

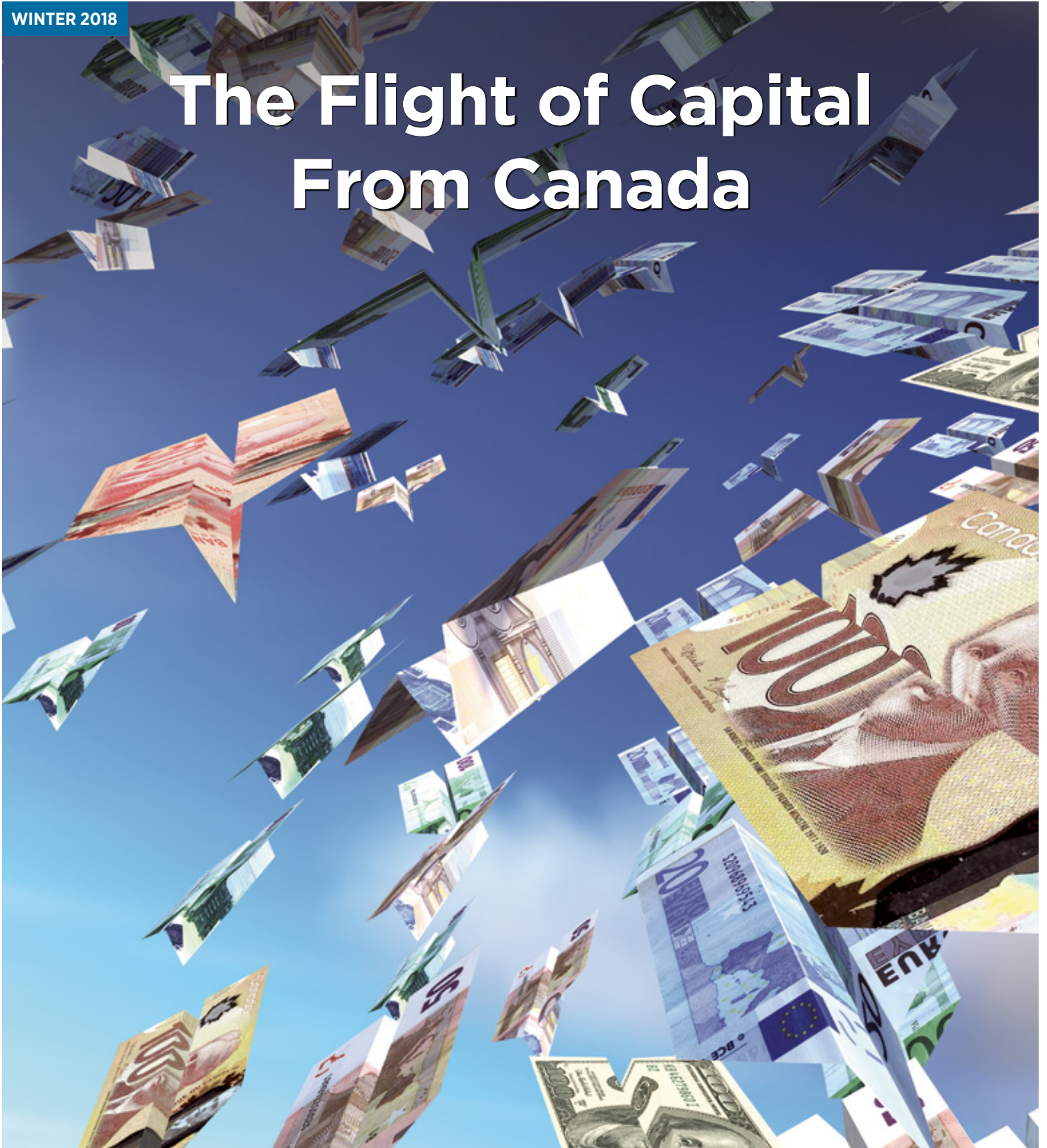
News and information for supporters and friends of the Fraser Institute

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THE **Quarterly**

WINTER 2018

**The Flight of Capital
From Canada**



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ALSO INSIDE

**Making Ontario
Competitive Again**

**Diverging
Energy Fortunes**

**Taxing the
One Percent**



Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

As the cover of this issue of *The Quarterly* highlights, investment is fleeing Canada—an issue that should be of great concern to all Canadians since business investment is critical for future job creation, higher wages, access to new technologies, and ultimately, improved living standards.

As the recent commentary “Look How Much Foreign Investment has Fled Canada” by Institute Senior Fellow Herbert Grubel notes (page 14), foreign direct investment has declined by 75 percent since 2007—from \$125.5 billion to \$35.5 billion.

In addition, research by Senior Fellow Steve Globerman (page 2) finds that investment in Canada fell by 1.2 percent in 2016 (the latest year of available comparable data) while other industrialized (OECD) countries saw such investment increase by 3.6 percent on average.

Actions by our federal and many provincial governments to increase business and personal taxes, run budget deficits (and increase debt levels), and add significantly to the regulatory burden (i.e., red tape) have contributed greatly to the exodus of capital from Canada.

This comes at a time when the United States has made itself significantly more attractive to investment through a series of policies that include sweeping tax reform and regulatory reductions. Such improvements in the US lay bare the policy missteps in Canada. Indeed, our annual *Economic Freedom of the World* report (page 4) finds that Canada has gone from being a top five country two years ago, to barely hanging in on the top 10 on this year's index. On the other hand, the United States has improved from 13th to 6th place in that time.

