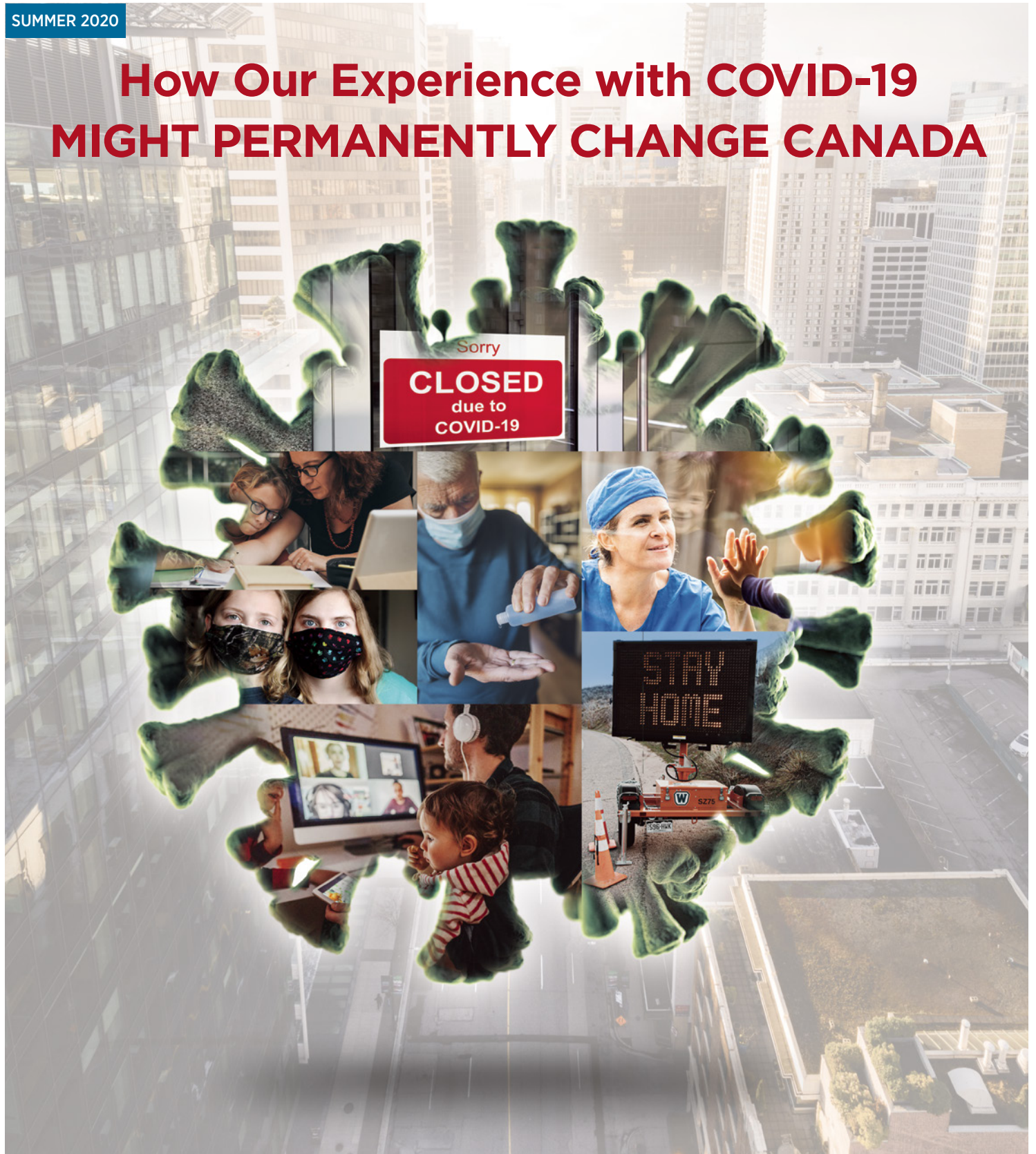


THE Quarterly

SUMMER 2020

How Our Experience with COVID-19 MIGHT PERMANENTLY CHANGE CANADA





Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

With the onset of COVID-19 and the subsequent economic shutdown, much has changed since our last edition of *The Quarterly*. Among those changes is a rapid, massive expansion of government, which has forced us to refocus the Institute's work. We are fortunate that one of the great strengths of the Fraser Institute team is its ability to pivot and tackle the most important issues of the day.

Since our first *Quarterly* of 2020, the Institute has released eight studies and produced over 60 commentaries on our governments' responses to COVID and the economic shutdown. Our commentaries are receiving widespread interest; most have appeared in mainstream media outlets and have reached millions of Canadians. It was therefore difficult to choose which ones to highlight in this edition of *The Quarterly*.

While it is nearly impossible to predict how the economic impact of COVID-19 will play out, we recently asked our research team and senior fellows to contribute to a series predicting how our experience with COVID and our governments' responses might permanently change Canada. You can find the series on page 18. The predictions cover a range of policy and economic issues and aspects of Canadian life, from the future of Canada-China relations to the changing nature of the workplace. Recently, the *Financial Post* dedicated an entire page to the series and a truncated version of the series was printed in nearly 60 other newspapers and media outlets across Canada.

As a team, we are quite concerned about the massive expansion of government and as my colleagues find in their study, *Prime Ministers and Government Spending* (see page 2), per-person federal government spending in 2020 will reach \$13,226, including \$3,920 per Canadian in COVID-related spending. To put this in context, after adjusting for inflation, it is 75 percent higher than the highest point of per-person spending during the Second World War!

Not everything is bad news though, as my colleagues Elmira Aliakbari, Jairo Yunis, and Ashley Stedman find in their study, *Environmental Ranking for Canada and the OECD, 2nd Edition* (see page 6). Canada's environmental record outperforms a majority of comparable high-income countries around the world. The study was released for Earth Day and shows that despite what they might have learned in school, Canadians can be proud of our environmental record.

I hope you stay healthy and safe and, of course, that you enjoy this edition of *The Quarterly*. After you are finished reading it, please pass it on to your friends, family, and colleagues.

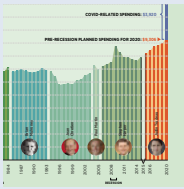
As always, thank you for your ongoing support.

Best,

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

Niels

New Research



Ottawa Spending 50% More per Canadian in 2020 than During the 2009 Recession: \$13,226 vs. \$8,775 **2**

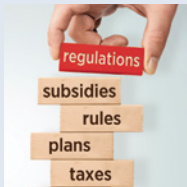
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Ottawa Spending 50% More per Canadian in 2020 than During the 2009 Recession: \$13,226 vs. \$8,775

Jason Clemens and Tegan Hill

The federal deficit—that is, the amount of government spending in excess of government revenues this year—is now estimated at more than \$250 billion and counting. The sticker shock has many Canadians increasingly concerned about Ottawa’s finances, which require spending restraint and general prudence, two characteristics the Trudeau government has been unable or unwilling to demonstrate, to restore fiscal sustainability.

To understand the needed reforms, it’s first important to understand how the country arrived at such a dismal state of finances.

Federal finances weren’t in great shape going into this recession. The budget deficit increased from \$14.0 billion (2018-19) to \$25.1 billion in 2019-20. And contrary to this government’s explicit policy of reducing the national debt as a share of the economy, it increased to 31.0 percent in 2019-20.

The pre-recession deficit is entirely driven by increases in spending. Federal government revenues as of 2019-20 have increased \$60.2 billion since 2014-15, the last full fiscal year of the Harper Tories. That represents a 21.5 percent increase. Government program spending, however, has increased by \$84.6 billion over the same period, a 33.0 percent increase in just four years.

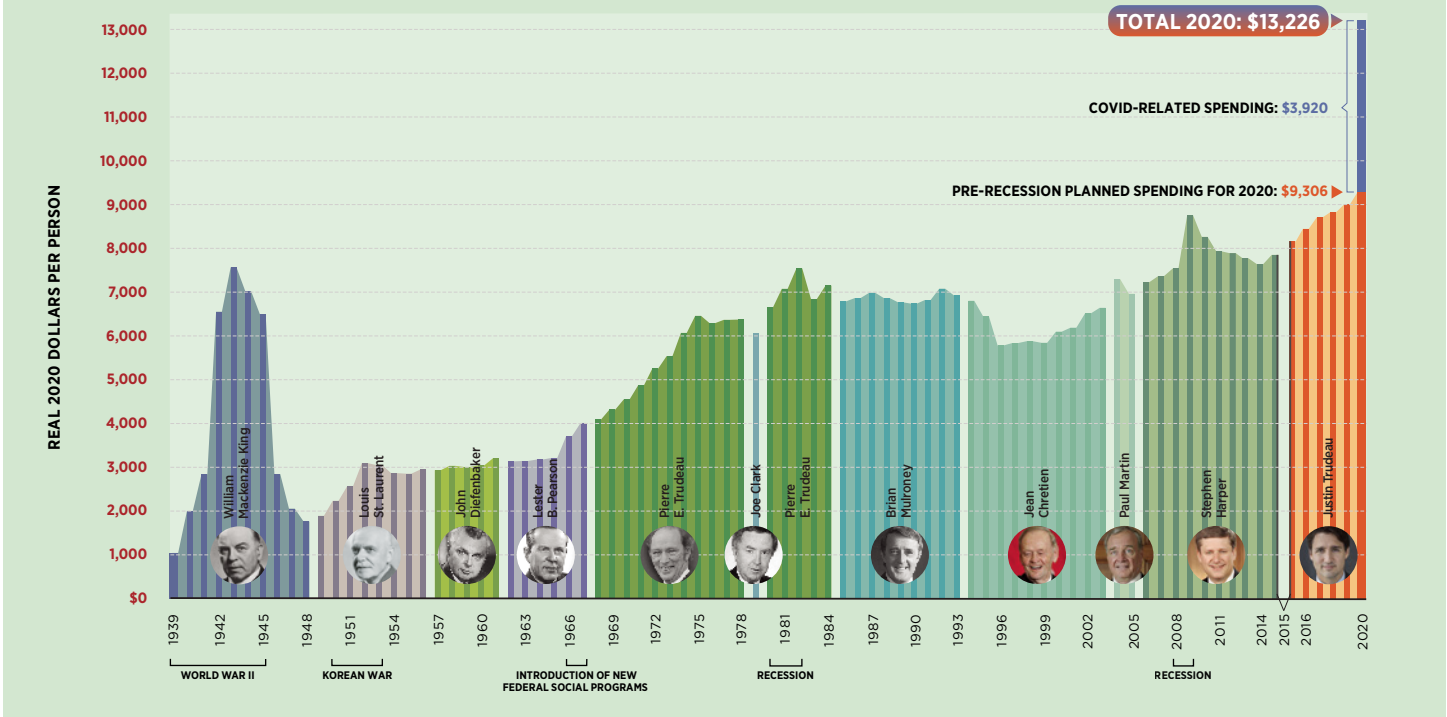
As we show in our recent essay, *Prime Ministers and Government Spending, updated 2020 edition*, prior to any recession-related spending, per-person program spending (adjusted for inflation) in 2020-21 was expect-



ed to reach \$9,306, its highest level in Canadian history. The addition of recession-related spending, estimated at \$3,920 per person, brings total expected spending to \$13,226 in 2020-21. For reference, that's 50.7 percent higher (after adjusting for inflation) than the level of per-person spending during the last recession (2009) and 74.5 percent higher than the peak level of per-person spending during the Second World War.

