

THE Quarterly

SUMMER 2021

The Devastating Impact of Ottawa's \$170 Per Tonne Carbon Tax



184,000
FEWER JOBS

\$38 BILLION
DECLINE IN GDP

\$22 BILLION
INCREASE
IN GOVERNMENT DEFICITS

HIGHER
ENERGY COSTS



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

In December 2020, Environment Minister Jonathan Wilkinson publicly claimed that his government's plan to increase the carbon tax to \$170 per tonne from the then-level of \$30 per tonne would have "almost zero" impact on our economy. The Liberals, however, refused to release their analysis for the public to review and scrutinize.

At the time, Alberta's environmental minister, Jason Nixon, indicated that his government had done an analysis that found his province would be subject to significant employment and economic damage.

So which is it?

Well, here at the Fraser Institute our motto has always been, "if it matters, measure it," particularly for a policy change of this magnitude. It is the only way in which Canadians can have an open, honest debate.

As the cover of this edition of *The Quarterly* highlights, we filled the void and released the first independent analysis, with complete transparency, on the economic impacts of the \$170 per tonne carbon tax. The results are devastating and include:

- Over 180,000 jobs lost nationwide;
- a massive \$38 billion decline in GDP;
- higher energy costs; and, critically,
- these increases fall disproportionately on lower-income households.

And yes, Alberta will be hard hit. But the carbon tax increase will result in jobs lost in every single province. Southwestern Ontario, for example, will get hammered by the increase.

I am pleased to report that our study received massive media coverage. For example, it was covered on the front page of the *National Post* and in major newspapers across the country including *The Province*, *Toronto Sun*, *Ottawa Citizen*, *Calgary Herald*, *Edmonton Journal*, and *Vancouver Province*. And the study was also widely covered on radio. Through traditional media alone, our study reached over 13 million Canadians.

Lots of people and organizations that are followed by hundreds of thousands of Canadians were also sharing the study online—including the federal Minister of Environment and Climate Change Jonathan Wilkinson, who, by the way, did not dispute our findings!

Please help us get these important messages out even further. After you are finished reading this edition of *The Quarterly*, please pass it on to your friends, family, and colleagues.

A handwritten signature in blue ink, appearing to read "Niels Veldhuis". The signature is fluid and cursive, written over a light blue background.

Best,
Niels

New Research



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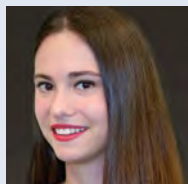
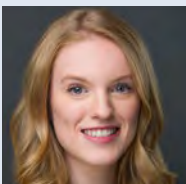
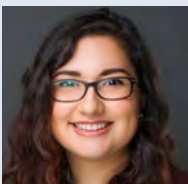
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Canadian Seniors Will Consume 71.4 Percent of Total Health Care Expenditures in 2040

Steven Globerman

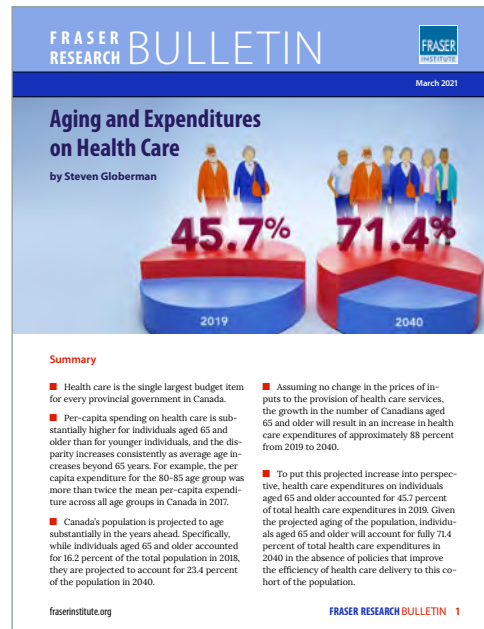
The pandemic has made health care, already a pressing issue, a top priority for policymakers in Canada. But in addition to COVID-19, two other phenomena may profoundly affect the financial sustainability of Canada's health care system in coming years—Canada's aging population and the much higher per-person health care costs for older Canadians than for younger Canadians.

Indeed, Canadians aged 65 and older accounted for 16.2 percent of Canada's total population in 2018 and will account for a projected 23.4 percent of the population in 2040.

Moreover, according to the available data (2017), per-person spending on health care is substantially higher for Canadians aged 65 and older than for younger Canadians, with the disparity increasing as average age increases beyond 65 years. For example, per-person spending for the 80 to 85 age group was more than twice the mean per-person spending across all age groups in Canada.

In fact, health care spending on Canadians aged 65 and older accounted for 45.7 percent of total health care expenditures in 2019. Given the projected aging of the population, that percentage will rise to 71.4 percent of total health care expenditures in 2040.

And according to a new Fraser Institute study, *Aging and Expenditures on Health Care*, which uses 2017 estimates of per-person health care expenditures (assuming no post-2017 inflation in health care costs), this projected growth in the number of Canadians aged

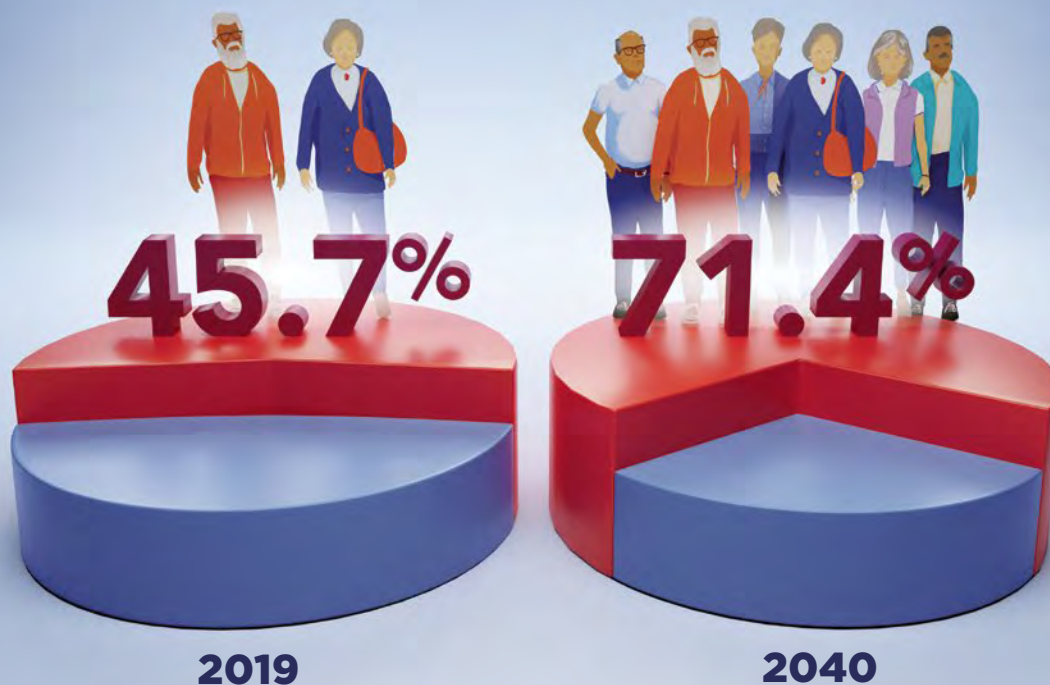


65 and older will increase health care spending by approximately 88 percent from 2019 to 2040.

In other words, by 2040, absent policy change, around one-quarter of Canada's population will consume nearly three quarters of the government's (inflation-adjusted) health care budget. This seems politically unsustainable, and inappropriate from a public health perspective. Clearly, there's an urgent need for governments to implement policies that improve the efficiency of health care services for seniors. The alternatives include either a dramatic increase in government spending on health care or a dramatic increase in rationing, which will mean longer wait times for care.

COVID will likely not alter this outlook in any significant way. While the pandemic's tragic death toll has been

Without policy changes, Canadians over the age of 65 will account for more than 70 percent of expenditures on basic health care by 2040



largely concentrated among seniors, especially those in care facilities, the death rate among Canadians in their 50s and 60s has thankfully been quite low. Subsequently, by 2040, the proportion of the population in their 70s and 80s will not have changed much. (Although it's possible that some portion of younger people who contracted this coronavirus will have health conditions that manifest in their older age, which might mean that inflation-adjusted per-person health care spending on seniors in 2040 will be higher than in 2017.) If so, it would only increase the financial pressure that an aging population will place on Canada's health care system.

“Canadians aged 65 and older accounted for 16.2 percent of Canada's total population in 2018 and will account for a projected 23.4 percent of the population in 2040.”

Spending on medically necessary services, which comprise the single largest budget item for every provincial

government in Canada, are affected by other factors besides the age distribution of the population including rising costs of health care inputs such as new biologic pharmaceutical drugs (although the benefits of new drugs and other health care innovations may well be worth the additional costs). But our aging population is a major factor.

Policymakers across the country, including in Ottawa, should understand today the likely scenarios of tomorrow, and craft policies with the health and well-being of all Canadians in mind. [FI](#)



STEVEN GLOBERMAN

Steven Globberman is a resident scholar and Addington Chair in Measurement at the Fraser Institute. He is the author of *Aging and Expenditures on Health Care*.

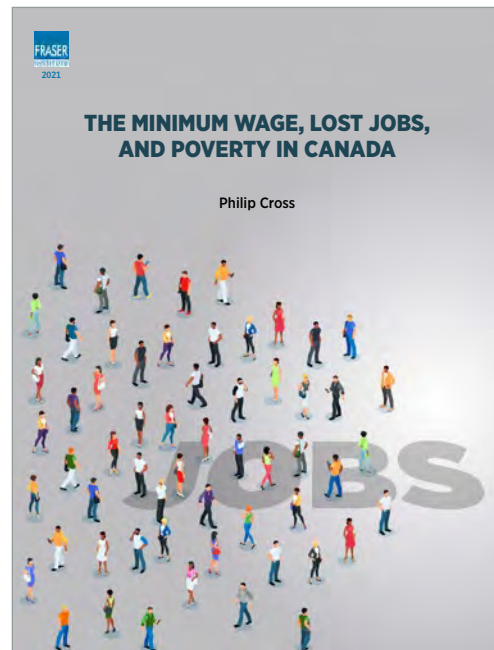
Only One Percent of Minimum Wage Earners Work More than Five Years at Minimum Wage

Philip Cross

The recent Democratic party proposal to nearly double the US federal minimum wage to \$15 an hour by 2025 puts the spotlight back on the economic impact of minimum wage policy. Most studies conclude that minimum wage hikes result in job losses, especially among the younger generation, while doing little to reduce poverty. The failure of minimum wage laws to achieve their intended goal of helping low-income families is not surprising. Minimum wage laws are designed to use employers to achieve a social goal at minimal cost to the government, but they induce firms to lower total labour costs in ways that frustrate that goal. This is because minimum-wage laws have contradictory effects—they help a small number of full-time workers at the expense of others, especially those who lose job opportunities.