The oil and gas sector is one of Canada's most important industries. But as my colleagues Elmira Aliakbari and Ashley Stedman (page 16) explain, Canada has made it more difficult for oil and gas companies to do business here while the US is making the industry in that country more competitive. It's no surprise, then, that the oil and gas industry is booming in the US while the sector continues to struggle in Canada.

I cannot highlight all of the important work contained in this issue but I do encourage you to read it all. After you are finished doing so, please pass this issue 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'.

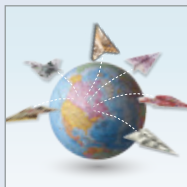
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New Research



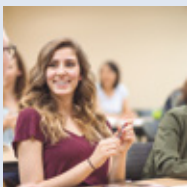
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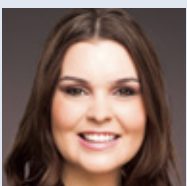
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Canada Has a Business Investment Crisis

Steven Globerman

Capital investment is the lifeblood of economic growth and, therefore, of higher living standards. Increased capital, both tangible (machinery, equipment) and intangible (software, for example), boosts the productivity of workers and enables organizations to produce new products and implement more efficient production and organizational techniques.

Therefore, the collapse of business investment growth in Canada in recent years is cause for alarm. From 2015 to 2017, gross fixed capital formation (essentially all capital investment) in Canada increased by only 2.5 percent—just slightly more than one-third the growth of total capital investment in the United States. Moreover, growth of Canada's capital stock during this period largely reflects the construction of residential housing.

By way of illustration, household investment—essentially residential dwellings—increased to more than 36 percent of total fixed capital formation in 2016 compared to about 33 percent in 2014. In contrast, corporate

investment's share of total investment fell from around 53 percent in 2014 to 47 percent in 2016.

Simply put, business investment growth in Canada has vanished in recent years.

While Canadian cities such as Vancouver and Toronto enjoyed booming construction activity,

there was essentially no growth in new machinery, equipment, software, and other corporate assets that help make Canadian companies more efficient, profitable, and capable of paying higher wages.

The growth of the construction of residential dwellings was undoubtedly a response to surging housing prices, again, primarily in Vancouver and Toronto. The extent that house price increases, including those for apartments and townhouses, was driven by speculation as opposed to a real demand for places to live, remains undetermined. However, signs are emerging that house price increases are tapering off, perhaps even reversing.

It's questionable whether business investment will increase to offset a likely slowdown of residential



construction. While Canada's "successful" negotiation of a new free trade agreement with the United States removes some political uncertainty that has discouraged business investment, the imposition of tariffs (in the name of national security) by the Trump administration remains a real threat.

While Canadian cities such as Vancouver and Toronto enjoyed booming construction activity, there was essentially no growth in new machinery, equipment, software, and other corporate assets that help make Canadian companies more efficient, profitable, and capable of paying higher wages.

Of greater concern, the US corporate tax rate is now significantly lower than Canada's rate. In addition, businesses in the US now benefit from a substantial reduction in regulatory red tape while the regulatory environment in Canada, particularly in the energy sector, is becoming increasingly problematic for Canadian businesses.

And there's more evidence that Canada has become a less desirable place for business investment (particularly compared to the US). For example, from 2005 to 2014, inflows of foreign direct investment (FDI) to Canada averaged 24.2 percent of FDI inflows to the US, compared to 8.5 percent (or almost two-thirds less) from 2015 to 2017. Since FDI primarily represents investments to manage and operate host country businesses, the geographical distribution of FDI remains a reasonable indicator of the relative attractiveness of doing business in countries.

So what's the solution?

The US corporate tax rate is now significantly lower than Canada's rate. In addition, businesses in the US now benefit from a substantial reduction in regulatory red tape.

While there's no simple policy remedy to Canada's business investment crisis, policymakers must first recognize the problem and its consequences. To date, the Trudeau government has downplayed concerns. But Canadians would be better served if Ottawa and the provinces acknowledged the country's serious business investment problem and began proposing substantive solutions. Reducing corporate tax rates and increasing the excluded amount of capital gains subject to taxes would be a good start. [FI](#)

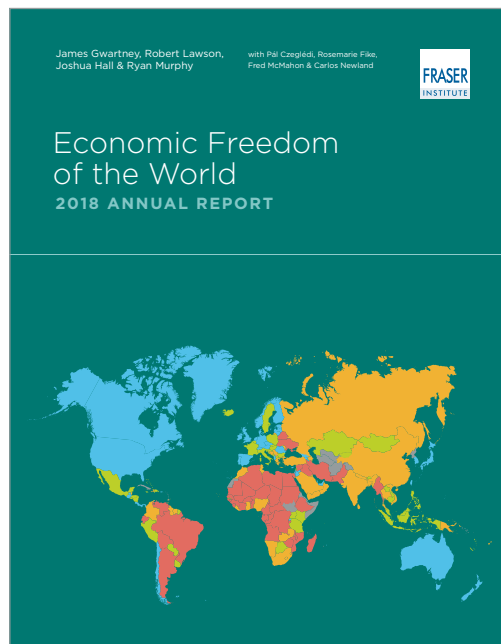


STEVEN GLOBERMAN

Steven Globberman is a resident scholar and Addington Chair in Measurement at the Fraser Institute, and professor emeritus at Western Washington University. He is the author of *Capital Investment in Canada: An International Comparison*.