A decision in 2018 perhaps best illustrates this government's proclivity for ever-increasing spending. In the fall of 2018, the government realized that revenues would be \$5.5 billion higher and interest costs \$2.5 billion lower than originally budgeted, resulting in an improved bottom line of \$8.0 billion. Rather than reducing the deficit, the government hastily increased spending by \$8.0 billion.

Per person federal program spending since World War Two



Obviously, the immediate focus must be to stabilize the economy and set the foundation for recovery. But there are risks of significant deterioration in Canada's finances. Indeed, prior to the recession, the Department of Finance estimated that the federal budget would not be balanced until at least 2040. The recession, and significant borrowing, means the national debt could reach \$1 trillion this fiscal year, pushing back a balanced budget even further.

“ The federal government must constrain spending for the foreseeable future to get on a more sustainable path towards budget balance; otherwise, we risk serious deterioration of federal finances and the resulting economic consequences.”

Canada has been here before, and it led to a near debt and currency crisis in the early 1990s. Successive federal governments starting in the early 1970s paid lip service to spending restraint but did very little. The national debt increased from \$19.3 billion in 1969-70 to \$487.5

billion in 1993-94 (in nominal terms). By 1994-95, the federal government was spending 34 cents of every dollar collected in taxes on debt interest. It wasn't until the historic 1995 budget that federal finances were finally put back on a sustainable path.

As Canada emerges from this recession, Ottawa must demonstrate fiscal restraint and prudence; again, traits that to-date it has been unwilling or unable to adopt. At the very least, the government must constrain spending for the foreseeable future to get on a more sustainable path towards budget balance; otherwise, we risk serious deterioration of federal finances and the resulting economic consequences. **FI**



JASON CLEMENS



TEGAN HILL

Jason Clemens is executive vice-president and Tegan Hill is an economist at the Fraser Institute. They, along with Nathaniel Li and Milagros Palacios, are co-authors of *Prime Ministers and Government Spending*, updated 2020 edition.

Tax Freedom Day was May 19, but There's Not Much to Celebrate

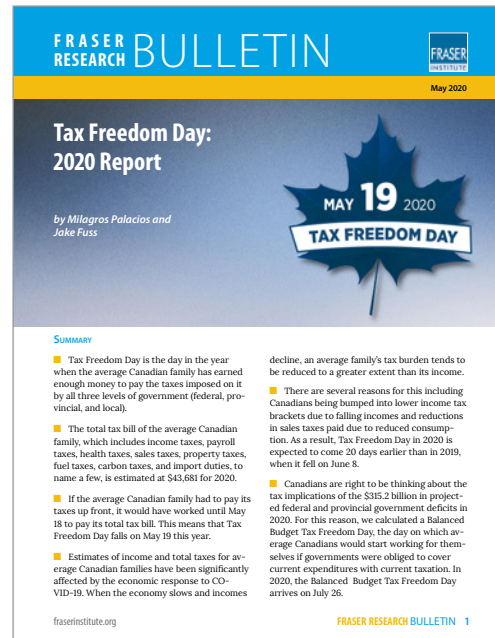
Milagros Palacios and Jake Fuss

Have you ever wondered how much you actually pay in taxes each year? While tax returns help us understand how much income tax we pay, it's difficult for most Canadians to calculate their total tax bill.

In Canada we pay many different taxes to the federal, provincial, and local governments. Some of these taxes are visible but many are hidden, which adds to the confusion about how much we actually pay. Not only do we pay income taxes, we also pay property taxes, payroll taxes such as the Canada Pension Plan, health taxes, sales taxes such as the GST, carbon taxes, taxes on gasoline, taxes on imported goods, “sin” taxes, and so on.

“Not only do we pay income taxes, we also pay property taxes, payroll taxes such as the Canada Pension Plan, health taxes, sales taxes such as the GST, carbon taxes, taxes on gasoline, taxes on imported goods, ‘sin’ taxes, and so on.”

To be clear, Tax Freedom Day does not measure the benefits or quality of services Canadians receive from government in return for their taxes. Rather, it looks at the price paid to receive a product in the form of government. Understanding your family's total tax burden is important to assess the value you receive from gov-



ernment services and income transfers. It's ultimately up to Canadians to decide if they receive good value for these services.

In 2020, we estimate the average Canadian family (consisting of two or more people) earning \$115,735 will pay \$43,671 in total taxes—or 37.7 percent of their income. In other words, if you paid all your taxes for 2020 up front, you'd give government every dollar you earned before May 19—Tax Freedom Day. After working the first 139 days of the year for government, you're now working for yourself and your family.

However, there isn't much to celebrate this year.

This year Tax Freedom Day comes much earlier than usual because the estimates of income and total taxes for average Canadian families have been significantly affected by the COVID-19 recession. In other words, the earlier date has nothing to do with either the federal

The average Canadian family will pay 37.7% of its income on taxes this year



Breakdown of total tax bill*	
Income Taxes	12.5%
Payroll/Health Taxes	9.1%
Sales Taxes	4.9%
Property Taxes	4.0%
Profit Taxes	3.0%
Sin Taxes	1.5%
Fuel/Vehicle/Carbon Taxes	1.4%
Other Taxes	1.0%
Import Duties	0.3%
Total tax bill	37.7%

*based on a family income of \$115,753

or any provincial government reducing taxes. When the economy slows and incomes decline, the average family's taxes tend to drop to a greater extent than its income. There are several reasons for this including Canadians falling into lower income tax brackets due to lower incomes and reductions in sales taxes paid because of reduced consumption.

“ If Canadian governments had to raise taxes to balance their budgets instead of financing spending with deficits, Tax Freedom Day would arrive more than two months later on July 26.”

Canadians may rightfully also be thinking about the economic and tax implications of the budget deficits our federal and provincial governments will run this year. Specifically, the federal government projects a \$252.1 billion deficit in 2020 while cumulative deficits for the provinces are forecasted to reach \$63.1 billion.

Of course, today's deficits must one day be paid for by taxes. This means the combined projected federal and provincial government deficits of \$315.2 billion should be considered as deferred taxes. To illustrate this point, if Canadian governments had to raise taxes to balance their budgets instead of financing spending with deficits, Tax Freedom Day would arrive more than two months later on July 26.

The economic responses to COVID-19 will undoubtedly have large implications for taxation levels and the state of government finances for both the federal and provincial governments. May 19 may seem early for Tax Freedom Day, but without a significant change in policy direction, all signs point to a much later day in the future. [FI](#)



MILAGROS PALACIOS



JAKE FUSS

Milagros Palacios is associate director of the Addington Centre for Measurement and Jake Fuss is a policy analyst at the Fraser Institute. They are co-authors of *Tax Freedom Day: 2020 Report*.

Canada a World Leader in Environmental Performance

Elmira Aliakbari, Jairo Yunis,
and Ashley Stedman

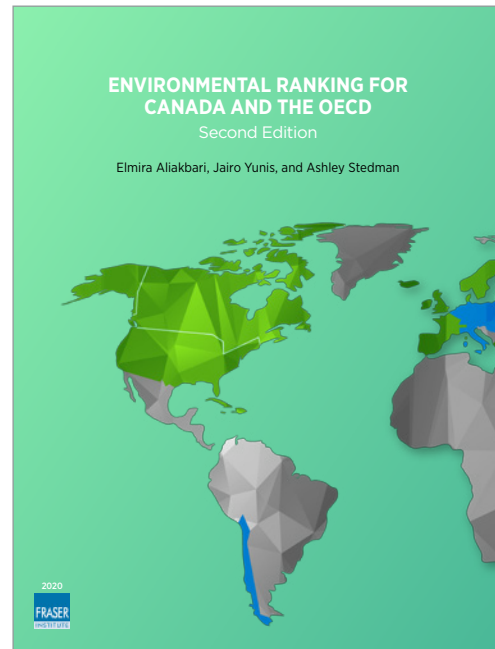
Sadly, Canadians haven't had much to celebrate lately. But here's some good news: Our environmental record is excellent compared to most of the world's wealthiest—and cleanest—countries.

A new Fraser Institute study, *Environmental Ranking for Canada and the OECD, Second Edition*, compares and ranks 33 high-income countries in the Organisation for Economic Co-operation and Development (OECD) on a wide range of measures including air and water quality, greenhouse gases, and biodiversity. The study provides an overall score (from 0 to 100.0) across 17 indicators to provide an easy way to understand Canada's performance compared to other high-income countries.

This year, Canada ranks 12th out of 33 countries with a score of 67.0 out of 100—above the OECD average score of 62.2 and only 7.0 points behind third-place Finland. Sweden is the top performer with a score of 80.0; South Korea is the lowest performer (41.4).