Again, most studies of higher minimum wages find a negative impact on jobs. For example, the average estimate by the US Congressional Budget Office (CBO) is that raising the federal minimum wage to \$15 an hour would likely result in the loss of 1.4 million jobs in 2025. Such losses are the result of two forces.

First, higher labour costs force employers to raise prices, which depresses demand and leads firms to cut back their operations. Second, the higher cost of minimum wage workers lowers the relative cost of employing higher wage workers or investing in machines and technology. Employers respond with reductions in low-wage staff, achieved by either substituting capital, higher-skilled workers who are better able to use this capital, or new technology.



So far, the sharp hikes in the minimum wages for Alberta and Ontario in 2018 have had an adverse impact on youth employment. The youth employment rate fell by a full point in Ontario between late 2017 and early 2020 (before the pandemic began), while in Alberta it dropped by half a point over the same period. By comparison, the youth employment rate in all of Canada rose by nearly 2 percentage points over the same period.

Minimum wage hikes have had little success in lowering poverty, partly because that measure reflects family income, whereas the wage itself is paid to the individual. The vast majority of minimum wage earners live in households already above the low-income threshold (and 40 percent live in households with income three times the poverty level), especially youths living with their parents and who account for the largest propor-

Higher minimum wages don't target low-income Canadians, but rather reduce employment opportunities for young and low-skilled workers



tion of minimum-wage earners. This is why the CBO estimates that even doubling the US federal minimum wage would only lower poverty by 2.6 percent.

Pulling on emotional heartstrings by framing \$15 an hour as a “living wage” is misleading. Most people living on low incomes do so either because they are unemployed or because they cannot find more than part-time employment. Raising the minimum wage makes it even more difficult for low-skilled workers to land a job, while part-time employees do not work enough hours for a higher minimum wage to lift them out of low income. Very few full-time employees are paid the minimum wage and therefore stand to benefit from a higher minimum if they keep their jobs.

Recently, cash-strapped governments have increasingly resorted to higher minimum wages to shift the cost of achieving social goals from the public to the private sector. However, one problem with this tactic is that firms often respond in ways that frustrate the intended goal of minimum wage policy. For example, as alluded to above, firms can offset the increase in wages paid to some employees by trimming non-wage benefits, such as pensions or health care benefits. Firms can also respond by cutting low-skilled jobs, which is especially harmful to younger workers.

Making matters even worse, governments typically get the timing wrong when raising the minimum wage. The negative impact of higher minimum wages is minimized by boosting them when labour market conditions are strong. Instead, governments often hike the minimum wage when labour market conditions are soft, in the mistaken belief that higher wages lead to prosperity when it is, in fact, prosperity that creates higher wages. Raising the minimum wage in the middle of a pandemic, which has ravaged industries that employ many minimum-wage workers (restaurants, hotels, etc.), would continue the unfortunate tradition of bad timing and, these days, misguided good intentions by governments. [FI](#)



PHILIP CROSS

Philip Cross is a former chief economic analyst at Statistics Canada and a Fraser Institute senior fellow. He is the author of *The Minimum Wage, Lost Jobs, and Poverty in Canada*.

International Math Test Scores Decline Nationwide over Recent 15-year Period

Derek J. Allison

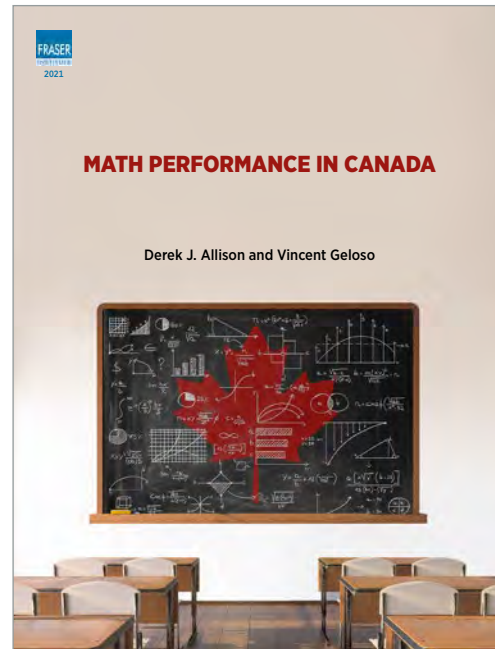
How are our kids doing in math? An odd question as COVID-19 school disruptions drag on, but we must still pay attention to such important matters. Academic achievement is cumulative—learning builds on and from earlier learning. We know students lose a little ground when school is out for the summer. COVID disruptions have taken a heavier toll. If math achievement was declining before the pandemic, then our schools face an even more difficult challenge moving forward.

Unfortunately, as noted in a new Fraser Institute study, *Math Performance in Canada*, average math scores in Canada have been declining for years, well before COVID—and not just the Canadian average, but in all provinces. Given the strategic importance of math literacy in digital economies, this is disturbing news. To avoid falling further behind other countries, and to regain lost ground due to COVID, we must improve math teaching and learning.

Indeed, the data tell the tale.

For example, according to the Programme for International Student Assessment (PISA), administered to tenth grade students around the world, Canada's average math scores have declined significantly from 2003 and 2018 (the latest year of PISA data). While Canada consistently scored above the OECD average over this period, we steadily lost ground. Canada and Japan were statistically tied from 2003 to 2009 before Canada fell behind. Canada continues to outscore the United States, but the gap is narrowing.

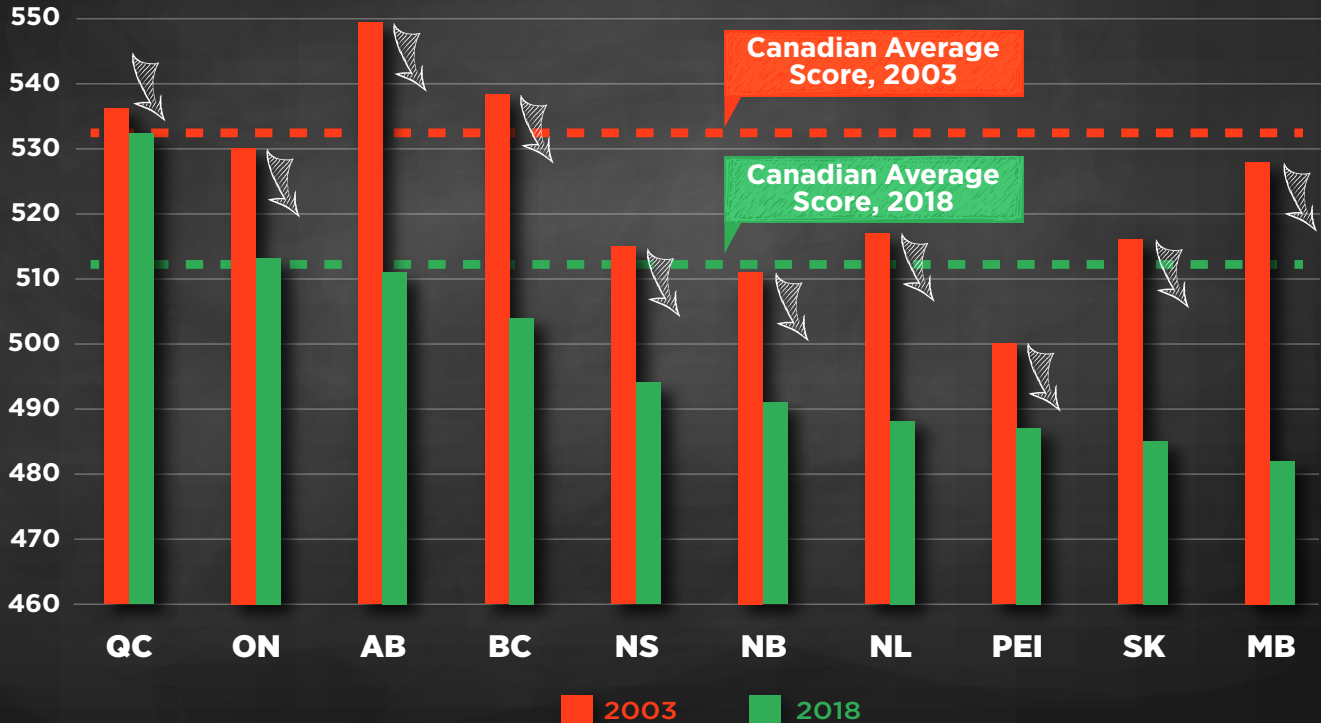
Within Canada, Quebec outperformed all other provinces, with Saskatchewan and Manitoba performing the worst. The really bad news is that PISA math scores de-



clined in all provinces, spectacularly so in Alberta, Saskatchewan, and Manitoba. Quebec's initially high PISA scores and relatively shallow decline has kept it among the top-scoring jurisdictions worldwide. All other provinces have dropped down the world rankings—Ontario, Alberta, and British Columbia scored significantly below Korea, Estonia, and the Netherlands in the 2018 results, Nova Scotia below Sweden, Saskatchewan and Manitoba below Australia.

There is some good news, however. According to the Pan-Canadian Assessment Program, which administers standardized tests to eighth graders in each province every three years, average math scores have increased in all provinces from 2010 to 2016 (except Ontario, where scores have been flat). Like the PISA results, Quebec had the highest average scores among eighth graders, Saskatchewan and Manitoba the lowest.

International math scores (PISA) declined across the country between 2003 to 2018



“Average math scores in Canada have been declining for years, well before COVID—and not just the Canadian average, but in all provinces. Given the strategic importance of math literacy in digital economies, this is disturbing news.”

Modern school systems are like supertankers; they don't turn on a dime. It will take time and effort to reverse these negative trends. Dismayed by declines in its internal third and sixth grade math scores, Ontario

recently adopted a new “Back to Basics” math curriculum and new teaching strategies. Again, results will take time, in Ontario and across Canada, particularly in COVID's wake. Perhaps it's time for a national response, or at least a priority effort by a coalition of larger provinces. [FI](#)



DEREK J. ALLISON

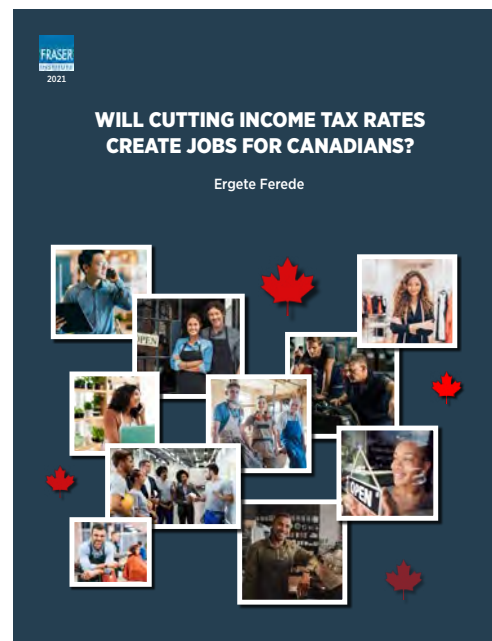
Derek J. Allison is a professor emeritus of education at the University of Western Ontario and senior fellow at the Fraser Institute. He is co-author, with Vincent Geloso, of *Math Performance in Canada*.