Rule of Law and Limited Government Key to Economic Freedom Worldwide

Fred McMahon



The Fraser Institute recently released its annual *Economic Freedom of the World Annual Report*. Based on data from 2016 (the latest year of available comparable statistics), the report measures the ability of individuals to make their own economic decisions by analyzing the policies and institutions of 162 countries and territories—regulation, freedom to trade internationally, size of government, the legal system and property rights, and soundness of the monetary system. The report is the world's premier measurement of economic freedom.

This year, Canada is tied for 10th with Australia. The United States ranked 6th. Canadians are less economically free than Americans—and the gap is widening, according to the report. The United States has improved from 13th to 6th. Higher taxes and growing regulation at the Canadian federal level and in some provinces have made Canadians materially less economically free. This should be worrying to all

Canadians as lower levels of economic freedom leads to slower economic growth and less investment.

Canada is on a risky path. The nation's recent high score was in 2014 when Canada came fifth in the world. Between 2014 and 2016, Canada suffered significant declines in several aspects of economic freedom, most particularly size of government, and it looks like the trend

may continue. Ottawa's spending, already high, has continued to climb and the federal government seems in no hurry to put its fiscal house in order; Alberta has become a spendthrift and British Columbia is heading that way; and the new government in Ontario inherited a fiscal mess and has yet to announce plans to bring spending under control.

As well, uncertainty and unnecessary complexity in rule of law and regulation undermine economic freedom. If you meet all the rules, laws, and regulatory procedures, and still get shut down or if the courts fail to fairly enforce contracts, economic freedom

has been damaged. Between 2014 and 2016, Canada declined significantly in legal enforcement of contracts contributing to an overall decrease in Canada's rule of law score.

Things may get worse given current controversies and confusion. To give two examples: the grave uncertainty over the Trans Mountain Pipeline has alarmed both domestic and international investors while Canada's climate plan, involving both regulation and taxation, gets murkier by the day. Negative effects spin off into other areas. The confusion over the pipeline led Ottawa to nationalize it, increasing government intrusion into the economy, and likely leading to a reduced score in size of government, on top of the problems Canada already faces in that and other areas.

While Canada has fallen to the bottom of the top 10, Hong Kong is again number one followed by Singapore, New Zealand, Switzerland, Ireland, the United States, Georgia, Mauritius, and the United Kingdom. Although Hong Kong remains the most economically free jurisdiction, there is a valid concern that interference from mainland China—which ranks 108th in economic freedom—will ultimately lead to deterioration in Hong Kong's top position, particularly in rule of law, which helps ensure equal freedom for all.

Venezuela, Libya, and Argentina occupy the cellar. Other notable countries include Germany (20th), Japan (41st), France (57th) and Russia (87th). Reliable data are not available to measure despotic countries such as North Korea and Cuba.

So why are some countries more economically free than others? How can governments reduce or increase freedom?

For starters, the size of government is crucial. Large governments reduce space for free exchange among citizens. Restrictions on free trade and unnecessary or uncertain regulation limits economic freedom as does lack of "sound money," which erodes property values. And most importantly, the least economically free countries embrace a weak or biased rule of law, which allows governments and greedy elites to attack the economic freedom of the weak, poor, and unpopular.

No nation, except perhaps petro states, has ever produced prosperity for its people without a strong and impartial rule of law. Rich advanced industrialized

countries became prosperous because they established and enforced a sound rule of law.

The United States is an outlier. In size of government, where most advanced industrialized countries rank poorly, it ranks 86th, trailing only five advanced jurisdictions—Australia, New Zealand, Switzerland, Hong Kong, and Singapore. But in rule of law, where advanced countries rank at the top, the US ranks 20th, ahead of only a handful of advanced countries including Belgium, Portugal, Spain, and France. However, since 2014, scores for the United States in both rule of law and size of government have improved, and its scores in all other areas of economic freedom remain strong.

The report's rule of law scores are based on surveys, expert opinions, and analysis from the World Bank's "Doing Business" and "Governance" indicators, the *Global Competitiveness Report*, and the *International Country Risk Guide*. While the data do not fully explain the US decline on this measure, the international and expert reputation of the rule of law in the US clearly deteriorated under the Bush administration and much of the Obama administration, though there was some recovery in the latter part of President Obama's final term.

The future trajectory of economic freedom in the US remains unknown. On size of government, government spending is a greater determining factor than taxation, so big spending deficits negate the benefits of tax cuts, a key tenet of the Trump administration's fiscal reforms. As the Trump administration wages trade wars with tariffs and other barriers, US trade freedom will likely decline. And crucially, if other countries (including Canada and China) continue to react with trade barriers of their own, the decline could be global. Only deregulation will have an unambiguous positive impact on economic freedom in the United States. [FI](#)



Fred McMahon is the Dr. Michael A. Walker Chair of Economic Freedom Research at the Fraser Institute. He manages Fraser Institute's Economic Freedom Project.

How to Bring Investment Back to Ontario

Ben Eisen

The start of a new government's term in office is an opportunity for it to address pressing problems. In Ontario, Premier Doug Ford's still-new Progressive Conservative government has many challenges to choose from.

So the question of what to prioritize is critically important. A top priority should be fixing one of Ontario's most longstanding policy challenges—weak business investment in the province.

Ontario's challenge in this area is substantial. The Fraser Institute study *Business Investment in Canada Falls Far Behind Other Industrialized Countries* by Philip Cross, a former high-level official at Statistics Canada, showed that business investment in 2017 still had not recovered to pre-recession levels (from before the financial crisis of 2008/2009). In other words, we've seen a decade of stagnation and even a decline in business investment.