“ *Canadians can be proud of our environmental record and the example we set for the world.* **”**

Canada performs exceptionally well on air quality and agriculture. To accurately measure Canada's air quality and its impact on human health, the study uses two measures. The first examines the extent to which people are exposed to harmful fine particulate matter (an air



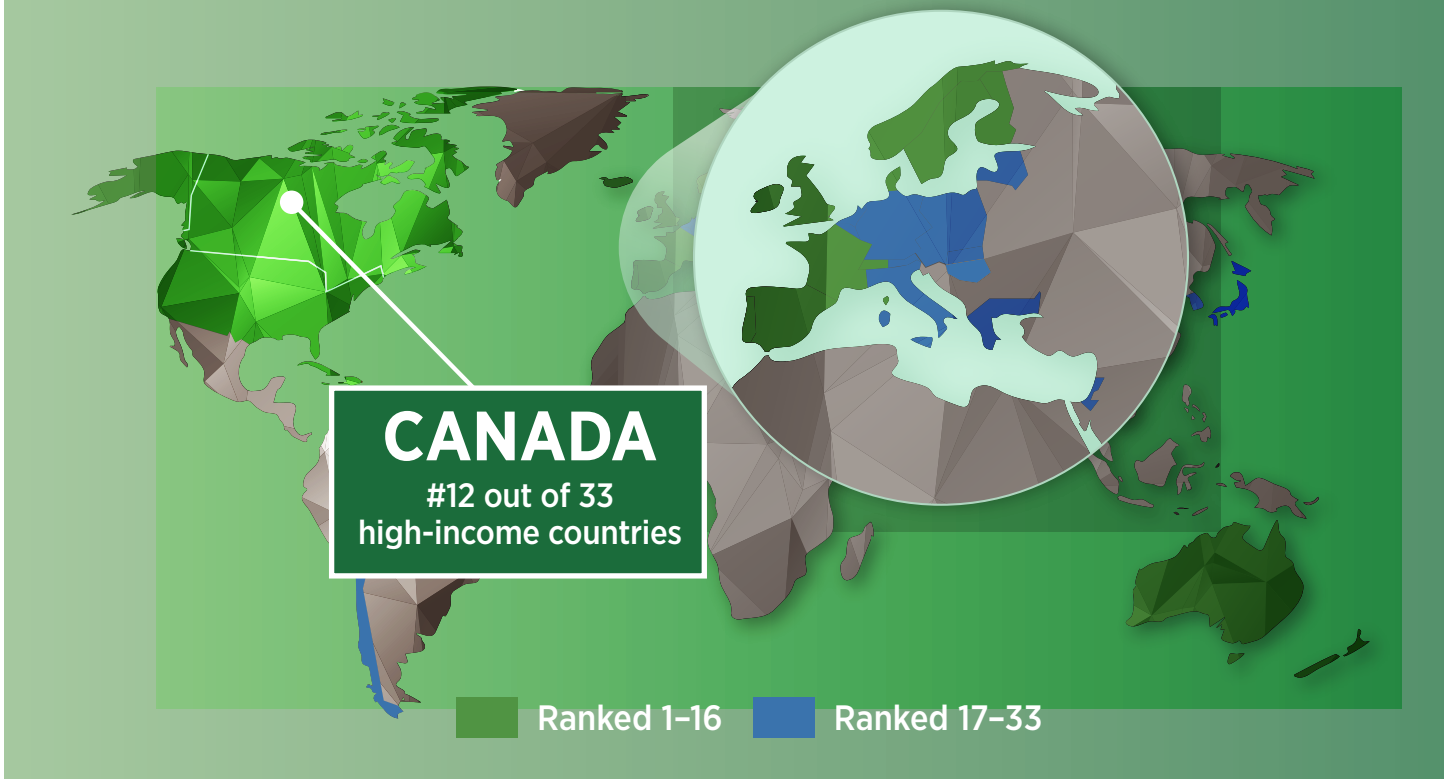
pollutant that includes smoke, fumes, dust, etc.). Canada ranks 4th on this measure.

The second measure examines the portion of the population exposed to unsafe air pollutants as set by the World Health Organization (WHO). Canada is the top performer on this measure with 100 percent of Canadians exposed to levels of fine particulate matter that comply with the air quality standard.

On agricultural measures, Canada's performance is also impressive, ranking 4th on fertilizer use (nitrogen) and 11th on pesticide use.

The analysis shows that Canadians enjoy overall high levels of environmental quality relative to other high-income countries. But what's often misunderstood is that in areas where Canada's ranking is low, it's sometimes unavoidable due to factors beyond our control such as geography and climate.

Canada ranked 12th on environmental performance



For example, Canada ranks 31st out of 33 countries on carbon intensity, which measures CO₂ emissions relative to the size of the economy. Given this country's massive size, cold climate (which demands more fuel for heating), long transportation distances, and large natural resource sector, it would be extremely difficult for Canada to do much better, particularly given that most of the other countries are smaller with milder climates and higher population densities, which result in lower energy needs.

Moreover, it's important to note that almost all high-income OECD countries perform well on almost all of the indicators. So even if Canada ranks lower on any particular measure, there's often little difference between the top performers and us. For example, Canada ranks 13th on access to improved sanitation facilities with a score of 91.8—but second place Australia is not much higher, with a score of 99.9.

Overall, the evidence is clear—most wealthy, developed countries have established sound environmental protec-

tion regimes, and Canada fares well when compared to the best performers in the world.

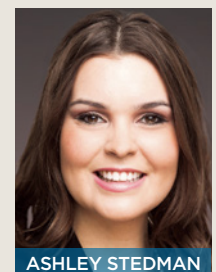
During these troubling times, we can definitely use some good news. Canadians can be proud of our environmental record and the example we set for the world. **FI**



ELMIRA ALIAKBARI



JAIRO YUNIS



ASHLEY STEDMAN

Elmira Aliakbari is associate director, Natural Resource Studies, Jairo Yunis is a junior policy analyst, and Ashley Stedman is a senior policy analyst at the Fraser Institute. They are co-authors of *Environmental Ranking for Canada and the OECD, Second Edition*.

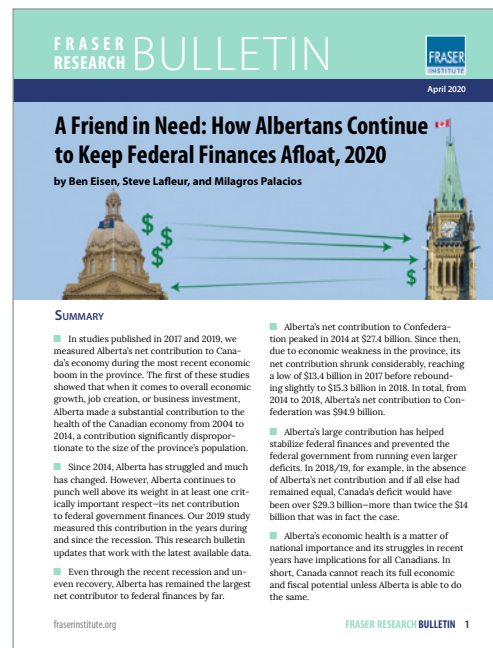
Alberta's net Contribution to Ottawa—More than \$94 Billion—Dwarfed Contributions From other Provinces in Recent Years

Ben Eisen, Steve Lafleur,
and Milagros Palacios

Albertans have suffered tremendous economic pain in recent years. Steep recessions in 2009 and 2015/2016 (the latter of which was among the worst recessions in provincial history) rocked the province and the recovery has been tepid and uneven. Now that oil prices have cratered and the economy is reeling from the economic effects of COVID-19, Alberta is entering its third recession in just over a decade.

Despite all of this economic pain one important thing has remained consistent—Albertans still make a disproportionate contribution to the health of the federal government's finances. Why? Because Alberta's population is relatively young (and therefore receives less direct federal spending) and has relatively high incomes (and therefore pays more income taxes). As a result, Albertans pay more in federal taxes than they receive in federal spending and transfers. Without Alberta's contribution, Canada's federal finances would be in much worse shape today than they are.

In a recent Fraser Institute study, *A Friend in Need: How Albertans Continue to Keep Federal Finances Afloat, 2020*, we measured Alberta's net contribution to Confederation in recent years. In other words, we compared the amount of money Albertans send each year to Ottawa to what they get back in transfers and services. Between 2014 and 2018, Alberta's net contribution to Confederation totalled \$94.9 billion. The second-largest net contributor was Ontario (despite having a population about three times larger than Alberta's) at approximately \$60 billion.



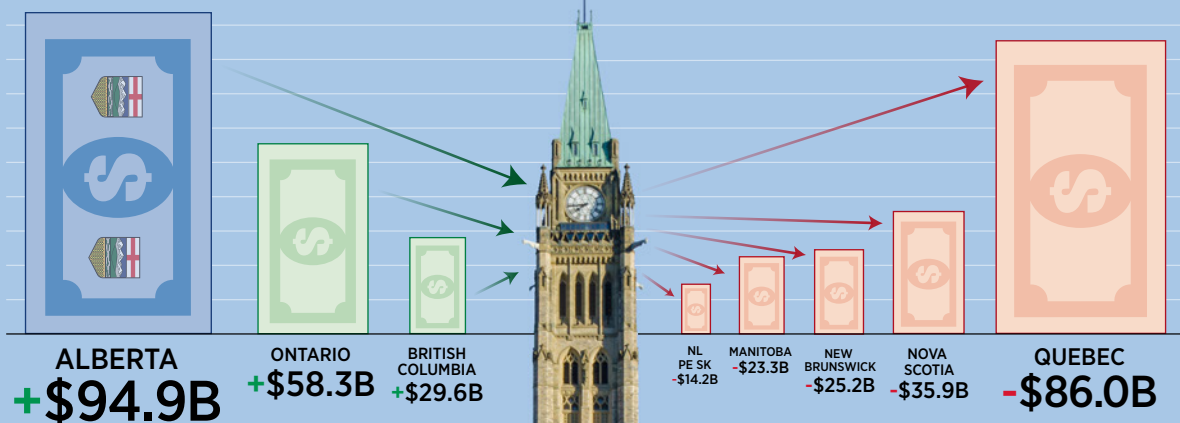
In short, the net fiscal contribution of Alberta's approximately 4.3 million residents throughout the last half-decade has been enormous. Again, without it, in recent years Ottawa's books would have looked much worse than they are. Between 2016/17 and 2018/19, for instance, the federal deficit would have been twice as large as it actually was without Alberta's net contribution.

Clearly, Alberta has been a golden goose for Canada, supplying a large net contribution every year. It should therefore worry Canadians across the country that in recent years Alberta's annual net contribution (though still substantial) has been far below where it was prior to the 2015 recession. Canada's golden goose is sick.

Specifically, Alberta's net contribution to the federal government peaked in 2014/15 at \$27.4 billion. In 2018,

Alberta has been by far the largest contributor to Canada's fiscal balance

from 2014/15  to 2018/19



“ Between 2014 and 2018, Alberta’s net contribution to Confederation totalled \$94.9 billion. The second-largest net contributor was Ontario (despite having a population about three times larger than Alberta’s) at approximately \$60 billion.”

seeable future, its net contribution could continue to fall and certainly won’t rebound to its pre-2014 peak.

Canada can’t reach its full potential without a strong and economically vibrant Alberta. As such, Alberta’s economic challenges are a national rather than provincial or regional problem. Canada’s golden goose is sick. We all need it to get well soon. [FI](#)

Alberta’s net contribution was \$15.3 billion—still a huge amount of money, but far less than a half decade earlier. Without Alberta’s net contributions, Canada would have racked up upwards of \$100 billion more debt since 2014.

Now Alberta’s economy has been hit by yet another recession, which may prove to be even steeper than the last one. If Alberta’s recovery is as tepid as it was last time, while the province will almost certainly remain the largest net contributor to federal finances for the fore-



Ben Eisen is a senior fellow, Steve Lafleur is a senior policy analyst, and Milagros Palacios is associate director of the Addington Centre for Measurement at the Fraser Institute. They are the co-authors of *A Friend in Need: How Albertans Continue to Keep Federal Finances Afloat, 2020*.