Federal Income Tax Rate Reduction Could Help Create 110,000 New Private Sector Jobs in Canada

Ergete Ferede

Job creation is often considered one of the most critical public policy goals that governments seek to achieve. The recent significant job losses that the country has experienced during the COVID-19 pandemic have brought employment to the forefront of meaningful policy discussions, so some commentators and analysts suggest that policymakers should embark on tax cuts to stimulate a higher employment rate in the economy. Nevertheless, the effects of tax policy on employment have been among the most contentious issues in academic and political circles. There is also a lack of empirical evidence on this crucial issue in the Canadian setting, and results from previous studies are generally inconclusive. What are the effects of federal income taxes on employment? Can the Canadian federal government encourage private-sector job creation through cuts in the income-tax rate?

When governments face budgetary challenges and budget deficits rise, they often raise the income tax rate on high-income earners and corporations to generate revenue. In Canada, since half of the capital gains are currently subject to income tax, any increase in the personal income tax (PIT) rate also raises the tax burden on capital gains. However, various studies indicate that such attempts to raise tax revenue have high economic costs. An increase in the top marginal statutory PIT rate can discourage entrepreneurship, which hurts the private sector's capacity to create jobs in an economy. A higher income tax rate reduces the after-tax wage income that individuals receive, and this



adversely affects their incentives to work. Similarly, an increase in PIT that causes a rise in the capital gains taxes reduces the after-tax return for entrepreneurship and investment, ultimately hurting the economy's capacity to create jobs.

The empirical analysis of this study shows that income taxes have significant adverse effects on private sector employment. The rates of the capital gains tax and the corporate income tax have similar negative effects on employment. The results of the study suggest that a one percentage-point cut in the federal top PIT rate leads to an increase in the private employment rate by about 0.25 percent in the year following the tax rate cut. In other words, if the federal government cuts the top statutory marginal PIT rate from the current 33 percent to

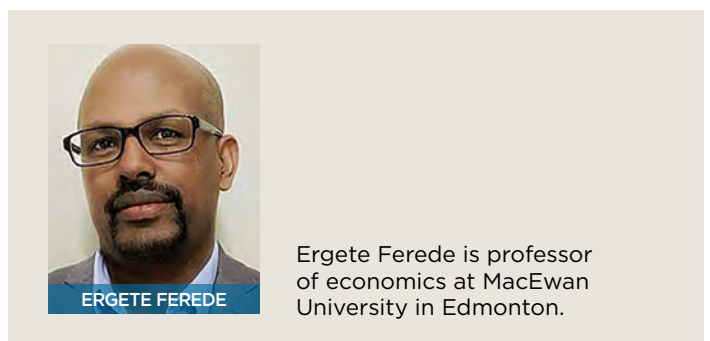


Returning the top federal income tax rate to 29% will encourage entrepreneurship and investment, resulting in 110,000 ADDITIONAL PRIVATE SECTOR JOBS

“ If the federal government cuts the top statutory marginal PIT rate from the current 33 percent to 29 percent—the rate prevailing before the 2016 tax-rate hike—the private sector will create about 110,000 jobs in the year following the tax cut. This would provide a vital boost to the economy that has suffered significant job losses as a result of the pandemic.”

vital boost to the economy that has suffered significant job losses as a result of the pandemic. Thus, this study’s important policy implication is that, if the Canadian federal government wishes to encourage private-sector job creation, cutting the top PIT rate (and the associated capital gains tax rate), is a crucial and promising policy choice to consider. Such a policy change will also help to significantly improve Canada’s overall tax competitiveness in relation to other OECD countries. **FI**

29 percent—the rate prevailing before the 2016 tax-rate hike—the private sector will create about 110,000 jobs in the year following the tax cut. This would provide a



ERGETE FEREDE

Ergete Ferede is professor of economics at MacEwan University in Edmonton.

Ottawa's \$170 per Tonne Carbon Tax by 2030 Will Result in Nearly 185,000 Lost Jobs

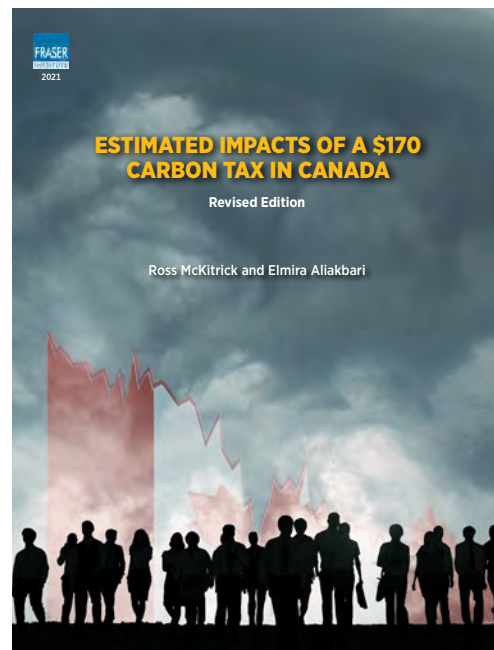
Ross McKittrick and Elmira Aliakbari

As part of its “Healthy Environment and Healthy Economy” (HEHE) plan, the Trudeau government plans to increase the federal carbon tax from its current level (\$30 per tonne) to \$170 per tonne over the next nine years. Not to worry, promises the government, this will have no effect on the economy. In fact, because it plans to refund most of the revenues to households, most Canadians will end up better off.

However, the government hasn't released any specific economic analyses to support these claims. But in a new study published by the Fraser Institute, *Estimated Impacts of a \$170 Carbon Tax in Canada*, we find that the government's claims are likely untrue. A tax increase of that size will cause the economy (i.e., GDP) to shrink by about 1.8 percent, cause a permanent loss of nearly 185,000 jobs, and reduce real income in every province. Even with the rebates, the overall income loss will average about \$1,540 per employed person annually.

Understanding the HEHE costs is much more challenging than was the case for Kyoto policies 20 years ago. Back then, the government proposed a couple of options to achieve emission reductions similar in scale to what they're talking about now. It commissioned numerous economic analyses by independent groups inside and outside government and published the results. Those studies concluded that (on average) cutting emissions by 25 percent would impose a permanent cost of about 2.0 percent of GDP.

There are no similar studies from Ottawa this time. In fact, the modelling work for our study is the first publicly available analysis of the costs of the \$170 carbon tax



plan. It indicates that the HEHE plan will yield about the same scale of emission reductions as the Kyoto plan and will cost about the same amount. It won't cut emissions enough to achieve the Paris targets—if the carbon tax was raised high enough to do that, the economic costs would double. And if Canada wants to keep emissions capped as the population continues to grow, the tax must keep rising every year thereafter.

Absolute job losses will be largest in Ontario and Quebec, followed by Alberta and British Columbia. Even smaller regions get hit, with nearly 4,500 job losses expected in the Atlantic provinces. National capital utilization declines by about 1.1 percent, implying a significant departure of investment out of the country. Production cost increases will lead to about a 2.8 percent decline in exports and about a 1.2 percent increase in imports.

A \$170 per tonne carbon tax by 2030 will result in 184,000 fewer jobs across Canada



“ A tax increase of that size will cause the economy (i.e., GDP) to shrink by about 1.8 percent, cause a permanent loss of nearly 185,000 jobs, and reduce real income in every province. Even with the rebates, the overall income loss will average about \$1,540 per employed person annually.”

What about the plan to rebate carbon tax revenue to households? While the tax will raise revenue, the economic contraction will mean the federal and provincial governments will raise less in income and sales taxes than they would otherwise. The contractionary effects are large enough that if the federal government either spends or refunds all household carbon tax revenues, the combined federal and provincial budgets will move about \$22 billion into deficit. We didn't determine what level of government will end up in the hole, but the federal government may actually experience a net increase in revenue while the provinces end up paying the entire cost of the policy.

In decades past, when the federal government proposed major new policy initiatives such as the Canada-US Free

Trade Agreement, the HST, or meeting Kyoto targets, it provided the public with detailed analyses of the potential impacts. Government officials didn't pretend there wouldn't be any costs and didn't pretend that everyone would be magically better off. They recognized that to make an informed choice, the public needs information. That attitude has changed. Again, this time, the government has provided no analyses of the costs and risks of its HEHE plan, instead offering only benign but implausible slogans that simply don't hold up under analysis.

In reality, this carbon tax policy will have significant negative effects on incomes and jobs across Canada, and Canadians deserve to know what they are. [FI](#)



ROSS MCKITRICK



ELMIRA ALIAKBARI

Ross McKittrick is a professor of economics at the University of Guelph and senior fellow at the Fraser Institute. Elmira Aliakbari is associate director of Natural Resource Studies at the Fraser Institute. They are co-authors of *Estimated Impacts of a \$170 Carbon Tax in Canada*.

Prime Ministers and Government Spending: 2021 Edition

Jake Fuss and Nathaniel Li

After experimenting with hundreds of billions of dollars in new spending initiatives and an array of temporary programs in response to the pandemic, the federal government appears primed to further expand its involvement in the post-COVID economy to “build back better.” However, the size of government in Canada had been increasing well before the pandemic, and based on that experience, this approach is unlikely to produce the desired results.

There are two primary measures to gauge the size of government. The first is per-person spending. In 2020/21, the federal government spent the largest amount of money per person (adjusted for inflation) in Canadian history—by a wide margin. Indeed, per-person program spending will reach a projected \$17,091 (in real 2021 dollars), which is approximately double the amount spent during the 2009 recession and at the peak of the Second World War.

But the rapid increase in spending began well before the pandemic. During Prime Minister Stephen Harper’s last year in office, program spending was budgeted to reach \$263.2 billion. This meant per-person spending (again, after adjusting for inflation) would be \$8,063 in 2015. However, Prime Minister Trudeau immediately increased spending after winning the election in late 2015 and has continued this trend every year since.

By 2018, federal per-person spending had grown to \$9,061, which was the highest amount in Canadian history up to that point. Per-person spending set a new record again the following year, rising to \$9,500. This means that the Trudeau government increased real per-person federal government spending by nearly 18 percent during its first term in office, and before any recession.

Another way to measure the size of government is to compare government spending with the size of the Canadian economy. Research demonstrates that the size of government matters for economic growth. Recent data from Fraser Institute senior fellow Livio Di Matteo, for instance, concludes that economic growth is maximized when government spending is between 24 and 32 percent of the economy.