To be clear, a lack of investment isn't just a matter of concern for economists or business executives—it has a profound negative impact on the economic fortunes and well-being of Ontarians at all income levels. Busi-



ness investment is the lifeblood of any economy's long-term growth, and ultimately helps drive job creation, wage growth, and the quality of economic opportunities available to Ontarians.

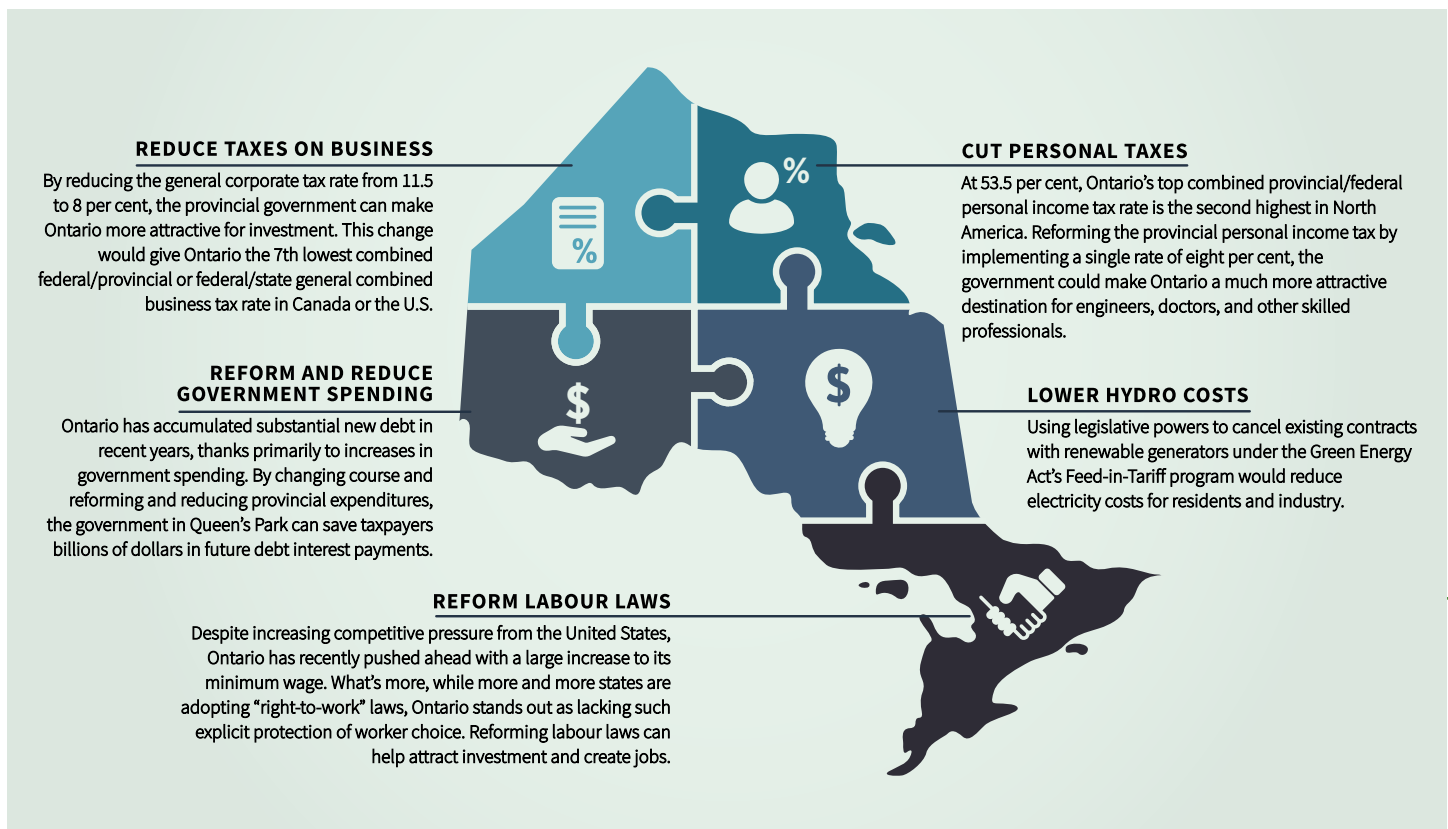
This reality was made clear by a more recent Fraser Institute study, *Measuring Labour Markets in Canada and the United States*,

which analyzed Ontario's economic performance and compared it to other provinces. It showed that on job creation, wage growth, and government debt accumulation, Ontario ranked at or near the bottom among the provinces. Again, the province's weak performance in attracting business investment helps drive all of these poor outcomes.

So we know what the goal should be—get businesses and entrepreneurs more excited about investing in Ontario, starting new businesses, and expanding existing operations. But how?

There's no one answer. But lightening the tax burden on businesses would be a great place to start. Recent federal tax policy changes in the United States have made that country a much more attractive destination

FIVE KEY GOVERNMENT ACTIONS THAT WILL HELP ATTRACT BUSINESS FOR ONTARIO



for investment. Ontario could similarly help promote investment growth with business tax relief of its own.

Ontario has seen a decade of stagnation and even a decline in business investment.

Of course, some will complain that business tax cuts only benefit "the rich," but the evidence to the contrary is overwhelming. Economic research clearly shows that lower business taxes tend to result in higher wages for employees. In short, if a person owns shares in, works for, or buys things from Ontario-based businesses, they stand to benefit from meaningful business tax reform.