Medical Wait Times Cost Canadian Patients More than \$2 Billion in Lost Wages Before COVID-19

Mackenzie Moir and Bacchus Barua

The COVID pandemic has devastated Canada's economy and the recovery will be long and uncertain. However, another health care crisis has been hurting Canadians, and the country's economic productivity, for years—long wait times for health care.

Of course, health care workers across Canada are doing great work to get us through the pandemic. And provincial health ministers have had to make difficult decisions during this time, including the decision to cancel thousands of elective surgeries, thereby creating a growing backlog that must be addressed once the worst of the pandemic is over.

But even before COVID-19, Canadians endured long wait times.

For nearly three decades, the Fraser Institute has surveyed physicians across Canada to document wait times for medical procedures. Last year's survey, *Waiting Your Turn: Wait Times for Health Care in Canada, 2019 Report* revealed that patients faced a 10.8 week wait (on average) for treatment after seeing a specialist—92 percent longer than in 1993 (5.6 weeks) when the first national estimates were calculated.

While some of the estimated 1,064,286 Canadians who waited for medically necessary treatment in 2019 may have endured the long wait without significant pain or disruption to their lives, others surely were not as lucky. Wait times can and do have serious consequences for many patients. Some Canadians wait in considerable pain and must deal with the physical and psychological suffering related to their illness. Others may experience poorer medical outcomes, permanent disability, or even death.

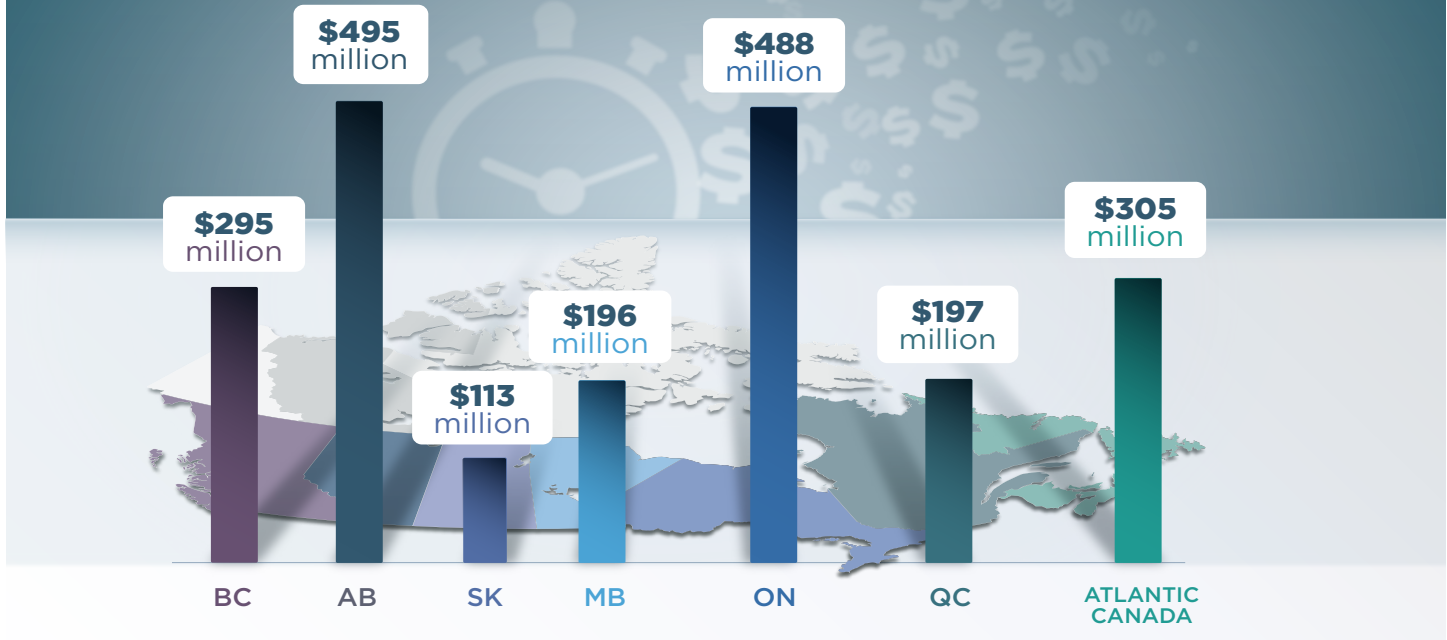


The health of patients should always be the primary concern. But long wait times also impose financial costs on patients and the economy at large. In fact, a new study, *The Private Cost of Public Queues for Medically Necessary Care, 2020*, estimates that wait times cost our economy \$2.1 billion (or \$1,963 per patient) in lost wages and productivity in 2019. This figure increases to \$6.4 billion if we include the hours patients spend in a reduced capacity outside of work (excluding eight hours of sleep a night).

Notably, neither one of these estimates include the costs incurred by caregivers such as family members and friends, the 10.1 weeks it takes to first see a specialist, and the potential for increased risk of morbidity and mortality.

A common defense of Canada's wait times, that they're a "necessary" price to pay for universal health care, falls

Waiting for medical treatment in Canada cost patients MORE THAN \$2 BILLION in lost wages and productivity last year



short when you look at the experience in other countries. For example, significantly more Canadians (18 percent) reported waiting four months or longer for elective surgery in 2016 compared to other universal health-care systems such as Australia (8 percent), Switzerland (6 percent), and Germany (0 percent).

And crucially, while many of these countries will likely also experience increased wait times for treatment given their own COVID-related delays in elective surgeries, most will start from a much lower baseline wait compared to Canada.

So how do these countries ensure timelier access on a routine basis? Simply put, they approach universal health care differently than we do. For example, they expect patients to share the cost of care and generally give hospitals incentives to treat patients using an “activity-based” funding arrangement, which is much different than Canada’s “global budgeting” approach.

Importantly, each country also embraces the private sector as either a partner or an alternative to the public system. There are a few potential advantages for Canada to follow a similar approach. First, by contracting services out to existing private clinics, Canada’s public health care system can potentially serve more patients (including those whose surgeries have been postponed) without having to invest in expensive infrastructure. Second, by allowing patients to pay for treatment privately, the private sector can act as a pressure-valve and potentially al-

leviate stress on the public system. Third, an independent private sector won’t directly compete with other social programs or be bound by government budgets.

While these desperate times may very well call for desperate measures (including the pause on elective surgeries), there remains the important, if uncomfortable question—what happens next? Specifically, how do we address the surgery backlog?

Will patients simply be added to already long waiting lists? Or will governments consider policy reforms with an eye on patients whose surgeries have been cancelled due to COVID-19 and those Canadians who routinely face long wait times? [FI](#)



MACKENZIE MOIR



BACCHUS BARUA

Mackenzie Moir is a junior policy analyst and Bacchus Barua is associate director of Health Policy Studies at the Fraser Institute. They are the co-authors of *The Private Cost of Public Queues for Medically Necessary Care, 2020*.

Deregulation Now and in the Post-COVID World



Steven Globerman

Hopefully, the worst of the COVID-19 pandemic will soon be behind us. Economists are debating the likely speed and vigour of a post-COVID economic recovery, but it seems fair to conclude that government policies that reduce barriers to labour mobility—and regulations and other impediments to new business startups—could substantially boost the strength of any economic recovery.

Fortunately, the stock of human and physical capital, while idled by the mandated shutdown of much of the domestic and global economy, remains largely intact. The layoffs and furloughs of workers have been relatively short in duration, at least so far, so that the labour-market skills of the growing number of workers affected have not (yet) seriously degraded. Furthermore,

physical assets, including commercial properties, industrial plants, and machinery and equipment, can be readily brought back into operation after appropriate sanitation and maintenance. However, it's likely that significant modifications must be made to how human and physical capital will be used going forward.

Specifically, it's highly unlikely that patterns of economic activity that existed prior to the onset of the COVID-19 pandemic will reemerge as Canada's economy, and those of other developed countries, open up. Some major economic sectors such as hospitality and tourism may comprise a permanently smaller portion of the post-COVID 19 economy than prior to the pandemic. Other sectors, such as online education and at-home care (rather than nursing homes) for senior citizens and the disabled, are likely to be permanently larger sectors of the economy.

To accommodate new economic circumstances in a post-COVID era, many businesses may need to reengineer how they conduct production and distribution activities including, for example, redesigning the physical layout of their stores and factories or repurposing buildings from commercial properties to warehouses and logistical centres. And there will be needed investments in new business startups to provide employment opportunities for workers who need to move on to new jobs.

“ Government policies that reduce barriers to labour mobility—and regulations and other impediments to new business startups—could substantially boost the strength of any economic recovery.”

Unfortunately, the rate of new business startups in Canada and other developed economies was declining prior to the COVID pandemic. This reflects population aging to a significant extent. Entrepreneurs tend to be from an age group (mid-20s to late-30s) that comprises an increasingly smaller share of the total population of developed economies. Nevertheless, governments can implement policies to promote increased entrepreneurial activity by reducing or eliminating capital gains taxes and easing regulations that inhibit would-be startup companies from raising financial capital through online crowd-sourcing and other less-conventional methods.

Moreover, easing licensing restrictions that require relatively extensive training and costly certification for workers to be legally employable in businesses (delivering cosmetic and grooming services, daycare for children, and at-home care for seniors, etc.) should be streamlined to facilitate a transition of human capital from economic sectors that are unlikely to be robust sources of new startups to those with more attractive prospects for profitability.

Finally, because many existing physical assets may need to be reconfigured or redeveloped for new or modified activities, governments should reform zoning and other

municipal review processes to reduce regulatory red tape and other sources of costs and delays imposed on real estate developers.

During the COVID crisis, governments in Canada, the United States, and elsewhere have relaxed—or outright suspended—regulations in various areas. For example, allowing off-patent use of therapeutics, expediting the use of testing diagnostics, and allowing health care personnel to work across licensing jurisdictions. If governments can relax or suspend regulations during a health care crisis, then surely any economic recovery program could include reductions in regulatory restrictions on the mobility of workers and other productive inputs.

“ Governments can implement policies to promote increased entrepreneurial activity by reducing or eliminating capital gains taxes and easing regulations that inhibit would-be startup companies from raising financial capital through online crowd-sourcing and other less-conventional methods.”

Public policies to promote improved efficiency on the supply-side of markets are always desirable. In the post-COVID era, they are arguably critical to restoring economies back to health and getting Canadians back to work. **FI**



Steven Globerman is Resident Scholar and Addington Chair in Measurement at the Fraser Institute.