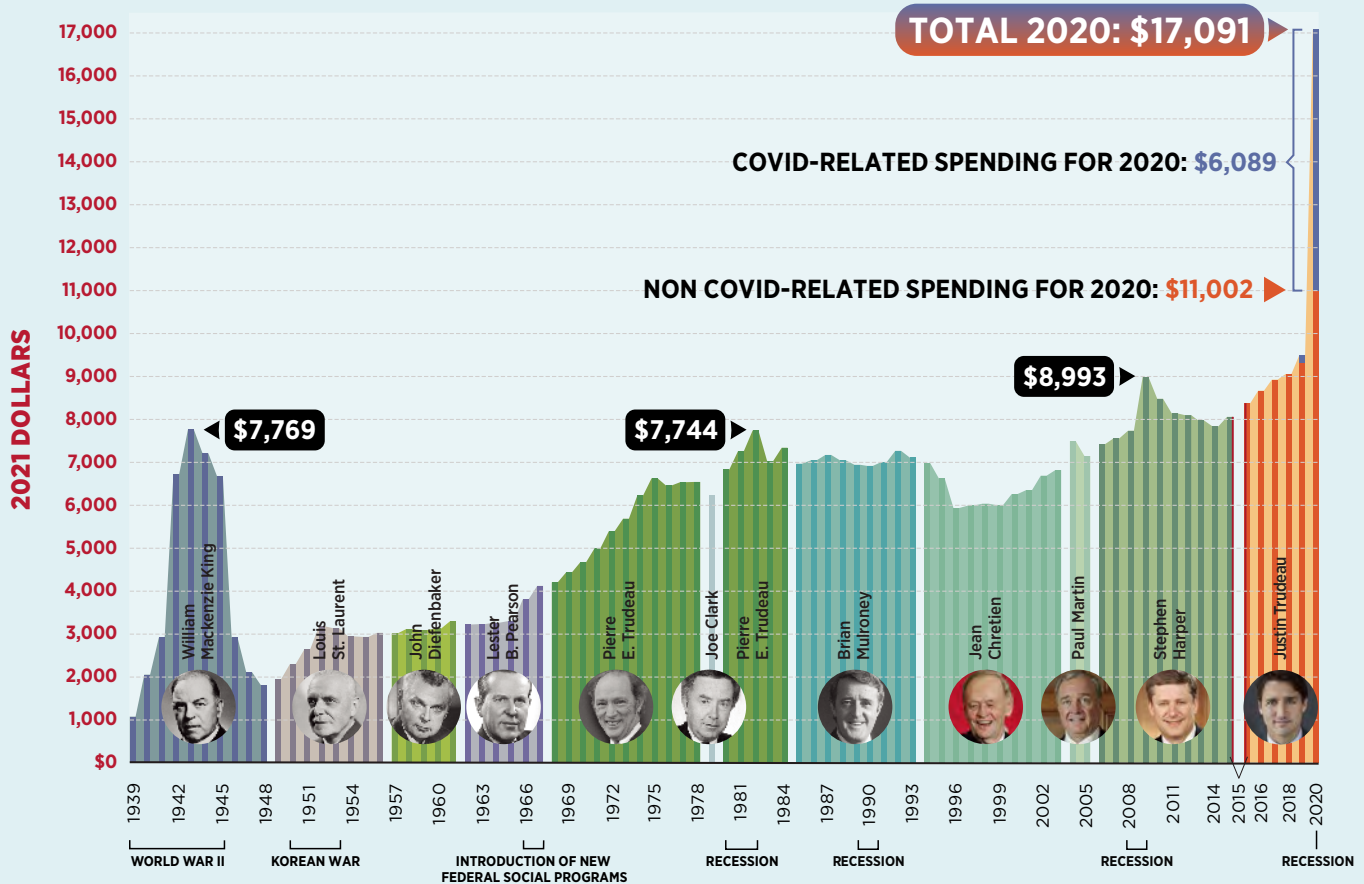
Between 2015 and 2019, the Trudeau government increased federal spending (as a share of the economy) from 14.5 to 16.2 percent. Once we include government spending by the provinces and local municipalities, the International Monetary Fund (IMF) estimates all government spending reached 41.2 percent of the Canadian economy in 2019—well above the optimal level.

Excessively large government usually entails government becoming active in ways that are counterproductive to economic growth. For instance, by redistributing income from certain groups to others, and favouring certain industries and sectors of the economy through corporate welfare and protectionism, the government will likely help slow economic growth.

For these reasons, increasing the size of government between 2016 and 2019 did not produce better results for the Canadian economy. Instead, the Trudeau government oversaw weak performance for income growth, labour markets, and business investment—which are all critical to economic growth and social progress.

Specifically, the average annual growth in GDP per capita (a broad measure of income) was just 0.8 percent during 2016 to 2019 compared to the 3.7 percent growth rate experienced during a comparable 1997 to 2000 period under the Chrétien government. Moreover, total business investment declined (on average) by 0.2 percent from 2016 to 2019.

PER PERSON FEDERAL PROGRAM SPENDING SINCE WORLD WAR TWO



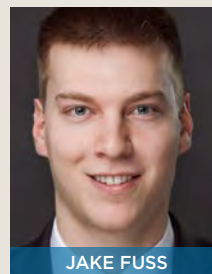
Note: 2015 spending for Prime Minister Harper is based on the planned 2015 Budget spending while the 2015 spending for Prime Minister Trudeau is based on actual spending in that year. 2021 spending is a projection.

Images: William Mackenzie King, Louis St. Laurent, John Diefenbaker, Lester B. Pearson, Pierre E. Trudeau, Brian Mulroney, National Archives of Canada; Joe Clark, Mia Matthes; Jean Chrétien, Paul Martin, Stephen Harper, Justin Trudeau, Office of the Prime Minister.

Clearly, larger government is not always associated with improved outcomes. The Trudeau government must consider these negative economic consequences before it cultivates an even greater role for itself in coming years with new programs such as national daycare, national pharmacare, and expanded infrastructure. Current projections (which do not include these potential new programs) already indicate that federal program spending in 2021 will reach \$11,370 per person—or 18.7 percent of the economy—which is considerably higher than the size of government in 2019, the year before the pandemic.

Expanding federal government involvement in the economy post-COVID will impede prosperity for Canadians and their families and slow our economic growth

at a time when growth is sorely needed. That's not a recipe for success. [FI](#)

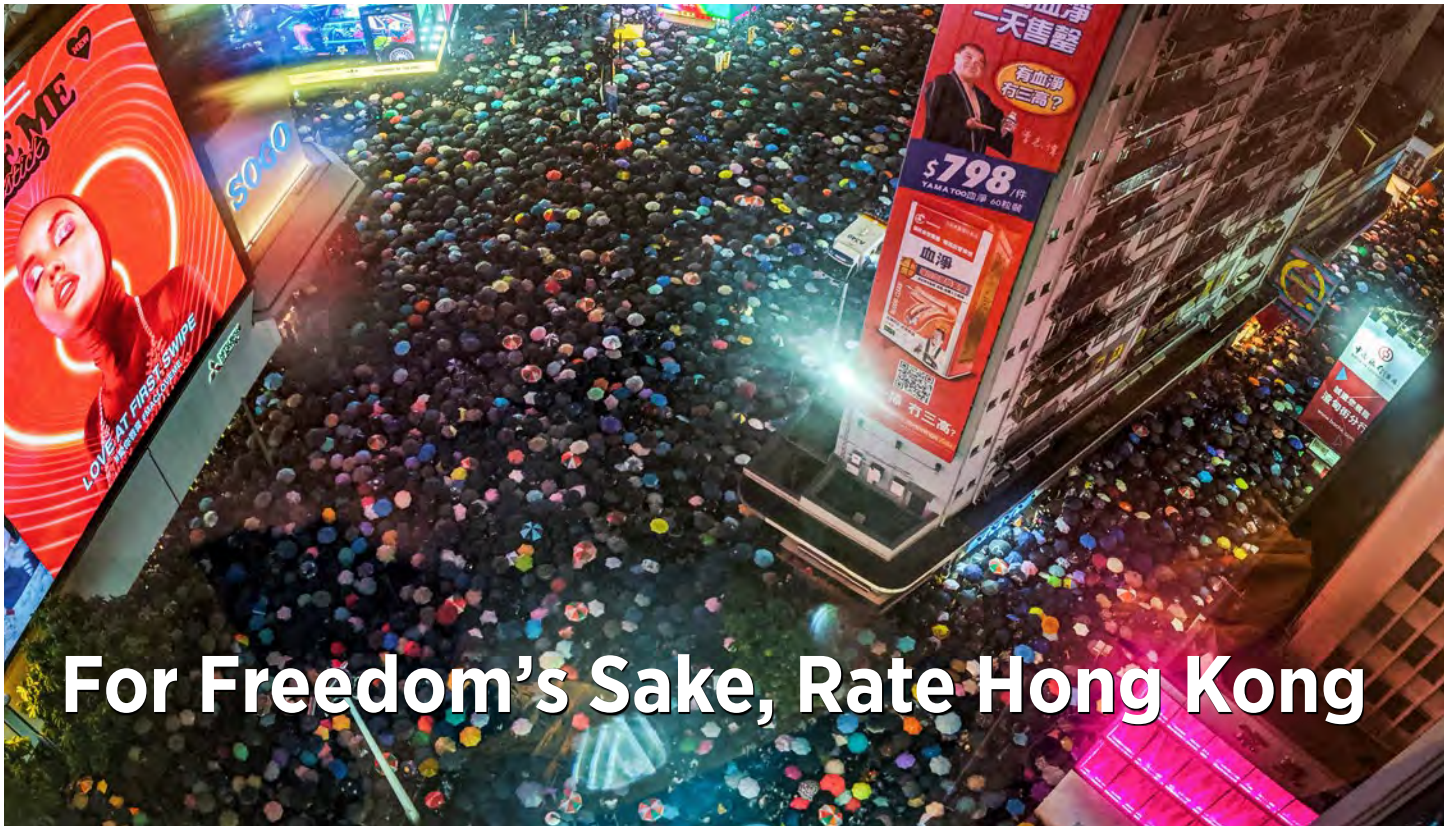


JAKE FUSS



NATHANIEL LI

Jake Fuss is a senior economist and Nathaniel Li is an economist at the Fraser Institute.



March against the 2019 Hong Kong extradition bill. Studio Incendo Flickr photo

For Freedom's Sake, Rate Hong Kong

Michael Walker and Fred McMahon

The people of Hong Kong deserve to have their descent into tyranny recorded. At least one international index has expunged Hong Kong from its rolls but the *Economic Freedom of the World Annual Report*, by the Fraser Institute, and the *Human Freedom Index*, co-published with the US-based Cato Institute, will not abandon Hong Kong.

History, too, deserves a record of the Chinese Communist Party's (CCP) suppression of rights and freedoms in Hong Kong, once arguably the freest place on the planet. Lessons from history are important.

Measurement helps clarify the world. A range of international indices create valuable information on the human condition by comparing like to like. The indices are even more valuable when tracking fast-moving and fundamental changes, as sadly is the case for Hong Kong.

Yet the US-based Heritage Foundation's *2021 Index of Economic Freedom* has dropped Hong Kong and created a new rule to do this: "The Index this year measures economic freedom only in independent countries where governments exercise sovereign control of economic

policies. Hong Kong and Macau are thus no longer included in the Index."

But this is an index of economic freedom, not an index of who rules whom. Would an education index refuse to measure the number of students in secondary education because it didn't like who set policy?

The new rule flies in the face of past practice. International indexes, including Heritage's, happily included Hong Kong's when its policies were set by a London-appointed governor with monarchical power. They didn't pause measuring Lebanon when it was under Syrian control.

