate in monthly reading discussions with Fraser Institute researchers which helps to further develop their understanding of economics and government policy.

Many of our former interns have gone on to high-level careers in research, university teaching, politics, government, media, and think tanks. In fact, one-sixth of our current Fraser Institute staff are former interns who we hired permanently. Some who have gone on to academic pursuits contribute to our work as senior fellows or occasional authors. Those who work in academia help us promote our education programs to their students. [FI](#)

From photo, left to right

Tyler Romualdi, Bachelor of Arts, Political Science, University of Windsor (2018). Currently working on a Master of Arts, Political Science, University of Windsor (expected completion date: December 2019). Intern in the Fraser Institute's department of economic policy.

Tegan Hill, Bachelor of Economics, University of Calgary (2015). Currently working on a Master's degree from the School of Public Policy, University of Calgary (expected completion date: 2019). Intern in the Fraser Institute's department of fiscal policy.

Mackenzie Moir, Bachelor of Science in Nursing, York University (2012). Currently working on a Master of Science in Health Policy Research, University of Alberta (expected completion date: 2019). Intern in the Fraser Institute's department of health care.

Jairo Yunis, Bachelor of Science, Political Science and International Relations, Pontificia Universidad Javeriana (Colombia) (2015). Currently working on a Master's degree from the School of Public Policy, University of Calgary (expected completion date: 2019). Intern in the Fraser Institute's department of natural resources.

Nicholas Babey, Bachelor of Arts, International Relations, University of British Columbia (2018). Intern in the Fraser Institute's development events department.

Not photographed

Chelsea Walsh, currently working on a Bachelor of Arts in Political Science, University of British Columbia (expected completion date: 2020). Intern in the Fraser Institute's department of strategic planning.

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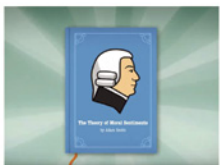
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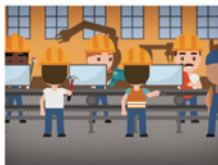
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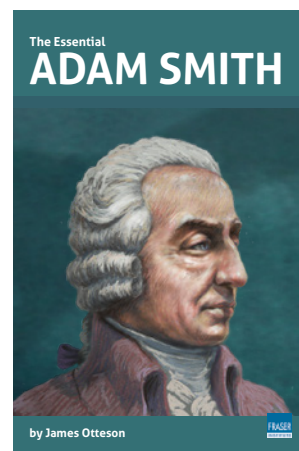


Labour Markets



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