Let's Not Double-down on the Nanny State



Bruce Pardy

Hard times make strong people, the saying goes, but it didn't work out that way for the Brits. Victorious but beaten to within a hair of its life from six years of war with Hitler, the United Kingdom opted for socialism. In a landslide election following victory in Europe in 1945, voters threw out Winston Churchill in favour of Labour Leader Clement Attlee who proceeded to create the British welfare state. After sacrificing everything to protect their freedom, voters chose a government that promised to look after them. Except for the period under Margaret Thatcher, who tried to turn the ship around, the UK has been on the road to serfdom ever since.

Other Western nations have, too. In Canada, the administrative state is now ubiquitous. It regulates haircuts, dog food, cheese and mattresses. It taxes and subsidizes, plans and incentivizes, licenses and inspects. Over time, we have become more like China than China has become like us. Now, in the name of a virus, government is not just supervising but driving the bus. Businesses are shut and liberties curbed. Public coffers are the only reliable source of money. Earlier this month, the *Guardian's* Patrick Wintour argued that losers in the post-corona world order will include those who have argued for the deconstruction of the administrative state. Turns out government is willing to move in only one direction: bigger. We are about to double down on the nanny state.

Don't believe it? Look around. Already there are calls for the Canada Emergency Response Benefit (CERB) to become a universal basic income. Taxes of all kinds will go up. Strategic industries may be nationalized or protected. Governments will demand ideological fealty: the application for the Canada Emergency Business Account (CEBA) requires businesses to pledge their compliance with politically loaded requirements to qualify for state support. Governments in Canada have been urged to emulate the UK's policies for combatting loneliness. We have embraced the idea that the role of government is to protect us not just from viruses but from the vicissitudes of life.

“ In Canada, the administrative state is now ubiquitous. It regulates haircuts, dog food, cheese and mattresses. It taxes and subsidizes, plans and incentivizes, licenses and inspects. Over time, we have become more like China than China has become like us.”

Societies dominated by state bureaucracies forget where prosperity comes from. Policymakers talk of restarting the economy as though “the economy” has switches and controls. But markets are more like ecosystems than machines. Like ecosystems, markets are not tangible things. The farmers' market in the town square is not what economists mean when they use the word “market.” Markets are not places, goods or people. As Gertrude Stein famously said in a different context, “There is no there there.”

Markets are, rather, merely patterns of transactions. A hunter kills a deer. A woodworker makes a set of chairs. The hunter already has meat for the winter and the woodworker already has chairs in her house. The result: a trade. Trades constitute markets. Usually we buy and sell with money, of course, but the idea is the same.

People buy, sell, and trade when they perceive that doing so will make them better off. They trade \$4 for

a bag of apples if they want apples more than they want to keep their \$4. Their reasons are their own. By pursuing their own interests, people provide what others desire in exchange. No one is in control of the market, yet it co-ordinates demand, supply, and price, and every transaction makes the parties better off. No administrative state has ever invented a superior way to satisfy wants and create wealth. The invisible hand works better than an iron (or any other kind of) fist. Markets, like ecosystems, don't exist because of government. Legal rules and a currency make transactions more secure, efficient and enforceable, but people have traded throughout history with or without them.

The virus may be “natural” but governments have made the crisis. The feds gave away masks and gloves, kept borders open and allowed flights from China and elsewhere to continue to arrive. Provincial governments shut down restaurants, shops and schools in order to protect our wobbly, state-run health care system by “flattening the curve.” Poorly operated, state-supervised long-term care facilities have been hardest hit. Draconian rules and overzealous police officers prohibit playing with your kids in the park. The circumstances are new but the pattern is not: governments create problems and then seize more power to address them.

The answer is not to double down but to turn around. The larger the welfare state, the more it stands in the way of well-being. Those who crave safety and order are asking to be safe, controlled, equal—and poor. Prosperity is born of the creative crucible of markets and economic competition. The wealth we have enjoyed in this country is not God-given, natural, or inevitable. It is easily lost. Perhaps we will see how easily. [FI](#)



BRUCE PARDY

Bruce Pardy is a professor of law at Queen's University and a Fraser Institute senior fellow.

Plastic Bans Won't Help the Oceans During Pandemics—or During the Best of Times



Ross McKittrick

When I speak or teach on environmental policy, one question often comes up. What to do about all the plastic waste, and why don't we just ban it all?

Until a month ago, my answer would have seemed abstract and unconvincing to a lot of young people. I'd note that much of our current reliance on plastic packaging was motivated by the need for public hygiene. We used to get our meat the way we still get most of our vegetables—from open counters. But people grew uncomfortable with the exposure of meat to insects and germs, not to mention the problem of people handling raw meat in one aisle then touching products in other aisles, so stores responded with those little Styrofoam

trays with absorbent liners and clear plastic wrap, to which we all soon grew accustomed.

Lots of things get wrapped in cellophane to avoid being touched by other customers. Would you want to buy a toothbrush from a bin that a hundred people had rummaged through? As for disposable plastic water bottles, this is surely one of the great public health inventions of the modern age. They are remarkably cheap and they save us the ordeal of shared public water fountains.

A lot of plastic packaging is just marketing. But there's still the hygiene angle. On Christmas morning you can be sure you are getting a doll that hasn't been sneezed on by all the other kids in the toy section at Walmart.

In an age when few people had ever been affected by a pandemic, such considerations receded in importance. Meanwhile, stories of garbage filling the oceans led to fears that we are wrecking the planet with our throw-away plastic waste.

“ Lots of things get wrapped in cellophane to avoid being touched by other customers. Would you want to buy a toothbrush from a bin that a hundred people had rummaged through? ”

In response to such fears, just weeks before the coronavirus hit New York City hard, the New York State legislature banned plastic grocery bags. Then as if acknowledging the connection, the state temporarily suspended implementation of the law, while urging people to remember to wash their reusable cloth bags.

Whether or not a ban on plastic bags has big implications for public health, the better question to ask is whether it (or similar bans on single-use plastics) will do any good for the world's oceans. The answer is no. Canada's single-use plastics are not the source of ocean contamination. Banning them will impose costs and inconvenience here, while doing nothing to fix the problem.

As reported by *Our World in Data*, only a tiny fraction (about three percent) of the world's plastic production is handled in such a way that it can end up as ocean waste each year. Very little of that fraction comes from high-income countries because we have effective waste management systems. Plastic that goes into a Canadian landfill has no chance of ending up in the ocean, especially if the landfill is away from rivers and coastlines. More than 50 percent of the Great Pacific Garbage Patch is abandoned fishing nets and gear.

Most plastic waste entering the ocean from land (86 percent) comes from a handful of rivers in Asia. While much of that waste is domestically produced, up until 2017 about 10 percent was from imported plastic waste. China used to import plastic collected from recycling programs in Europe and North America for processing.

Because so much of it was not usable, it was discarded. Our small contribution to plastic waste in the ocean did not come from the garbage stream, but from the recycling stream. It would have been better if we'd put it in a landfill.

In an effort to clean up its own backyard, China stopped importing plastic waste in 2017. There's still a long way to go before the flow of plastic into the ocean is stopped. Bans on drinking straws or grocery bags in Canada won't stop it; economic development and improved waste management systems in low-income countries will. The best way for us to make sure our waste doesn't end up in the ocean is to send it to the landfill rather than trying to sell it on the international recycling market.

“ Our small contribution to plastic waste in the ocean did not come from the garbage stream, but from the recycling stream. It would have been better if we'd put it in a landfill. ”

Meanwhile, for those who have lamented our use of plastic packaging over the years, it's understandable, especially since the marketers sometimes make excessive use of the stuff. But the coronavirus shows that public hygiene was, and remains, an important priority, and we downplay it at our peril. **FI**



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

-ECONOMY-



Potential Permanent Changes From Our Experience with COVID-19

Edited by Jason Clemens and Mark Hasiuk

We recently asked our research staff and senior fellows for their thoughts on how Canada's experience with COVID-19 and the related recession might permanently—at least for the next five years—affect Canadians and our economy. The predictions cover a range of economic sectors and aspects of Canadian life, from the future of Canada-China relations to the changing nature of the workplace.



Reducing debt

The severe loss of incomes and jobs resulting from the sudden shutdown of major parts of the economy will lead to a prolonged aversion to debt. This is likely to be especially marked in Canada, which for the last decade gorged itself on debt, ignoring the lessons from the United States and Europe of the damage inflicted by excessive borrowing just before the Great Recession. Canada entered this crisis with among the highest levels of household and business debt in the G20. Borrowing was encouraged by record low interest rates and political leaders who did not caution Canadians about the risk debt poses, even at low interest rates, when jobs are lost and incomes plunge during the inevitable downturn. This experience will trigger a period of paying down debt across the economy, from households who bought high-priced homes in Toronto and Vancouver they no longer can afford to businesses in aerospace or the oil patch saddled with high debt as revenues plunge. This will impede economic recovery in Canada, similar to the US hangover from its debt binge before 2008.

PHILIP CROSS, *former chief economic analyst at Statistics Canada and senior fellow at the Fraser Institute*



Skepticism of models and forecasts

In the early days of COVID-19, many respected scientists modelled doomsday scenarios, which the media was eager to report. For example, Neil Ferguson, an epidemiologist, and his Imperial College team issued a report that estimated worse-case scenarios of 2.2 million US deaths and 510,000 British deaths due to COVID. The media, including CNN and the New York Times, jumped on the doomsday predictions and the numbers were used by US President Trump and UK Prime Minister Boris Johnson to shape policy. Thankfully (and responsibly), Ferguson clarified that the number of fatalities would probably be much lower with effective physical distancing. As of today (May 19, 2020), the World Health Organization puts COVID deaths at 89,272 in the United States and 34,796 in the United Kingdom. Unfortunately, environmental modellers haven't been as responsible. Here at the Fraser Institute, our scholars have long pointed out the problems with environmental modelling and the proclivity to overstate the impact of CO₂ emissions. Post-COVID, the general public (and the media) should exercise a healthier dose of skepticism towards doomsday environmental modelling and apocalyptic claims.

NIELS VELDHUIS, *president of the Fraser Institute*



Bigger government

To offset a separate and more optimistic prediction, I offer a pessimistic counter-prediction, which is that we will be burdened by a much larger government sector for the foreseeable future. Government spending (as a share of the economy) could reasonably approach 50 percent, meaning that before accounting for the effects of government regulations in our lives, government spending will consume half of the resources of our economy. Those programs and income transfers must be paid for either by taxes today or taxes in the future, which are disguised as deficits (ie., borrowing) today. We may well see within the year another push by various governments, particularly the Trudeau Liberals, for higher income taxes, higher capital gains taxes, a new inheritance tax, and perhaps even a new general wealth tax, all of which would impede entrepreneurship, investment, business development, employment creation, and economic prosperity. The response to COVID-19 ushered in a period

of much larger government, which will likely prove stubborn to reverse.