They recorded the economic freedom of scores of impoverished and indebted nations when the IMF and World Bank unilaterally set economic policy. Russians and Russian institutions don't control economic policy; Putin's cronies do. Venezuelans don't control economic policy; Maduro's clique does, and so on.

One can quibble and make fine distinctions, but the bottom line remains—an economic freedom index is supposed to measure freedom, not who sets the rules.

This importance of measurement is broader. If data were available, the Fraser Institute and many other organizations would extend the measurement of economic freedom and other indicators to the sub-national level, regardless of who sets the rules. This would be particularly valuable for China. Doubtless Xinjiang, home of the Uyghurs, is less free than Guangdong, next door to Hong Kong, even though both provinces are controlled by Beijing. Knowledge of the levels would open new insights into the current state of China; sadly, the data don't exist.

Heritage admits Hong Kong enjoys "economic policies that in many respects offer their citizens more economic freedom than is available to the average citizen of China." So why not measure it?

“As the reins tighten on Hong Kong, let's remember this miracle: 'Hong Kong was left devastated at the end of World War II, yet by granting its people the highest level of economic freedom in the world, Hong Kong rose to become one of the most prosperous places on the planet.'”

Millions of people in Hong Kong will attempt to preserve as best they can their remaining freedom, but Heritage accepts CCP's one state/one system for Hong Kong, saying "developments in Hong Kong or Macau that are relevant to economic freedom will be considered in the context of China's evaluation in the Index." The CCP couldn't have said it better.

Why exclude Hong Kong? Perhaps public relations to avoid rating Hong Kong highly. The Fraser Institute's index got pushback for rating Hong Kong in first in the 2020 economic freedom index (based on 2018 data, the most recent comprehensive data). That shouldn't deter measurement.

Hong Kong will again be at or near the top of economic freedom in 2021, based on 2019 data. The CCP wants to maintain Hong Kong's economic success and will avoid undermining economic freedom, except where it

threatens the regime. Hong Kong will decline more in the broader Human Freedom Index but not all at once. Hong Kong censors and other officials, through temperament and culture, will have a lighter hand than their Beijing counterparts. The gap will narrow over time—and we'll be measuring it.

The Fraser Institute led the way in defining economic freedom and the principles of measurement, beginning with a series of Liberty Fund seminars in the mid-1980s, led by one of us, Michael Walker, then-Fraser Institute executive director, and Milton and Rose Friedman, and involving 60 of the world's top scholars including three Nobel Laureates.

The Fraser index first appeared in the mid-1990s, backdated to 1970. Hong Kong was number one from the start. As the reins tighten on Hong Kong, let's remember this miracle: "Hong Kong was left devastated at the end of World War II, yet by granting its people the highest level of economic freedom in the world, Hong Kong rose to become one of the most prosperous places on the planet.... In 1950, Hong Kong was about tied with the world average per capita GDP at just over \$2,000 in constant 2010 US dollars; in 2018, Hong Kong's per capita GDP reached \$40,000, four times the world average."

That text is from an international petition launched in solidarity with the people of Hong Kong, initiated by the Fraser Institute last year and co-signed by institutes in 39 countries. We will not abandon Hong Kong and hope that international organizations will continue to measure freedom and other important markers of the human condition wherever that data are available, whether the results are popular or not. [FI](#)



MICHAEL WALKER



FRED McMAHON

Michael Walker is the co-founder of the Economic Freedom of the World project and Fred McMahon is a Fraser Institute resident fellow and holder of the Dr. Michael A. Walker Chair in Economic Freedom.



Beware Experts Bearing Consensus

Jason Clemens

One of the potential long-term consequences of the COVID pandemic and recession is that experts will be elevated to positions of authority, influence, and decision-making not commensurate with their actual knowledge and contrary to the principles of democracy.

This is not to say that experts should not play a key role in policymaking. They should. But as advisers to elected officials. The predisposition in democracies should always be to leave decision-making in the hands of individuals and families, and when collective action is required to first favour voluntary organizations before imposing state dictates. And when state action is required, the principle of “subsidiarity” should apply: use the level of government able to intervene effectively that is closest to the people, which means favouring local governments over provincial, and provincial over federal. Today we’re moving towards the exact opposite, empowering Ottawa to impose one-size-fits-all policies for the

entire country. For instance, the federal government may soon introduce national daycare, national pharmacare, and massive spending and regulation for green initiatives to fundamentally redesign Canada’s economy.

This greater reliance on experts is born from several misunderstandings.

The first is the limit of expert knowledge, particularly during crises. People naturally yearn for certainty and when uncertainty reigns, as it did in much of 2020, they look to experts for answers. Many experts have deep knowledge of their specific areas, but no one has complete knowledge. It’s therefore impossible for experts to fully understand all the implications of their recommendations. Indeed, a mainstay of economics is the study of unintended consequences.

Moreover, although experts clearly have more knowledge and information about specific issues, like the rest of us, they make mistakes. When they are granted more power and decision-making authority, their mistakes can impose

costs on the entire society. And, as Queen’s University law professor Bruce Pardy recently explained on this page, actual policy decisions by governments involve weighing trade-offs that are far beyond the scope of expertise of any particular expert.

This falsehood, that experts have complete knowledge, is amplified by the worrying role of consensus—that when a consensus (or even just a majority) forms among experts, it must be correct. This misunderstands the nature of scientific discovery and economic progress.

“ Now more than ever, we need an open environment for ideas, including in the realm of science; otherwise, the risks of groupthink and the inevitable peer pressure from consensus overwhelm the natural instinct to question the status quo and search for better ways.”

Many scientific breakthroughs have run contrary to the consensus of their time, in some cases costing the people pursuing them dearly. Dr. Ignaz Semmelweis (1818-1865), a Hungarian physician and scientist, discovered the benefits of hand-washing for doctors in preventing infections and reducing patient mortality. Instead of being celebrated for his discovery, however, Semmelweis was ostracized by his colleagues, who thought his breakthrough blamed them for the death of patients. Semmelweis eventually lost his job and was later institutionalized. Today double-blind testing of scientific propositions makes tragic mistakes like this less likely, but where propositions are complex or for other reasons difficult to test scientifically, as are climate or macroeconomic theories, consensus remains influential.

The great 20th century economist Joseph Schumpeter explained the need for open markets and the removal of barriers to entry for entrepreneurs to discover new products and services that challenge existing firms. The same holds true for ideas. Now more than ever, we need an open environment for ideas, including in the realm of science; otherwise, the risks of groupthink and the inevitable peer

pressure from consensus overwhelm the natural instinct to question the status quo and search for better ways.

An additional emerging issue linked with experts is the lack of differentiation between facts and modelling (i.e., predicting the future). Despite economic, climate, and more recently health models being wildly inaccurate and unreliable, they are increasingly relied upon for policy-making as if they were facts.

For example, in mid-March of last year, just as lockdowns were beginning in the West, Neil Ferguson, a UK epidemiologist, and his colleagues at the Imperial College London issued a report estimating worse-case scenarios of 2.2 million US deaths and 510,000 British deaths from COVID in the, as they wrote, “(unlikely) absence of any control measures or spontaneous changes in individual behaviour.” Although the report’s purpose was to indicate by how much different non-pharmaceutical strategies could reduce these death totals—answer: by a lot—the media reported the no-response, worst-case numbers as fact, prompting US President Donald Trump and British Prime Minister Boris Johnson to shape public policy based on them. As of March 30, 2021, according to the World Health Organization, COVID-related deaths stood at 544,430 in the United States and 126,615 in the UK, i.e., at less than a quarter the no-response forecasts from Ferguson and his team.

Like everyone else, experts have personal preferences and limited knowledge and make mistakes. In democracies, when collective action is required via the state, it’s imperative that those making the decisions can be held accountable through the democratic process. Giving experts undue authority, even going so far as to cede decision-making to them, not only ignores the decidedly mixed history of expert-made decisions, but also runs contrary to the principles of democracy. [FI](#)



Jason Clemens is executive vice-president of the Fraser Institute.



Ford Fiscal Strategy Resembles McGuinty/Wynne Plans—with Predictable Results

Andrew Louis Flickr Photo

Ben Eisen and Jake Fuss

The Ford government recently tabled Ontario's budget for the 2021/22 fiscal year. Unsurprisingly, the document was covered in red ink. The new budget forecasts a \$33.1 billion deficit, one of the largest in provincial history.

The government also forecasts additional budget deficits throughout its fiscal plan, which ends in fiscal year 2023/24. By then, provincial net debt will climb to \$503.1 billion.

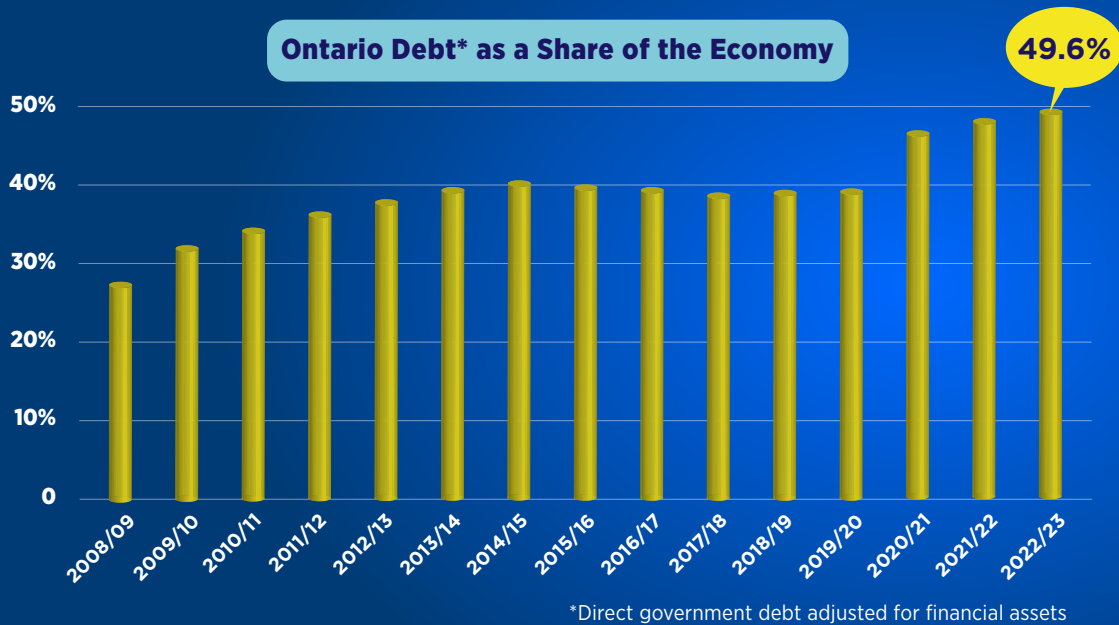
While the pandemic has put pressure on provincial finances and caused Ontario's deficit to balloon, it's important to recognize that Ontario's fiscal problems

predate COVID and will be there waiting when the pandemic ends.