But taxes aren't the only costs companies consider when deciding where to invest. Ontario's high electricity prices also deter companies in industries that use a lot of energy for their operations. It's hard to believe, but

Ontarians once enjoyed some of the lowest power prices in North America. Policy reforms aimed at regaining this advantage, or at least taking steps in this direction, are long overdue after a long period where affordability has been deprioritized (to say the least) as an objective of electricity policy.

Nothing will be easy about renewing business investment in Ontario, and there's no silver bullet. However, if the Ford government adopts a laser-like, evidence-based approach to this crucial issue, it will likely convince investors that Ontario is indeed open for business again. [FI](#)



BEN EISEN

Ben Eisen is a senior fellow for the Fraser Institute's Ontario Prosperity Initiative and a contributing editor of the study *Creating Policy Calling Cards to Attract Business to Ontario*.

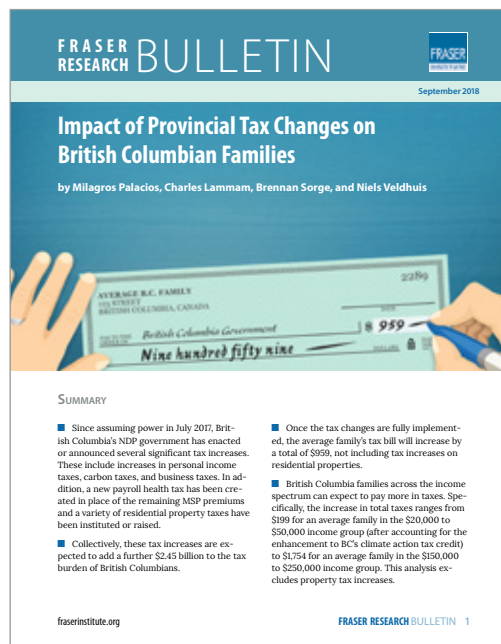
There's nothing "Affordable" About a \$1,000 Tax Increase

Niels Veldhuis and Milagros Palacios

"Making your life more affordable" has been a dominant rhetorical theme of British Columbia's government—so much so that its 2018 budget uses the word "affordable" 76 times. For her part, Finance Minister Carole James mentioned "affordable" 26 times in her latest budget speech. While making life more affordable is a terrific goal, the Horgan government has substantially increased taxes on middle-class families. It's hard to see what's affordable about that.

For context, before this government's tax increases, the average BC family's total tax bill (federal, provincial and local taxes) was \$47,868—nearly 42 percent of its income. This includes income, payroll, sales, property, carbon, health, fuel and alcohol taxes, to name but a few.

Given the tremendous tax burden BC families face, it's no wonder that Minister James said her govern-



ment's elimination of Medical Services Plan (MSP) premiums will take "some pressure off people's pocket books." That would be nice, of course, but unfortunately it's not the case.

Since assuming power in July 2017, this government has enacted or announced several significant tax increases that more than offset its elimination of MSP premiums.

Let's start with income taxes. The government raised taxes on British Columbians earning more than \$150,000—to a rate of 16.8 percent from 14.7 percent under the previous government.

It has also increased the general business income tax rate from 11 percent to 12 percent (while maintaining the previous government's pledge to reduce the small business tax rate from 2.5 percent to 2.0 percent). And it has substantially increased the carbon tax from \$30 per tonne when it took office, to \$50 per tonne by 2022. What's more, it has completely abandoned a commitment to make the carbon tax revenue neutral.

IMPACT OF PROVINCIAL TAX CHANGES ON BRITISH COLUMBIAN FAMILIES



Then there's the MSP premiums switcheroo. First, the previous Liberal government said it would cut MSP premiums in half, a plan the NDP adopted and implemented on January 1, 2018, while also planning to eliminate the remaining half on January 1, 2020. To replace the forgone revenue, the government will levy a new Employer Health Tax (EHT) starting in January 2019.

While the EHT will be levied on employers, don't be fooled—it will very quickly be paid by workers. A recent empirical study of Canada by economists based at HEC Montréal, the graduate business school of the Université de Montréal, found that “payroll taxes are passed almost entirely to workers in the form of lower wages.”

Since assuming power in July 2017, the Horgan government in BC has enacted or announced several significant tax increases that more than offset its elimination of MSP premiums.

All told, once they are fully implemented, these tax increases will add an expected \$1.9 billion to the tax burden of British Columbians. But what do these tax hikes mean for average families?

As noted in a recent Fraser Institute study, *Impact of Provincial Tax Changes on British Columbian Families*, the average BC family will pay \$959 more in taxes, led mainly by a \$498 increase in fuel and carbon taxes. And while the government has tried to protect lower income families by increasing the Low Income Climate Action Tax Credit, families with household incomes ranging from \$20,000 to \$50,000 will, on average, still pay nearly \$200 more in taxes.

This calculation does not include several tax increases on residential property (i.e., increased property transfer taxes, a speculation tax, and increased school taxes), which total more than \$500 million.

There's no question that these tax hikes will hit some middle income families including those whose home values have substantially appreciated, or in cases where property tax hikes will result in higher rental prices for renters in an already tight rental market.

Higher carbon, personal income, payroll, business, and residential property taxes will not only hit the wallets of BC families. They will also make the province less attractive for business investment and entrepreneurs, and make it more difficult to attract and retain top talent. The ripple effects will be felt throughout the economy.