JASON CLEMENS, *executive vice-president of the Fraser Institute*



Freedom wanes

Lenin once said there are decades where nothing happens and weeks where decades happen. In this new era of the past few weeks, Canada has become less free. The lockdowns will eventually ease, but we have crossed a threshold. Canadians now want government to keep them safe—not just from foreign threats and violence, but from viruses and vicissitudes of life. Authorities have enthusiastically seized the moment. Politicians have assumed unprecedented powers not subject to legislative oversight and have suspended civil liberties. For the first time ever, officials have confined citizens, with their approval, to their homes. Municipalities issue citations for walking through the park, police enforce rules that do not exist, and health authorities surveil the sick. A crisis is an ideal time for the state to advance into territory from which it will not wish to retreat. In time, controls will loosen but old expectations have been swept away. In this new era, we will discover that leaders of all political stripes have more than a little Lenin in them.

Bruce Parry, *professor of law at Queen's University and senior fellow at the Fraser Institute*



Continued rise of trade protectionism

There are still people who do not believe in the globalized food supply chain, and the disruptions due to COVID-19 provide those people with ammunition for protectionism. There will be a rising tide of agricultural protectionism linked with the economic nationalism we've already observed in too many countries.

PIERRE DESROCHERS, *associate professor of geography at the University of Toronto, Mississauga and senior fellow at the Fraser Institute*



Less globalization, more localization

Economies will become less globalized and more localized. International trade will fall and protectionism—creating barriers to international trade to promote

domestic industries—will increase. Protectionism was on the rise prior to the pandemic (consider the US-China trade war) but COVID-19 will intensify this trend. Indeed, countries are already working to internalize supply chains to mitigate the risk of interruption from the potential COVID-19 aftershocks and to reduce the potential economic damage from similar risks in the future. The World Trade Organization estimates that world trade will decline by between 13 and 32 percent this year. And the OECD estimates that foreign direct investment will fall by 30 percent at a minimum. The residual effects from the outbreak, including heightened fear and desire for self-sufficiency, will extend the damage to globalization beyond this year. Unfortunately, the retreat from globalization will make almost everyone worse off—prices will increase, innovation will slow, and economic recovery will be tepid. Countries that facilitate investment and trade will be better off.

Tegan Hill, *economist at the Fraser Institute*



New world reorder

The effects of COVID-19 will include a transformation of the international order and Canada's role in it. First, the meteoric rise of China with its aspirations of world leadership and greater respect will come to a crashing halt. China's delay in alerting the world to the extent of the outbreak while simultaneously scouring the world for PPEs is not the leadership and stewardship one expects to see. Second, the abdication of global leadership and retreat by the United States is nearly complete, reinforced by its chaotic handling of its own public health situation. Third, the Europeans, given what has transpired with both China and the US, will assert more leadership, engagement, and involvement in world affairs though they will not always sing with one voice. The result will be an even more competitive and multilateral world order with Russia, Saudi Arabia, and India constituting additional elements of change and disruption. Canada can benefit, but must be nimble in this changing world. We must engage with all on our own terms while also championing small open economies along with Australia, New Zealand, Taiwan, and the Scandinavian countries.

Livio Di Matteo, *professor of economics at Lakehead University and senior fellow at the Fraser Institute*



Declining home ownership

North American home ownership will likely decline, thanks largely to increased risk aversion, as others have noted. Home ownership not only concentrates risk in a single asset, but also potentially locks people into particular real estate markets. This lack of mobility can be frightening during an economic crisis that might require one to eventually relocate for work, and the lack of liquidity can present major challenges for homeowners. A second economic crisis in just over a decade could not only dissuade people from purchasing their own homes, but also make rental properties less appealing to individual investors. The flip side of this is that private equity (PE) funds and real estate investment trusts (REIT) have become important parts of major housing markets, with PE funds having invested in single-detached houses in the wake of the financial crisis and REITs becoming popular investment vehicles for those seeking stable income (such as pension funds). The upshot of this shift is that housing risk will be more broadly distributed. It might also result in households having more diversified assets. With real estate declining as a factor in retirement planning, households might divert more savings towards other assets.

Steve Lafleur, *senior policy analyst at the Fraser Institute*



Accelerated transition to e-commerce

There will be an accelerated shift towards more convenience and flexibility in our everyday lives. In recent years, consumer preferences have evolved to emphasize the ability to enjoy products and services from the comfort of our own homes. The rise of Amazon, Netflix, and food delivery apps are just a few examples. COVID-19 will force both consumers and businesses to accelerate this transition and expand convenience to other areas of the economy. E-commerce will become the norm for businesses that want to thrive, while the number of brick-and-mortar stores will decline. Canadians will demand more online options for grocery shopping, take-out, liquor from restaurants and bars, electronic products, furniture, etc. This will require companies to compete by providing faster and higher-quality delivery options, changing their marketing schemes, and upgrading their websites to increase capacity.

Jake Fuss, *economist at the Fraser Institute*



Greater recognition of voluntary collective action

This may be more wishful thinking than a prediction, but I believe Canadians will be, at the very least, more aware of the power and effectiveness of local voluntary organizations and the charitable potential of their neighbours. Too often policy debates in Canada (and elsewhere) ignore the vast array of non-profits and charities delivering vital goods and services to some of society's most vulnerable people, independent of government. They also ignore the daily charitable acts between neighbours. I doubt there's one Canadian who hasn't heard a story about a neighbour helping another, whether it was getting groceries or simply checking in to say hello to a lonely elderly neighbour. Indeed, this empathetic connection between people, which Adam Smith famously identified in 1759, has been witnessed every night at 7 p.m. when Canadians across the country bang on pots in appreciation of frontline workers, particularly health care workers. Recognizing and potentially harnessing the charitable impulses of Canadians both individually and through formal non-profit organizations could revolutionize how we collectively take care of one another and in doing so enrich our communities.

Jason Clemens, *executive vice-president of the Fraser Institute*



Changing workforce conditions—accelerated rise of telecommuting

Although many workers value human interaction in the office and will wish to return once it's safe, others will value the convenience of working from home, not having to commute, and spending less on child care. As a result, a significant portion of the workforce will demand flexibility to exclusively work from home or split time between the office and their home. Employers have now had a trial run with this dynamic and must adapt to both attract and retain workers. Consequently, companies must spend more money and time on information technology including quality remote connections, cyber security, and troubleshooting procedures. Companies will also face challenges instilling strong corporate cultures and maintaining relationships with employees as the workplace dynamic shifts.

Jake Fuss, *economist at the Fraser Institute*



Heightened demand for health care reform

COVID backlogs represent an opportunity to improve provincial elective surgery wait times and delivery. The mass cancellation of elective surgeries to prepare hospitals for an influx of COVID patients has revealed the fragilities of Canada's health care system. In light of the multi-year backlogs, provincial health care systems must somehow triage, plan, and deliver these procedures. We're already seeing calls to overhaul health care so that the booking of procedures occurs with integrated surgical and health care teams instead of single referring physicians. For provinces who have lagged behind, we're also likely to see an increased push for a centralized list for triage and surgical bookings. Lastly, many Canadians will, for the first time, receive care at private institutions partnering with the provinces. This is an opportunity to demonstrate the positive collaboration between these two sectors. If done correctly, these partnerships could change the conversation around the role of the private sector in our health care system.

Mackenzie Moir, *policy analyst at the Fraser Institute*



Balance sheet regulation of firms

Experiences from the two recent crises—the 2008 financial crisis and the 2020 COVID-19 pandemic—illustrate government's proclivity to bail out big corporations. The justification for bailouts is that big corporations have a "systemic" role and their bankruptcies can result in a wave of bankruptcies, massive unemployment, and slower economic recovery. Whether the justification is valid or not, past experiences prove that governments offer bailouts in times of crisis, giving firms the incentive to take on more debt and risks than they would in the absence of an expectation of a bailout (what we refer to in economics as "moral hazard"). However, the balance sheets of the federal and most provincial governments are deteriorating rapidly due to the recession. There's a real risk that governments will turn to micro-regulations to ensure firms will be less dependent on government bailouts in the future. The potential regulations would likely focus on capital requirements—more equity financing instead of debt. Moreover, companies may be regulated by liquidity requirements such as holding more cash (safer assets) for rainy days.

Elmira Aliakbari, *associate director of natural resource studies at the Fraser Institute*

We Need a **New Federal Approach to the Oil Industry**



**By Elmira Aliakbari, Niels Veldhuis,
and Ashley Stedman**

With Canada's energy sector on its knees, two prominent politicians—Elizabeth May, MP, and former leader of the Green Party and Bloc Québécois Leader Yves-François Blanchet—recently declared the sector dead and warned against any assistance for one of our country's most important industries. NDP Leader Jagmeet Singh, who also does not want Ottawa to provide financial support for the sector, chimed in, saying, "I know that the future is going to be renewable." Finally, there was Prime Minister Trudeau who, when asked about these comments, said, "I don't share that assessment." He may not do so verbally, but the prime minister's actions say otherwise.

Dealing with a massive reduction in demand due to the economic "shutdown" in response to COVID-19, and an international price war between Saudi Arabia and Russia, Canada's oil and gas industry desperately needs liquidity support (ie., access to credit) from the federal government. Unfortunately, the response from the Trudeau government has been delayed, unclear and underwhelming.

Of course, this government has introduced numerous measures and policies that restrained or impeded the industry's development and even its functioning.

For example, shortly after coming to power in 2015, the Trudeau government cancelled the previously-approved Northern Gateway pipeline and imposed new regulatory

burdens (including consideration of emissions generated by consumers) on the Energy East pipeline, which rendered the project uneconomical and ultimately led to its cancellation.

Then the Trudeau government enacted Bill C-69, which created a new agency to review major infrastructure projects, including energy and pipelines, injecting subjective criteria such as “social” and “gender” implications into project analyses.

These new subjective regulations for major projects have created massive uncertainty about how—and if—new infrastructure projects will get approved. (In February, Teck Resources cancelled its proposed \$20 billion Frontier oilsands mine, citing uncertainty, despite eight years of regulatory review). Indeed, investor confidence is so low it seems the only way to get projects done is for average Canadians (through their governments) to take on all or part of the financial risk (the federal government had to buy the Trans Mountain pipeline and Alberta’s government was forced to make a major investment in Keystone XL).

“ We need a robust plan to restore confidence in Canada’s oil and gas sector—workers, investors, and entrepreneurs. We simply can’t afford the Trudeau government’s approach to the petroleum industry.”