Of course, it's understandable that COVID derailed any short-term fiscal plans. However, it's entirely reasonable to expect the government to present a path to budget balance once the crisis passes, particularly given the emphasis that Premier Ford placed on repairing Ontario's finances on the campaign trail. On this score, the new budget fails to deliver.

Consider the final year of its fiscal forecast, 2023/24, where the Ford government projects a deficit of \$20.2 billion. In other words, the Ford government expects a

Ontario needs to tackle its borrowing and debt quickly



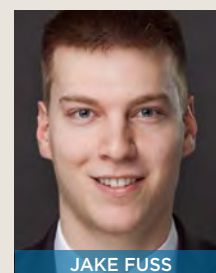
substantial deficit even after pandemic-related spending has wound down.

Why? Because the Ford government is following a similar deficit-reduction strategy as its predecessors—namely the McGuinty and Wynne governments—in the years following the 2008/09 recession. Those governments tried to tackle the deficit slowly over time by holding spending growth approximately to the rate of inflation plus population, while hoping for revenue growth to shrink the deficit over time. The result, predictably, was a very slow rate of deficit-reduction and substantial debt accumulation as time went by.

This is exactly the same strategy the Ford government laid out on Wednesday. Excluding COVID-related emergency spending, the Ford government forecasts that nominal spending will increase at an average annual rate of 3.0 percent between 2019 and 2023. This is very similar to the rate of growth under the Liberals during the 2010s.

Again unsurprisingly, the budget shows that by embracing the McGuinty/Wynne fiscal strategy, the Ford government expects similar outcomes with deficits of more than \$20 billion in every year of its medium-term fiscal plan. As a result, Ontario’s nominal debt burden will climb quickly and hover at its historically high level of approximately 50 percent of the province’s GDP.

Finally, the eye-popping deficit number for 2021 will receive plenty of attention, but what’s more important is whether the government has a solid plan to repair Ontario’s finances once the pandemic and the related public health and economic emergencies are behind us. Unfortunately, this budget does not pass that test. Instead, it continues an approach to spending growth and deficit-reduction similar to the McGuinty and Wynne years, which means there’s no end in sight for Ontario’s long uninterrupted string of budget deficits. [FI](#)



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No PST—Alberta Government Has a Spending Problem, Not a Revenue Problem



Niels Veldhuis and Tegan Hill

A projected \$18.2 billion. That's the huge number the Kenney government forecasts for Alberta's budget deficit this coming year. In other words, \$4,096 per Albertan.

In response, there've been calls for a provincial sales tax to help balance the budget, most notably from the Business Council of Alberta. While replacing other taxes (i.e., those on personal income) with a sales tax might make good policy sense, new taxes to balance the budget fail to address the root cause of Alberta's fiscal challenges—unsustainable spending. As management icon Peter Drucker once famously noted, “the right solution to the wrong problem is more dangerous than the... wrong solution to the right problem.”

While COVID and the ensuing economic and social restrictions have taken a toll on Alberta's finances, its fiscal problems predate the current crisis. First, consider that the provincial government ran deficits in 12 of the past 13 years. And pre-COVID deficits totalled more than \$50 billion. Add to that the deficit this year (\$20.2 billion) and the \$18.2 billion forecasted for this coming year and total budget deficits over 14 years total \$90 billion, or more than \$20,000 per Albertan.

The provincial government ran deficits regardless of the party in power. PC, NDP, or UCP. And regardless of whether oil averaged more than \$90 per barrel, as it did for many years, or under \$40 per barrel. And when provincial revenues increased from \$39 billion in 2008/09 to \$50 billion in 2018/19.

A lack of revenue, low oil prices, the ruling political party—these are not the reasons for Alberta’s fiscal woes. What is the core problem? Prolific, undisciplined government spending.

To truly understand the depth of Alberta’s spending problem, it’s important to understand recent history. Twenty years ago, the “Alberta Advantage” was strong. The province had come back from the fiscal brink and through the Klein reforms had eliminated its debt and become the most attractive province for investment thanks in part to a smaller government sector, less regulation, and competitive taxes. In 2001/02, per-person government spending in Alberta (\$6,573) was lower than other provinces including neighbouring British Columbia (\$6,821).

Fast-forward nearly 20 years and Alberta’s pre-COVID per-person spending (\$12,636) was 20 percent higher than in BC (\$10,560). Yet critically, there’s no evidence that Albertans enjoy better public services.

Indeed, in 15 of the past 20 years (again, pre-COVID), the Alberta government increased spending significantly more than was necessary to account for price changes (i.e., inflation) and population growth, with much of the increased spending going to government-sector compensation.

“A lack of revenue, low oil prices, the ruling political party—these are not the reasons for Alberta’s fiscal woes. What is the core problem? Prolific, undisciplined government spending.”

Had the provincial government remained disciplined and increased spending at a prudent rate—that is, accounting for inflation and population growth (i.e., 4.2 percent per year on average)—total government program spending would have been \$14 billion lower pre-COVID than it actually was (\$42.1 billion compared to the actual \$56.1 billion price tag in 2019/20). Moreover, because total provincial government revenue was \$46.2 billion in 2019/20, Alberta

could have run a budget surplus in the year preceding COVID. Not only that, it would have been in surplus every year for the past 20 years.

To repeat, the problem isn’t oil prices, a lack of revenue, or the political party in office. The problem is undisciplined spending. Suggesting Alberta implement new taxes to help tackle the deficit shows a lack of understanding of the actual problem and recent Alberta history.

“All the evidence suggests that if Alberta increases taxes or adds new ones the government won’t actually use the new tax revenue to balance the budget; it will simply increase spending.”

All the evidence suggests that if Alberta increases taxes or adds new ones the government won’t actually use the new tax revenue to balance the budget; it will simply increase spending. Consider that over the past five years the province has seen a significant increase in personal income tax rates, business income tax rates, and a carbon tax. And the government still ran deficits.

There will be an appropriate time to debate the design of Alberta’s tax system and whether or not the province should consider a sales tax to reduce or eliminate other, more economically damaging taxes. But let’s not conflate this policy issue with the real reason for Alberta’s fiscal crisis and the real fiscal issue the Kenney government must tackle. [FI](#)



NIELS VELDHUIS



TEGAN HILL

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Metro Vancouver Faces Key Hurdles in Race to Become Tech Hub



Steven Globerman

Among many other uncertainties, COVID-19 has made any prediction about British Columbia's future economic outlook uncertain. But recent history can be informative. For example, from 2010 to 2019, BC enjoyed faster real economic growth than any other Canadian province (on average), due largely to a strong residential housing market, primarily in Metro Vancouver, driven by robust population growth and offshore investment.

However, as noted in my analysis in *The Outlook for Growth in British Columbia's Private Sector*, even with the vaccine rollout and possible return to pre-pandemic conditions, this type of continued reliance on the highly cyclical residential housing sector threatens the provincial economy.

The risk is magnified by a potential slowdown in population growth given the increasing unaffordability of housing in the Lower Mainland. Indeed, from 2015/2016 to 2019/2020, net out-migration from BC to other provinces increased by 18 percent while net in-migration from other provinces declined by 9.6 percent.

Municipal and provincial government leaders in BC, as in many other jurisdictions in North America, are looking to investments by companies in technology-intensive industries to drive sustainable economic growth. Because companies such as Microsoft and Amazon have established satellite facilities in Metro Vancouver, some may be optimistic about the region's future as a growing technology hub. But unfortunately, such optimism may be premature, if not misguided.

Metro Vancouver's primary advantage as a tech hub is the relatively low average compensation earned by employees in the software and related industries. For example, the average wage of "tech talent" in Metro Vancouver is only slightly more than half of wages in neighbouring Seattle. However, Metro Vancouver's labour cost advantage is unsustainable over time given current conditions. High housing costs penalize workers in Vancouver relative to most other North American cities. For example, the average tech worker in Vancouver spends 21 percent of their salary on rent compared to 17 percent in Seattle. Furthermore, tech workers in Metro Vancouver face higher personal income tax rates (combined federal plus provincial) than they face in any US tech hub, including relatively high-tax jurisdictions in California.

Clearly, while Metro Vancouver offers tech workers a relatively high quality of life, the region's financial disadvantages will eventually oblige local employers to pay their workers higher salaries or lose them to employers in other locations.

“Metro Vancouver's labour cost advantage is unsustainable over time given current conditions. High housing costs penalize workers in Vancouver relative to most other North American cities.”

There's another problem. Metro Vancouver has a dearth of "anchor" firms—large innovative companies that generate startup ventures through spinoffs and by attracting companies to participate in anchor firm supply chains. In fact, BC's largest technology companies are old-line telecommunications companies such as Telus, Shaw Communications, Bell Canada, and Rogers Communications. These companies are unlikely to serve as strong anchor firms that promote new general-purpose technologies such as artificial intelligence and robotics.

Finally, the competition among cities to attract and retain anchor firms is fierce. In this regard, BC's corporate tax structure hurts this effort. Specifically, the province's

business tax rate increases from 2 per cent to 12 percent once a company's revenues reach \$500,000. It's no surprise, therefore, that of some 400,000 businesses in BC, only about 800 have more than 50 paid employees.

“Raising the income threshold for the province's highest marginal personal tax rate would help attract and retain highly skilled professionals, as would easing zoning and other regulations that contribute to higher building costs, stifled housing supply, and reduced affordability.”

Flattening the corporate tax rate structure would help address Metro Vancouver's anchor firm problem. At the same time, raising the income threshold for the province's highest marginal personal tax rate would help attract and retain highly skilled professionals, as would easing zoning and other regulations that contribute to higher building costs, stifled housing supply, and reduced affordability.

While Metro Vancouver has a lot going for it (it's truly a beautiful place to live), innovators and entrepreneurs such as Elon Musk, who contribute to profound changes in any location's economic environment, are primarily drawn by a favourable business climate. In this crucial area, Metro Vancouver is falling behind the competition. [FI](#)



Steven Globberman is a resident scholar and Addington Chair in Measurement at the Fraser Institute. He is the author of *The Outlook for Growth in British Columbia's Private Sector*.

Non-COVID Patients **Paying Ultimate Price for Health Care Backlogs**



Bacchus Barua

Recently, COVID-19 claimed another life—Rosine Chouinard-Chauveau, a 28-year-old actress in Montreal. However, her name will likely not be counted among COVID mortality numbers because she did not die from the virus. Rather, she died waiting for surgery for an undisclosed health issue.

According to a statement from Chouinard-Chauveau's family, the surgery "could not take place on time due to the *délestage* in the health system to handle the pandemic."

While many Canadians may be unfamiliar with the term, they'll understand the concept. *Délestage*, in this context, refers to the cancellation or postponement of surgery and other medical treatments in anticipation

of COVID caseloads. According to the Quebec government, an estimated 140,000 patients are waiting for surgery in the province, with nearly 44,000 having already waited more than six months.