“British Columbia—less affordable for families and less attractive for business.” That's not exactly a slogan for success. [FI](#)



NIELS VELDHUIS



MILAGROS PALACIOS

Niels Veldhuis is president and Milagros Palacios is associate director in the Addington Centre for Measurement at the Fraser Institute. They are the co-authors, along with Brennan Sorge and Charles Lammam, of *Impact of Provincial Tax Changes on British Columbian Families*.

What Job Recovery in Alberta?

Charles Lammam, Hugh MacIntyre, and Brennan Sorge

Premier Rachel Notley's government has repeatedly pointed to total employment figures as a sign that Alberta has "recovered" from the recent recession. For instance, the premier recently said, "our economy is recovering... and created 90,000 new jobs last year."

But to better understand the state of jobs in Alberta, and whether or not the province is actually recovering, you can't simply look at total employment figures. While it's true that Alberta's total employment numbers have rebounded since the depths of the recession, government employment has driven much of that "recovery," not the private job market.

A recent Fraser Institute study, *The Illusion of Alberta's Jobs Recovery: Government vs. Private Sector Employment*, analyzes Alberta's employment situation, focusing primarily on the period from July 2014 to May 2018. The study breaks down total employment into government sector, private sector, and self-employment. The results are not reassuring.

Since July 2014, a substantial shift has occurred between

government and private sector employment. As of May this year, 46,267 fewer Albertans are employed in the private sector. That translates into a three percent reduction in private sector employment.

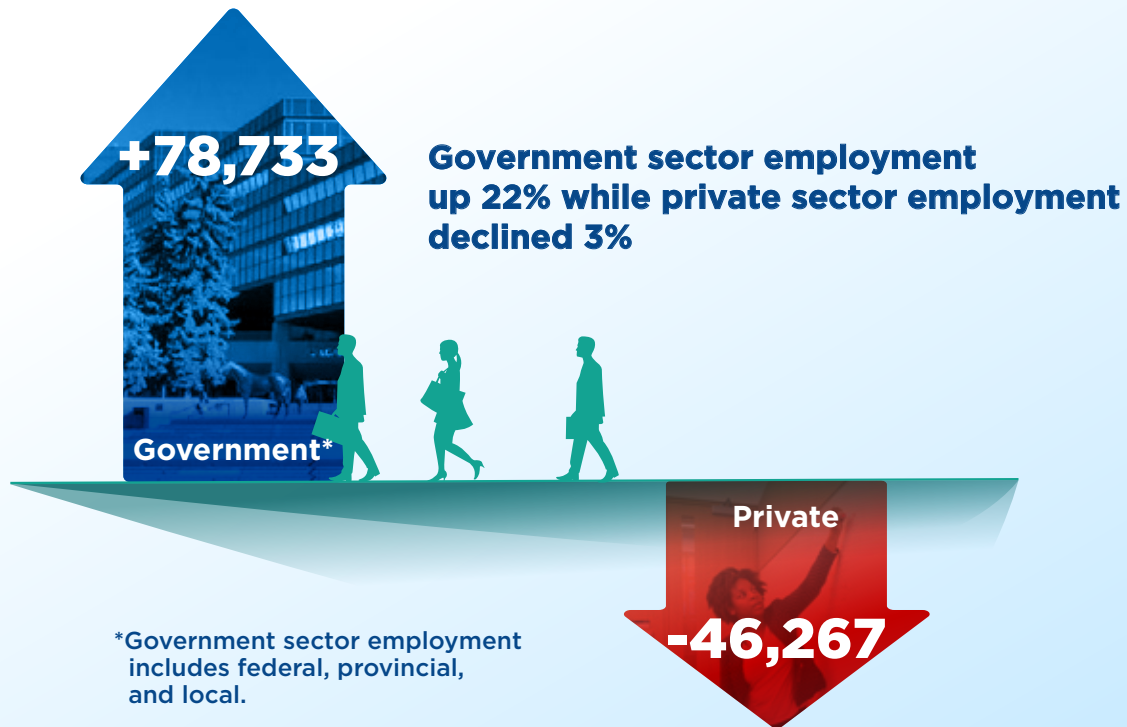
During the same four-year period, employment in Alberta's government sector (including provincial, municipal, and federal employees) grew substantially—by 78,733 employees—a marked 21.5 percent increase. As a result, the government sector's share of total employment (excluding

the self-employed) increased from 19.5 percent to 23.2 percent—a level not seen in Alberta since 1994.

Put simply, instead of a recovering labour market, Alberta has simply expanded its government sector.

The premier would likely argue that this significant expansion of government employment was a necessary response to the oil price shock and the recession. But neighbouring Saskatchewan, another energy-dependent province also affected by the drop in commodity prices, took a starkly different approach, with government-sector employment growing only 2.1 percent over the same period—or one-tenth the rate of Alberta.





So what's the problem?

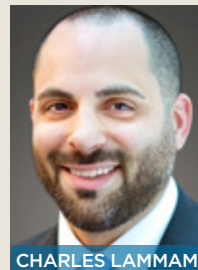
Research suggests the approach taken in Alberta to dramatically expand government sector employment will hurt the economy and reduce prosperity for Albertans. For starters, it's not a sustainable model because a robust private sector is needed to generate the wealth to support government activity—including government jobs—through taxation.