The Trudeau government also passed the Oil Tanker Moratorium Act, which restricts tankers carrying Canadian oil off British Columbia’s northern coast and shuts down access to new markets. While the Act penalizes Canada, it can’t forbid US tankers from transporting oil from Alaska to Washington State. And there’s no equivalent tanker moratorium on the East Coast.

Then there’s the Trudeau government’s national carbon tax, which research has shown will increase costs in the petroleum manufacturing sector by 25 percent. This

is all the more damaging given that the United States doesn’t have comparable carbon-pricing.

Finally, and most recently, the government’s indecisive handling of the #ShutDownCanada movement and ensuing rail blockades further reduced confidence in Canada while further damaging the oil and gas industry.

The result of all of this?

Investment in our oil and gas sector has declined by 35 percent in the past five years. And from 2014 to 2018, the sector’s contribution to Canadian industrial capital expenditures dropped from 28 percent to less than 14 percent. It’s little wonder that Berkshire Hathaway (run by Warren Buffet, one of the world’s most sophisticated and successful investors) recently pulled out of a planned investment in a major liquefied natural gas project in Canada.

The COVID crisis will end and Elizabeth May and Yves-François Blanchet will be proven wrong. Global demand for oil and gas will return. Indeed, the International Energy Agency predicts a “sharp rebound in 2021,” and despite the contraction in 2020, demand between 2019 and 2025 is projected to rise by 5.7 million barrels a day.

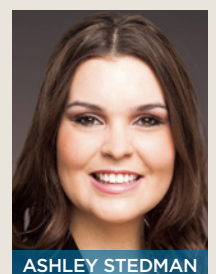
Canada can and should play a big part in meeting that demand. But we need a robust plan to restore confidence in Canada’s oil and gas sector—workers, investors, and entrepreneurs. We simply can’t afford the Trudeau government’s approach to the petroleum industry. [FI](#)



ELMIRA ALIAKBARI



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COVID-19 Creating Serious Backlog of Cancelled Elective Surgeries

Bacchus Barua and Mackenzie Moir

The COVID-19 crisis has led many provinces to take drastic measures to both limit the spread of the virus and ensure scarce medical resources are available, including cancelling thousands of elective surgeries in provinces such as Ontario and British Columbia.

These cancellations are creating a growing backlog that must be addressed once the worst of the pandemic is over. But will our health care system be able to manage and absorb this backlog and, if not, is there anything we can do about it?

First, even in ordinary circumstances (let's call this the "pre-COVID" world), our health care system struggles

to address routine demand for patient care. A recent report revealed that almost half of all hospitals in Ontario regularly operate beyond capacity. In the post-COVID world, we should expect a return to this unfortunate situation—except worse, due to the thousands of patients whose surgeries have been postponed.

Second, even in the pre-COVID world, patients could routinely expect to wait almost 21 weeks for elective treatment (after referral from a family doctor). It's not unreasonable to expect this situation to deteriorate in the post-COVID world.

Of course, other countries around the world have also stopped or curtailed elective and scheduled care.

However, many of these countries have far more medical resources than Canada does and may be able to better absorb the impact of these cancellations. For example, Canada reports an age-adjusted ratio of just 2.0 acute care beds per thousand people, far less than countries such as South Korea (8.1) and Germany (5.5). Canada also has relatively fewer physicians per capita, ranking 26th out of 28 universal health care systems.

Again, while just about every country will likely also experience increases in wait times for treatment, most will start from a much lower base-line wait compared to Canada. For example, in the pre-COVID world, significantly more Canadians (18 percent) reported waiting four months or longer for elective surgery in 2016 compared to, for example, Switzerland (6 percent) and Germany (0 percent).

“By contracting services out to existing private clinics, Canada’s public health care system can potentially serve more patients without having to invest in expensive infrastructure.”

So, how can we prepare for the post-COVID world?

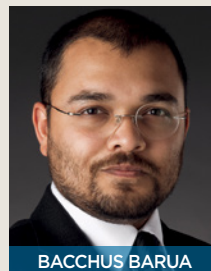
One option would be to embrace the private sector as an ally. Unlike Canada, many other universal health care systems around the world will have the private sector on standby to provide elective surgeries. There are three distinct potential advantages for Canada to follow a similar approach. First, by contracting services out to existing private clinics, Canada’s public health care system can potentially serve more patients without having to invest in expensive infrastructure (as previously demonstrated in Saskatchewan). Second, by allowing patients to pay for treatment privately, the private sector can act as a pressure-valve and potentially alleviate stress on the public system.

Finally, unlike the public sector in Canada, a robust and independent private sector isn’t bound by government budgets or competing with other social programs.

The private sector’s flexibility will enable it to respond quickly and dynamically, expanding to absorb the surge in patient demand and then contracting once the demand stabilizes.

“The blanket cancellation of elective surgeries is creating a backlog of patients who need elective—but medically necessary—care. We must consider policy options to assist them in the post-COVID world.”

To be clear, Canada has been fortunate to have fewer cumulative cases per million than many other developed countries. Further, our health care professionals and policymakers have been exceptional in dealing with this crisis, and they deserve all of our support. However, the blanket cancellation of elective surgeries is creating a backlog of patients who need elective—but medically necessary—care. We must consider policy options to assist them in the post-COVID world. [FI](#)



BACCHUS BARUA



MACKENZIE MOIR

Bacchus Barua is associate director of Health Policy Studies and Mackenzie Moir is a junior policy analyst at the Fraser Institute. They are the co-authors of *The Private Cost of Public Queues for Medically Necessary Care, 2020*.

Misinformation Clouds **the Reignited Debate Over a Guaranteed Basic Income**



Jason Clemens, Jake Fuss, Niels Veldhuis, and Milagros Palacios

Rahm Emanuel, President Obama’s chief of staff during the financial crisis, famously said “never allow a good crisis go to waste.” The idea was that during a crisis citizens are more open to big changes, so reform-minded governments must capitalize on the opportunity.

The Trudeau government’s efforts to stabilize incomes through the new Canada Emergency Response Benefit (CERB), and to a lesser extent the Canada Emergency Wage Subsidy (CEWS), has helped reinvigorate an old idea—a guaranteed basic level of income. News stories and columns spanning the ideological spectrum have appeared across the country. And 50 senators recently sent a letter to the prime minister calling for the CERB to evolve into a minimum basic income.

Unfortunately, these discussions have been generally characterized by confusion, misinformation, and missing information. The idea of a guaranteed annual income has almost always focused on replacing the plethora of existing federal, provincial, and municipal programs with a single program to provide some pre-determined level of minimum income. In theory, governments would spend less money on administration and compliance, thus reducing the overall cost and improving coordination of income support programs.

Of course, at least one level of government, namely the federal or provincial governments, would have to vacate all their existing income support programs. Federally, that would include the Canada Pension Plan, Old Age Security, employment insurance, the Canada

Child Benefit and the Canada Workers Benefit, and a host of tax credits.

Moreover, a 2015 Fraser Institute study, *The Practical Challenges of Creating a Guaranteed Annual Income in Canada*, catalogued no fewer than 70 provincial programs that would have to be reformed or eliminated, not including programs introduced after 2015 such as Ontario's Electricity Support Programs. It's hard to envision Ottawa or the provinces agreeing to vacate this area of social policy.

Which leads to the recent calls to extend the CERB and create a *new* income support program—in addition to all existing federal and provincial programs. This means more administration, more bureaucrats, more money spent on compliance, and even greater coordination problems between programs.

All this at a time when the Parliamentary Budget Officer estimates that the federal deficit this year (2020-21) will reach \$184.2 billion, representing 8.5 percent of the economy, a level not seen since the deep recession of the early 1980s.

Of course, the federal government created the CERB in response to the recession caused by COVID-19. It's a flat benefit of \$2,000 per month provided to eligible Canadians who apply, which will cost an estimated \$24 billion over four months (although a recent announcement looks to have increased costs by up to \$9 billion).

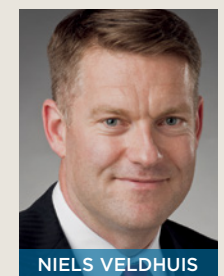
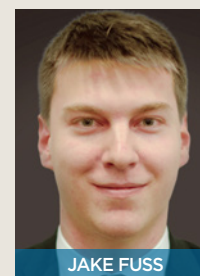
To put these numbers in perspective, the federal government expected to spend \$340.8 billion last year on programs and transfers, meaning this four-month temporary program represents nearly a 10 percent increase from expected spending (annualized, potential CERB costs could approach 30 percent of original budgeted spending). Moreover, according to the federal government, it won't balance the federal budget until at least 2040. The current recession will inevitably push back that date. Put simply, those advocating for the CERB to morph into a new income support program on top of all the existing programs seemingly ignores the state of government finances federally and in many provinces.

The kneejerk solution, to simply raise tax rates (again), is also unrealistic. Canada has already lost its business tax advantage, and recent increases to personal income tax rates—federally and in most provinces—for professionals

and entrepreneurs has made us distinctly uncompetitive. For example, of the 10 jurisdictions with the highest top combined marginal income tax rates in North America, nine are Canadian provinces.

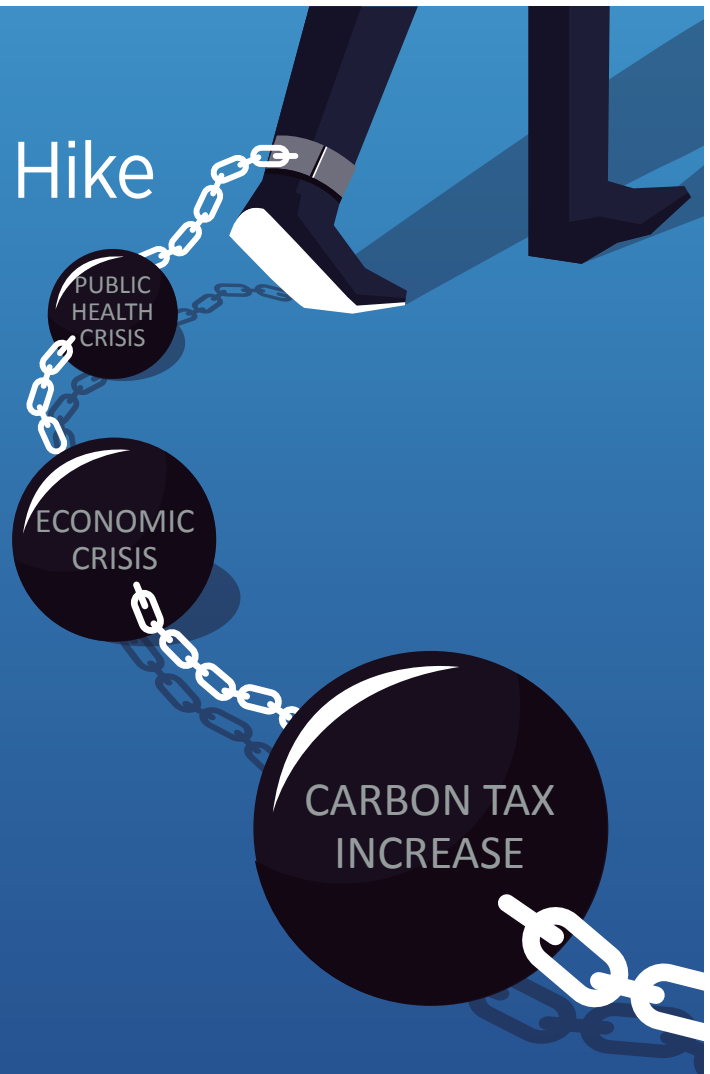
Finally, one of the more recent rationales for a basic annual income—the changing nature of employment and the effect of technology—also falls short. The basic argument is that technology, especially artificial intelligence and automation, is replacing human labour and causing unemployment and underemployment. However, a recent study found that technology is a complement—not a substitute—to labour, meaning that concerns over the loss of labour are at the very least overstated and technology may in fact lead to more, not less, employment.