To be clear, Quebec's backlog is not unique to the province. In fact, across Canada, provincial health ministers made the difficult decision to cancel thousands of elective surgeries to ensure our scarce medical resources would be available for new COVID cases. The good news is provinces such as British Columbia have significantly reduced their COVID-related backlogs by increasing surgical capacity, partnering with private clinics, and hiring new staff. However, despite the progress, BC's government still reported 88,401 patients waiting for treatment in November 2020.

So what's going on?

While COVID-19 has exacerbated challenges in the health care system, Canada has been rationing care for years. In fact, according to estimates from the Fraser Institute's *Waiting Your Turn: Wait Times for Health Care in Canada, 2020 Report*, more than one million patients endured waited a median wait of 20.9 weeks for medically necessary elective care in 2019—long before COVID. Sadly, as families across the country know too well, these wait times can have serious consequences. Some patients may be in pain or unable to work while those less fortunate may experience a permanent deterioration of an otherwise treatable condition. And in the worst cases, patients may pay the ultimate price. A recent report suggests that at least 1,480 (and maybe as many as 3,841) surgeries were cancelled in 2018-19 because the patient died while waiting for care. And remember, that's in the pre-COVID world.

“Across Canada, provincial health ministers made the difficult decision to cancel thousands of elective surgeries to ensure our scarce medical resources would be available for new COVID cases.”

Moreover, doctors across Canada increasingly indicate our current *délestage* approach to health care is extending beyond “elective” treatments (hip surgery, for example) to more critical areas such as cancer care and cardiovascular surgery where delays can be fatal. And when Canadians seek private alternatives within our borders, they run into provincial restrictions. In fact, Canada's unique and restrictive approach to universal health care stands in stark contrast to other, arguably better-performing, universal health care countries.

And just to be clear, today's surgical backlogs (and other problems with Canada's health care system) are not the result of inadequate funding. Canada ranks among the most expensive universal health care systems in the world yet has fewer physicians, beds, and diagnostic imaging scanners (such as MRI machines and CT scanners) than comparable universal health care countries such as Switzerland, the Netherlands, Germany and

Australia. And of course, we also have some of the longest wait times.

“While it will take significant reform to address the routine rationing of care in our health care system, governments across Canada can no longer ignore the many non-COVID patients who've paid a heavy price since the pandemic began.”

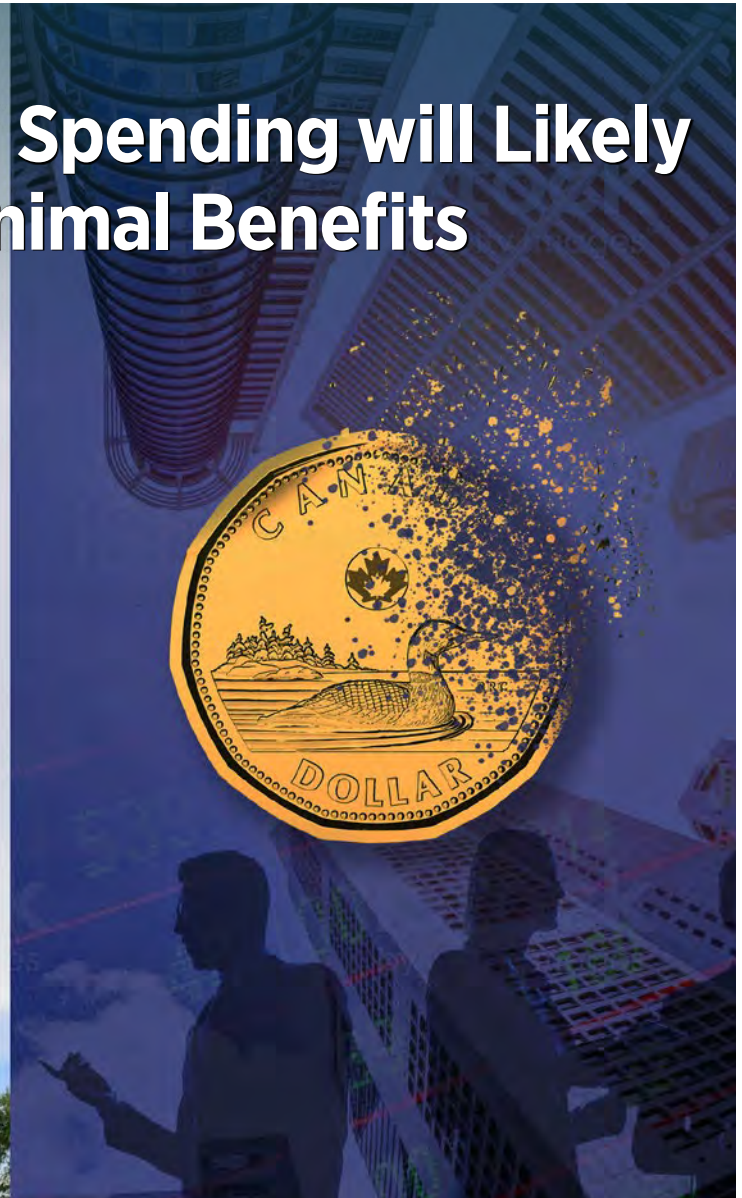
Our health care workers have done an incredible job during this pandemic, and in the absence of long-term data, health care officials had to make difficult choices in anticipation of COVID-19's potential impact. But as the cost of these decisions adds up, and with new COVID-19 variants on the horizon, we may need to reassess the costs and benefits of our current approach to better optimize care for all Canadians—not just COVID patients. Or at least allow Canadians to access private alternatives. Not only would this help those specific patients, but it would also potentially reduce the strain on our overburdened public system.

Rosine Chouinard-Chauveau's tragic story has shone a new light on an old problem; one that has been exacerbated, but not caused, by COVID-19. While it will take significant reform to address the routine rationing of care in our health care system, governments across Canada can no longer ignore the many non-COVID patients who've paid a heavy price since the pandemic began. [FI](#)



Bacchus Barua is associate director of the Centre for Health Policy Studies. He is the lead author of *The Effect of Wait Times on Mortality in Canada*.

Federal “Stimulus” Spending will Likely Arrive Late with Minimal Benefits



Alex Whalen and Jake Fuss

In April’s federal budget, the first in two years, the Trudeau government unveiled massive spending on stimulus measures, which it claims will help Canada “build back better.” Despite the \$101 billion in proposed spending, there are several problems that may impede Canada’s recovery.

Stimulus typically refers to temporary government spending specifically meant to encourage economic growth in times of recession (though often not successfully). This budget’s stimulus initiatives include a suite of new spending initiatives that stretch the meaning

of “stimulus.” Some of the main stimulus provisions include an extension of the Canada Emergency Wage Subsidy, expanded employment insurance, and money for national daycare. The plan also includes programs that are permanent in nature and reads simply as an expansion of government spending by a different name.

In the budget, the Finance Minister Chrystia Freeland claims that Canada’s economy is poised to recover quickly and in fact references Canadian businesses “roaring back over the summer and fall.” Again, despite this, the government says the \$101 billion in stimulus spending is required for “sustained economic recovery.”

While the claim of more government spending to help the economy may sound appealing, economic research—and Canada’s past experience with infrastructure stimulus spending—indicate stimulus spending will likely arrive late and end up being wasteful.

On this very point, the Parliamentary Budget Officer recently warned that the size and timing of federal stimulus may be miscalibrated because the economy will have largely recovered by the time it arrives. Indeed, more than half (\$52.1 billion) of planned spending will come in 2022/23 and 2023/24 and therefore will have no immediate effect on economic growth, which is the stated purpose of stimulus.

With this budget, the Trudeau government not only ignores the PBO warning but commits some of the same mistakes made by the Conservative government during the last recession. An extensive analysis of Canada’s economy following the 2008-09 recession concluded that the Harper government’s \$47 billion stimulus package had little to do with the recovery. In reality, the 2009 recovery was fuelled by a rebound in private-sector consumption and investment. Despite this experience, today’s Liberal government is making a similar bet on stimulus.

“While the claim of more government spending to help the economy may sound appealing, economic research—and Canada’s past experience with infrastructure stimulus spending—indicate stimulus spending will likely arrive late and end up being wasteful.”

More about the “stimulus” plan. It includes at least \$10 billion in infrastructure-related projects. Despite “shovel ready” claims, government is almost never able to act quickly enough for this type of stimulus to have a positive effect on the economy. Again, the spending often arrives after the recovery has already begun, which

results in the stimulus competing with the private sector, actually impeding economic growth.

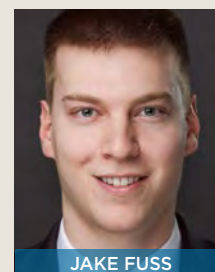
“Estimates vary, but most research suggests that each dollar of additional spending yields between \$0.30 and \$0.80 in benefits, meaning that stimulus actually impedes economic growth rather than promotes it.”

One part of stimulus particularly attractive to policy-makers is the idea that a dollar of stimulus spending creates more than a dollar in economy activity over time. However, economic research suggests this is not the case. Estimates vary, but most research suggests that each dollar of additional spending yields between \$0.30 and \$0.80 in benefits, meaning that stimulus actually impedes economic growth rather than promotes it.

At a time when federal spending (per capita) is at record highs, an injection of \$101 billion in stimulus spending, much of which is outside the traditional definition of stimulus, will likely arrive late and generate minimal benefits. Simply put, of all the policy options available to Ottawa to ensure a strong economic recovery and “build back better,” this is poor policy that ignores real-world experience. [FI](#)



ALEX WHALEN



JAKE FUSS

Alex Whalen is a policy analyst and Jake Fuss is a senior economist at the Fraser Institute.

The 2021 Budgets Establish Uncertain Future for Government Finances



Jake Fuss, Alex Whalen, Steve Lafleur, and Tegan Hill

Undoubtedly, the response to the COVID pandemic has taken a large toll on government finances across Canada. Indeed, this year's budget season saw lots of spending and red ink, while little concern was expressed for the long-term health of government finances. There are several main takeaways from key budgets across the country at both the provincial and federal levels.

After running a \$354.2 billion deficit last year, the federal budget forecasts a \$154.7 billion deficit in 2021/22 and further deficits of at least \$30 billion for another four years afterwards. Debt accumulation has increased substantially and the country's net debt-to-GDP ratio is projected to reach 55.3 percent by the end of 2021/22. Federal program spending in 2021/22 has grown by more than 40 percent since 2019/20 and nominal interest payments are expected to nearly double by 2025 despite low interest rates. The government has provided no timeline for a balanced budget despite a vague promise from the prime minister in December to "absolutely" balance the budget again at some point.

British Columbia's budget includes a \$9.7 billion operating deficit this year, which is up from the \$8.1 billion

deficit run in 2020/21. Net debt (total debt minus financial assets) is forecasted to reach \$94.1 billion in three years and the debt-to-GDP ratio will nearly double from pre-COVID levels at 27.3 percent by 2023/24. Program spending will continue to grow throughout the fiscal outlook with increased spending on infrastructure, health care, and child care playing a prominent role. The BC government did not include a plan to return to balanced budgets, but Finance Minister Robinson noted that it would outline a detailed plan next year.