And because taxpayers in the private sector finance government jobs, a crowding-out effect can occur. Taxes leave individuals with less money to save and invest, and leave entrepreneurs and investors with less money to grow their operations, hire new workers, or innovate. In other words, taxes paid to fund growth in government sector employment come at the expense of potential innovation, productivity growth, and employment growth in the private sector.

While there's debate over the magnitude of this crowding-out effect, evidence suggests it could be substantial. For example, one study of 17 OECD countries (including Canada) from 1960 to 2000 found that the creation of 100 government jobs led to the reduction of 150 private sector jobs—leading to fewer jobs on net. With an increase of nearly 79,000 government sector

jobs in Alberta, the crowding-out effect could substantially undermine the province's private sector.

So while Premier Notley is technically correct—Alberta's total employment level has recovered—a more detailed analysis reveals that the true state of employment growth in Alberta is much less reassuring. Private sector jobs are down and the government sector is driving the jobs "recovery" that her government keeps talking about. [FI](#)



Charles Lammam was formerly director of fiscal studies and Hugh MacIntyre is a senior policy analyst at the Fraser Institute. They are co-authors of the study *The Illusion of Alberta's Jobs Recovery: Government vs. Private Sector Employment*. Brennan Sorge was a research intern at the Institute in 2018.

NAFTA Renegotiations— A Missed Opportunity for Canada

Steven Gliberman and Gary Hufbauer

For more than a year, Trudeau government officials grappled with the Trump administration to strike a trade deal that, according to the prime minister, was good for all Canadians. In reality, however, the government failed to liberalize trade and consequently missed a golden opportunity to increase prosperity and opportunity in Canada.

To be clear, Canada is better off inside than outside the new US-Mexico-Canada Agreement. The death of NAFTA would have lowered Canadian household income by around two percent (all other things constant). A bilateral free trade agreement between the United States and Mexico that excluded Canada would have shifted production and new capital investment to Mexico, particularly in the auto sector, as Mexico would have enjoyed tariff-free access to the US market while Canadian producers did not.



Moreover, if President Trump carried out his threat to impose a 25 percent tariff on Canadian autos and parts, the loss to Canadian household income would have been even larger.

So while the USMCA averted the worst possible outcome for Canada, it fell far short of what might have been. The deal provides little benefit for Canadian consumers. Sure, there will

be some modest increases in lower-priced dairy products imported from the US, and Canadians can buy more online products duty free. But even these modest gains may be offset by higher costs of automobiles in Canada due to provisions that reduce the efficiency of North American auto production.

Moreover, the USMCA does not open Canadian markets (in any substantial way) to competition that would increase efficiency among domestic producers. In particular, supply management remains largely intact, guaranteeing artificially high prices for milk, butter, poultry, etc. Regulatory protections for domestic producers of

transportation, broadcasting, and commercial banking services also remain essentially untouched. Finally, Canadian access to the US market was not markedly improved, notwithstanding the preservation of NAFTA's dispute resolution process.

While the USMCA averted the worst possible outcome for Canada, it fell far short of what might have been. The deal provides little benefit for Canadian consumers.

In short, with their “successful” negotiations, Canadian officials essentially preserved the status quo—despite Prime Minister Trudeau’s focus on social justice issues, a non-starter for the US and Mexico. Indeed, the Trudeau government sought—and was largely successful—in protecting Canadian dairy farmers, producers of entertainment programming, broadcast distributors, and telecom companies, among other players. Given this narrow protectionist mindset, it was unlikely the government would deliver greater choice and lower prices for Canadian consumers, or enhanced capital investment and productivity growth that, again, would benefit Canadians.

So what should Canada have done differently?

As noted in our recent Fraser Institute study, *The United States–Mexico–Canada Agreement: Overview and Outlook*, the answer to that question depends upon one’s view of freer trade. While trade and investment liberalization harm some domestic workers and firms by adding more competitors to the market, the overwhelming evidence finds that freer trade increases the incomes of most people, mainly by improving access to different and less expensive products, and directly increasing the purchasing power of households and the efficiency of producers.

To secure these benefits, Canada could have challenged the Trump administration. Canada will negotiate

eliminating tariff and non-tariff trade barriers—if the US negotiates eliminating its tariff and non-tariff barriers. The Canadian list would include “Buy America” preferences for US products, possible future trade actions against Canada on grounds of US “national security,” US agricultural subsidies, existing tariffs on Canadian steel and aluminum, and cabotage rules (essentially, restrictions on sea, air and other transportation services within individual countries) applied to Canadian companies.

Would this have been politically challenging for the Trudeau government here at home? Certainly. Would the US have responded favourably? Maybe. However, a dramatic offer of this sort would have demolished President Trump’s argument that Canada is an unfair trade partner, an argument that has gained traction among US voters. As a bonus, it might also have mobilized US Congressional opposition to the president’s mercantilist trade policies.

The status quo USMCA trade deal calls for a review in six years—the next opportunity for Ottawa to choose between two different paths. Reduce or eliminate key barriers to the free movement of goods, services, and investment capital across North America. Or continue along the path of managed trade, to protect some Canadian businesses to the detriment of most Canadians. **FI**



Steven Globerman is a resident scholar and Addington Chair in Measurement at the Fraser Institute. Gary Hufbauer is a non-resident senior fellow at the Peterson Institute for International Economics. They are co-authors of the study, *The United States–Mexico–Canada Agreement: Overview and Outlook*.