Perhaps now more than ever, it's worthwhile to have a genuine public discussion about replacing existing provincial and federal income support and related programs with one program that reduces administrative costs, better coordinates assistance, and increases resources available to Canadians. But the costs and benefits, and the complicated nature of such reforms, must be recognized. Simply adding a new expensive income program on top of all the existing programs is a markedly different proposal that would further erode federal and provincial finances, add complexity to an already complicated array of programs, and spend even more money on administration and compliance. [FI](#)



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Ottawa's Carbon Tax Hike Comes at Worst Possible Time for Canadian Industries



By Elmira Aliakbari, Ashley Stedman,
and Jairo Yunis

Recently, Prime Minister Trudeau announced that his government will proceed with its planned 50 percent carbon tax increase, ignoring the fact that many Canadian industries are struggling mightily due to the COVID-based recession. During a recent press conference, he said the federal carbon-pricing system, which includes annual rebates to Canadians ranging from \$300 to \$600, has been designed to “put more money in household pockets.”

This justification reflects a worrying misunderstanding of the nature of this recession and the solutions needed for it to recover. Stabilizing income

for families and businesses is vital for the economy to recover, but transferring income (in this case, carbon tax rebates) to households to “stimulate” spending is not an appropriate response given the source of the economic crisis.

In fact, we’re experiencing a “supply shock,” essentially a reduction in the economy’s capacity to make goods and services. Various domestic and international companies have shut down because their workers are quarantined, not because the demand for their goods and services has declined. The federal government can try to stimulate demand all it wants by directly transferring income to households, but it will accomplish little if the production of goods and services remains constrained.

The key to recovery, once the economy has stabilized, is to ensure that firms and workers alike are able and have incentives to work, produce, invest, and generally start producing again. Again, Ottawa's plan to proceed with a 50 percent carbon tax increase in the middle of a public health and economic crisis ignores the incentive effects on industries already facing enormous economic pressures. Specifically, Canadian firms exposed to the carbon tax, particularly those in the energy sector, already face disincentives in the form of federal regulations on large projects, federal prohibition of oilsands exports through the West Coast, and now higher costs due to the carbon tax.

“ Ottawa’s plan to proceed with a 50 percent carbon tax increase in the middle of a public health and economic crisis ignores the incentive effects on industries already facing enormous economic pressures.”

These costs, which many competitors in other countries do not face, include both the direct cost of the carbon tax and higher prices for other goods and services (ie., inputs) from other sectors that also pay the carbon tax. For instance, energy companies purchase significant amounts of steel, cement, and iron as part of their operations, all of which have also experienced cost increases from the carbon tax.

How high are those cost increases? According to a recent study, *The Impact of the Federal Carbon Tax on the Competitiveness of Canadian Industries*, several key sectors of our economy will feel the pain. For example, petroleum and coal-product manufacturing will face a unit production cost increase of 25 percent in the short run once the full \$50 per tonne tax is implemented. Similarly, agricultural chemical manufacturing (pesticides, fertilizers, etc.) will experience an estimated 8.5 percent increase in production costs.

Forty other industries including oil and gas extraction, cement and concrete-product manufacturing, and

primary metal manufacturing (which combined account for nearly 20 percent of Canada's economic output), will see significant production cost increases.

“ Stabilizing income for families and businesses is vital for the economy to recover, but transferring income (in this case, carbon tax rebates) to households to ‘stimulate’ spending is not an appropriate response given the source of the economic crisis.”

Policymakers must recognize that Canada's carbon tax comes with higher costs and serious competitiveness risks for many industries. It is a misguided move to increase the carbon tax rate amidst this economic crisis as companies struggle to remain solvent. Simply put, this is not the time for carbon tax-induced cost increases on Canadian industries.

While the duration of the pandemic is unknown, the federal government will need to focus on incentives to restore supply and get Canadians back to work. This means opening supply chains, reopening trade routes and, crucially, ensuring competitiveness so Canada is seen as a stable place in which to invest. [FI](#)



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Chrétien's Fiscal Prudence Lessons for Prime Minister Trudeau



**Jason Clemens, Jake Fuss,
and Milagros Palacios**

Prime Minister Trudeau and Finance Minister Bill Morneau have recently made a concerted effort to laud their fiscal prudence over the last five years, which they suggest places Canada in a strong position to weather the current recession. But comparing the fiscal discipline of the Chrétien era with the last five years underscores the lack of prudence exhibited by the Trudeau government.

Back in the 1990s, after achieving the heroic feat of balancing the federal budget for the first time in nearly 30 years, the Chrétien Liberal government continued to impose a rather strict discipline on itself, requiring not only a balanced budget but indeed surpluses to reduce the nominal value of national debt. As then-finance

minister Paul Martin explained, Ottawa should reduce the debt while the economy was growing to prepare for the future, which is the very definition of prudence.

From 1996-97 through to the recession of 2007-08, successive governments followed Chrétien's budget rules and reduced the national debt (accounting for financial assets) by \$105.2 billion or 18.7 percent, which established a foundation for Canada to weather the 2008-09 recession better than almost any other industrialized country.

It's difficult to imagine a starker contrast than with today's Trudeau Liberals. Justin Trudeau entered office with a commitment to increase spending financed largely by cumulative deficits of \$25.1 billion over three years, and return to budget balance in 2019-20 (the fiscal year just ended in March 2020).

Trudeau's deficit commitments were discarded in the 2016 budget, less than six months after election day. Budget 2016 projected a deficit of \$29.4 billion in 2016-17 rather than the original \$10.0 billion committed to during the 2015 campaign. Rather than balancing the budget in 2019-20, the Trudeau government now forecasted a \$17.7 billion deficit. And rather than a total cumulative \$25.1 billion deficit over three years, the government now forecasted deficits totalling \$113.2 billion from 2016-17 to 2020-21 with no commitment to balance the budget for the foreseeable future. Indeed, the federal Department of Finance in 2016 released its long-term financial projections showing the government was unlikely to balance the budget until 2055-56.

“ The Trudeau government's less prudent approach to federal finances compared to the Chrétien era means the country will face a larger deficit in 2020 and 2021 than would have been the case.”

Instead, the government shifted to a fiscal goal of maintaining or lowering the debt-to-GDP ratio but violated its own rule between 2018-19 and 2019-20 when the ratio increased slightly.

An interesting counterfactual question is what Canada's federal finances, particularly our debt level, would look like had the Trudeau government adopted the successful policies of the Chrétien government. Let's assume, for instance, that the Trudeau government, like the Chrétien government, imposed a budget rule over the last five years that required it to run at least small surpluses each year. Specifically, let's assume the government adopted the plan of small surpluses contained in the 2015 budget. This policy change would have resulted in an \$11.0 billion reduction in federal debt over five years rather than the \$84.3 billion increase in debt accumulated between 2015-16 and 2019-20.

Put differently, the federal debt going into the current recession would have stood at \$617.9 billion rather than the expected \$713.2 billion. This means Ottawa

could have implemented almost all of its recent direct spending aid package, currently valued at approximately \$108 billion, and the country's overall debt level would be roughly at its current level.

Moreover, the debt-to-GDP ratio would have declined to 26.8 percent rather than the current expectation of 31.0 percent, with the Parliamentary Budget Office forecasting a rise in the ratio to at least 38.1 percent—before accounting for the \$71 billion new COVID-related Canada Emergency Wage Subsidy.

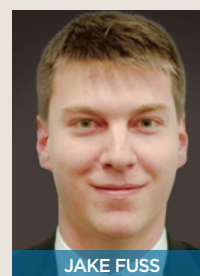
Perhaps most telling, however, is that this modest level of restraint would *not* have impeded the Trudeau Liberals from spending more than the previous Harper Tories planned to spend. The original Harper 2015 Budget included an increase of \$48.0 billion (or 18.9 percent) in program spending from 2015-16 to 2019-20. Lower-than-anticipated interest costs would have allowed the Trudeau government to increase spending a further \$30.1 billion over the five-year period and still run small budget surpluses.

Instead, the Trudeau government increased spending by 33 percent, or \$84.5 billion, resulting in the large deficits and mounting debt of the last five years.

The Trudeau government's less prudent approach to federal finances compared to the Chrétien era means the country will face a larger deficit in 2020 and 2021 than would have been the case and it will take much longer to balance the budget again. The country will also be saddled with a larger overall debt and thus higher interest costs than had the Trudeau Liberals exercised greater prudence. **FI**



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Typically, on this page of *The Quarterly*, we include a **Staff Profile** to introduce a member of our dedicated team. If you have had the pleasure of meeting any of them, you'll know that they are passionate, hard-working, and dedicated to improving Canada.

Rather than profile one member of our team in this issue, we wanted to say **THANK YOU** to our entire team—our researchers, our senior fellows, our education programs team, our marketing and communications teams, our development team, and the backbone of the Institute, our administration team (human resources, finance, IT).

Our amazing team has done a remarkable job over the past two months under very difficult circumstances. Like teams at most businesses and organizations, we've had to make some difficult decisions. But through this tough time, our team members have produced dozens of studies and commentaries on current government policies. They have enhanced our online and social media presence. They have pivoted our education programs to digital platforms. They have increased our communication with you, our friends and supporters.

Lots has changed but they've found a way to keep moving forward.

THANK YOU!

Help us keep Canadians informed

The unprecedented government spending in response to COVID-19 will have consequences for years to come.

There will be no shortage of voices encouraging governments to retain their expanded economic control post-pandemic. But the Institute's research will continue to inform and educate Canadians about the long-term effects these policies and debt levels will have.

This is why the Institute is, and will continue to be, more important than ever.

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