The Alberta budget projects a \$18.2 billion deficit (2021/22) with sizable deficits in the following two years. Net debt will reach a projected \$102.1 billion by 2023/24. The government no longer plans to balance the budget in its first term, but states that such a plan will be re-established post-pandemic. Fiscal policy will be guided by two additional rules: net debt should be no greater than 30 percent of the economy and per-person spending will be aligned with that in the other large provinces. COVID spending is to be reined in over the next three years. Finally, the budget included spending reductions in line with the government's pre-pandemic fiscal plan and no new taxes.

Ontario's budget contained a projected \$33.1 billion deficit for 2021/22, down modestly from last year's historic \$38.5 billion deficit. The province's net debt-to-GDP ratio has climbed to 48.8 percent and deficits are expected through 2028/29. While there was a vague commitment to budgetary balance in 2029/30—a commitment that would require nearly two more full terms in government—the Ford government failed to present any plan to budgetary balance. The deficit is expected to shrink over the next few years as COVID-related spending is reduced, but there is still a \$20 billion deficit projected for 2023/24. Like its predecessors, the Ford government is hoping that revenue growth will exceed spending growth, eventually leading to a balanced budget.

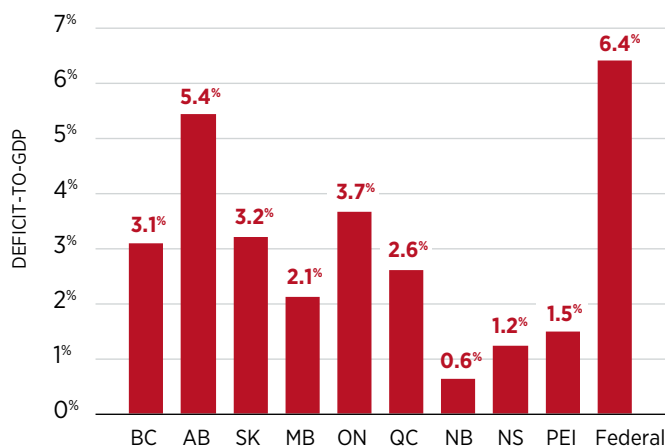
Nova Scotia's budget projects a deficit of \$585 million, but most concerning is the province's rapidly increasing debt. Fueled by the deficit and high capital spending, the province will add \$1.3 billion to its net debt this year, following a \$1.5 billion increase last year. In total, net debt is projected to increase nearly 40 percent in just five years. The province does have a plan to return to a balanced budget, with a surplus projected in 2024/25; however, this budget delayed spending cuts to future years following an upcoming election.

Prince Edward Island's budget presents a similar plan with large increases to debt fueled by deficits and capital spending. This budget continued a track record of annual increases to government spending, which leaves PEI with the highest level of per-person program spending in Canada. The government does project a balanced budget in 2024/25, but this plan relies on economic growth and projects increased government spending each year.

In contrast, New Brunswick's budget projects a more stable fiscal position. The government has largely resisted new spending programs. As a result, the province forecasts a \$245 million deficit. New Brunswick has the smallest deficit (as a share of the economy) and the smallest increase to net debt (on a per-person basis) among the provinces. Despite this relatively strong footing, the budget does not tackle longer-term challenges such as a high tax burden and poor investment record.

Of note, every government (except for Alberta) has increased real per capita spending by at least 5 percent from pre-pandemic levels. The earliest timeline for a balanced budget among all governments is three years from now, in 2024/25 for both Nova Scotia and Prince

Deficit as % of GDP for Canadian Governments, 2021/22



Edward Island. Four jurisdictions refrained from specifying any balanced budget date at all, while Manitoba and Ontario are aiming to achieve it in almost a full decade.

Large deficits and high levels of spending were a common theme for all Canadian governments in this year's budget season. Continued debt accumulation after the pandemic is over and the potential for rising interest rates will place government finances in a precarious position moving forward. Simply put, there is a big question mark about the sustainability of finances for many jurisdictions over the longer-term. [FI](#)



Jake Fuss is a senior economist, Alex Whalen is a policy analyst, Steve Lafleur is a senior policy analyst, and Tegan Hill is an economist at the Fraser Institute.

NINETEEN-TIME EMMY WINNER JOHN STOSSEL JOINS THE IMPRESSIVE LIST OF SPEAKERS FOR OUR STUDENT WEBINAR SERIES

The Institute's post-secondary policy webinar series has attracted the likes of Bjorn Lomborg, Matt Ridley, and Hernando de Soto, and has now welcomed 19-time Emmy winner, John Stossel. John Stossel spoke with students about the benefits of individual freedom and free markets and what he's learned over his 40-year journey as a reporter for ABC and Fox News.

Here is what some students are saying about our webinars:

- *"In all my years of schooling I have never been exposed to free markets ideas like I have over the*

course of this semester with your webinars. I now have a totally new perspective on several public policy issues!"

- *"As always I love the wide variety of topics that Fraser Institute webinars cover! This one in particular was also a great session and exposed me to new topics and ideas. Thanks and looking forward to attending more sessions."*

If you are interested in viewing any past presentations, you can view all recordings at: www.freestudentseminars.org





TEACHER WORKSHOP WEBINARS ARE MAKING AN IMPACT

In addition to our post-secondary programming, our Spring teacher workshop webinars have already reached hundreds of Canadian teachers so far this semester and are already making significant impact.

Here is what some teachers are saying about our webinars:

- *“All the topics that were discussed in this webinar were relevant to my Economics Program at the school. The resources shared are extremely practical and I have already begun incorporating these new lessons into my classes. Best PD I have attended!”*
- *“This small investment of my time not only has reenergized me, but provided me with the tools to think differently about the economic and business concepts that I share with my students. I have taken several Professional Learning courses this year focusing on teaching in a blended and online classroom, but this is by far the best one!”*
- *“The resources provided by the Fraser Institute are excellent. Teachers can pick and choose and adapt to their lessons easily.”*

Please visit us at:
fraserinstitute.org/education-programs



Daniela Castillo

What's your role at the Institute?

I get students and journalists excited and informed about policy and economic theory, especially as it applies to Canadians. I plan and execute high visibility post-secondary policy and journalism professional development seminars, which this year included Bjorn Lomborg, Arthur Brooks, Hernando de Soto, Deirdre McCloskey, and many more scholars.

How did you arrive at the Institute?

In my previous position I designed and ran educational programming at universities across the US. Several colleagues recommended me to Institute and a few months later I found myself in Vancouver, working for this incredible think tank!

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

I'm now at the end of my MEd at UBC and am excited to apply my own studies and research by revitalizing our program offerings and continuing my team's great work.

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

I've been slowly increasing my cooking repertoire so as to imagine my travels aren't a pandemic away. Once a week I turn on an episode of EconTalk, Armchair Expert, or Business Wars, and get started on a new (hopefully edible) international dish!



Devon Orth-Lashley

What's your role at the Institute?

I am an Education Programs Coordinator at the Fraser Institute. I focus on the facilitation of our Teacher Workshops across Canada.

How did you arrive at the Institute?

With a passion for education and many years of event and program coordination, the Education Programs department at the Fraser Institute was the perfect fit! Getting to work directly with Canadian teachers has afforded me the opportunity to meet incredible educators and connect them with our economic experts and high quality resources to ensure they feel confident in the classroom.

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

We're constantly working to develop new and innovative curricula for teachers, and as we look to the near future we're looking forward to building and releasing more new content.

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

I am an avid skier and snowboarder, so I feel very lucky to be so close to the local mountains and Whistler!



Tanya Nelson

What's your role at the Institute?

I am an Education Programs Coordinator. I coordinate our high school economics education programs, the annual Student Leaders Colloquium for advanced students, our Travel Bursary program, and our annual Student Essay Contest.

How did you arrive at the Institute?

While in my final semester of University, I found the posting for a coordinator position in the Centre for Education Programs. I have a degree in economics, an interest in education and policy, and a passion for coordinating events. I remember telling my family that it was my dream job.

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

With the pivot to online programming, networking opportunities have decreased. I am currently working to increase the availability of networking opportunities for our Student Leaders Colloquium attendees to ensure they are connected with mentors that can assist with their career and life goals.

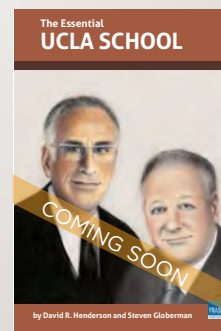
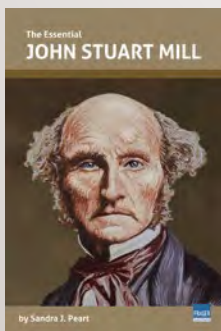
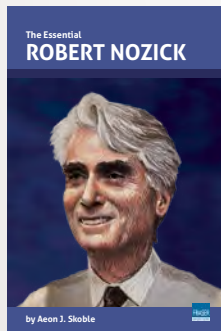
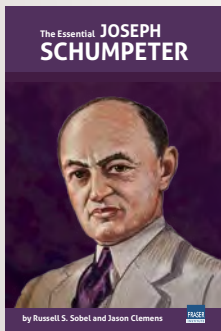
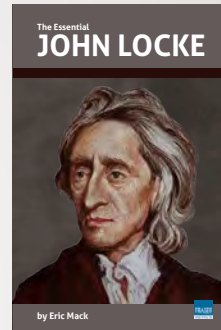
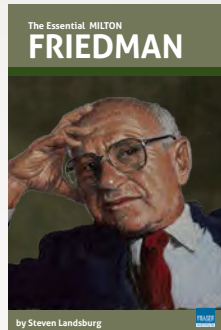
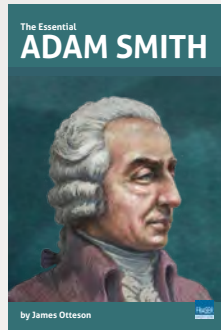
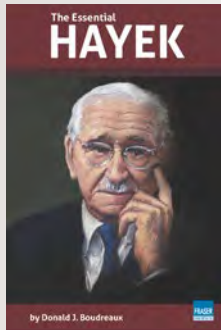
What do you enjoy doing in your spare time that your colleagues may not be aware of?

In my spare time, I enjoy hiking, fencing, and playing volleyball with my partner and friends. I also enjoy coaching and as a former member of the Canadian National Fencing team, I have been provided the opportunity to coach young athletes at S-Class Fencing.

A project of the Fraser Institute

ESSENTIAL SCHOLARS

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



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Estimated Impacts of a \$170 Carbon Tax in Canada

JOBS

Fewer Jobs

Canada will have 184,000 fewer jobs, and the employment loss will be felt nationwide.

GDP

Decline in GDP

Canada's economy will shrink by 1.8% nationally, though it will vary by province. That would represent a loss to the economy of \$37.8 billion in today's dollars.

DEFICIT

Higher Deficits

To maintain the current carbon tax rebate to Canadian households, the federal and provincial deficits will increase by \$22.1 billion annually.

⚡ \$

Higher Energy Costs

And these increases fall disproportionately more heavily on some households.



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