Look How Much Foreign Investment Has Fled Canada

Herbert Grubel



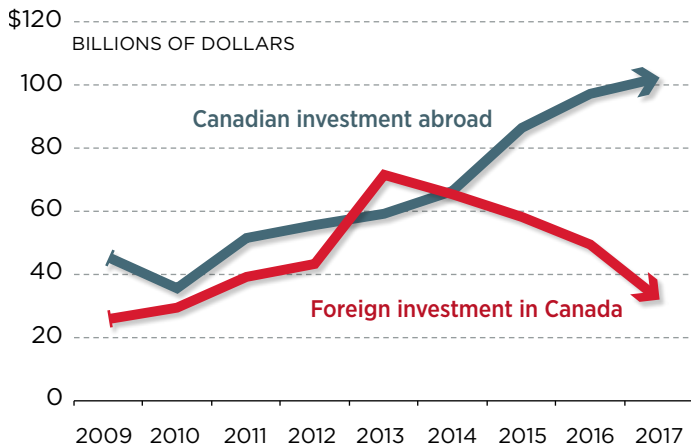
In March 2016, Canada's federal Minister of Finance, Bill Morneau, established the Advisory Council on Economic Growth and charged it with developing advice for concrete policy actions to help create the conditions for strong and sustained long-term economic growth.

The council's first report, *Bringing Foreign Investment to Canada*, states, "Foreign direct investment (FDI) is a critical driver of economic growth... it strengthens Canadian productive capacity through

knowledge transfer, the development of human capital, and new technology, management techniques, and production processes." The report recommends the establishment of a Foreign Direct Investment Agency, which "in its first few years of operation, can raise the growth rate of inbound FDI from its current 2 percent to 6 percent annually... and would add approximately \$43 billion to Canada's GDP—an amount currently equal to 2 percent of our national income."

Since 2013, the inflow of FDI has fallen substantially every year. The amount dropped to a low of \$30 billion in 2017 and is likely to decrease further in 2018. The

CANADIAN INVESTMENT ABROAD AND FOREIGN INVESTMENT IN CANADA



purchase by the Canadian government of the Kinder Morgan pipeline business alone will reduce the amount by more than \$4 billion.

Also important is the amount of FDI that Canadians have made abroad rather than in Canada—it has increased steadily since 2011 and reached a record \$100 billion in 2017. As a result, in that year, the balance of Canada’s FDI account (outflows minus inflows) was about minus \$4 billion, a far cry from what the government had planned.

Canada’s declining competitiveness has affected our ability to attract investment, particularly from foreigners.

Given the importance of FDI for economic growth, these statistics suggest that we need to understand why this deterioration in Canada’s FDI account took place. One reason is that FDI is affected by developments outside of Ottawa’s control. These developments include recent reductions in US corporate income tax rates and regula-

tions, lower world energy prices, and the US withdrawal from the Paris Agreement on climate change.

However, as a number of observers have noted, including Jack Mintz, William Robson, and the Institute’s own Niels Veldhuis, Milagros Palacios, and Jason Clemens, Canada is suffering from deteriorating competitiveness brought about by higher personal and corporate income taxes, higher capital gains taxes, and a deluge of new regulations.

Among the new regulations are environmental and climate change prevention policies including the mandated closing of coal-fired electricity-generating plants in Ontario, the setting of future limits on the extraction of oil in Alberta, and the prohibition of tanker traffic along the northern coast of British Columbia and of pipelines in BC’s Great Bear Rainforest. There was also the imposition of stricter conditions on the construction of pipelines to prevent oil spills and the requirement to obtain “social consent” before pipelines could be built.

The most important element of this agenda is the increase in taxes from corporations and individuals, particularly entrepreneurs, professionals, and business owners, and the prospect of even higher taxes through charges on the emission of carbon gases. Since an important part of the cost of this agenda is covered by deficits, the growing debt raises the prospect of further higher taxes in the future.

There is simply no doubt that Canada’s declining competitiveness has affected our ability to attract investment, particularly from foreigners. [FI](#)



HERBERT G. GRUBEL

Herbert G. Grubel is a Fraser Institute senior fellow and professor emeritus of economics at Simon Fraser University.

A Tale of Two Diverging Energy Fortunes—The US vs. Canada

Elmira Aliakbari and Ashley Stedman



Over the past few years, the governments of Canada and the United States have taken markedly different approaches to energy development, particularly with oil and gas. Consequently, the US energy industry is booming while Canada's continues to struggle despite increases in oil and natural gas prices.

Canada enjoys the world's third-largest reserves of oil and is the fifth-largest producer of natural gas. One would, therefore, expect a surge in activity with the rebound in energy prices. In fact, the opposite has occurred. Investment in Canada's energy sector has collapsed. Capital spending in Canada's oil and gas sector declined by almost 51 percent between 2014 and 2017.

A number of CEOs of both domestic and international energy companies have publicly stated they will not

invest further in Canada due to its deteriorating competitiveness. Steve Williams, CEO of Suncor, recently said his company will reduce its investment in Canada in large measure due to burdensome government regulations and uncompetitive tax rates.

Clearly, Canada's energy sector continues to struggle primarily because of poor government policies. The federal and several provincial governments have made it incredibly expensive, and in some cases simply inhospitable, to do business in Canada.

The Trudeau government, for instance, is imposing a national tax on carbon despite many countries (including the US) moving away from such a policy. Ottawa also revamped its approval process for major energy projects, which most observers conclude will increase uncertainty and further politicize the process.

The new process includes additional criteria such as gender-based assessments and “traditional knowledge” of Indigenous peoples.

It is estimated that this year alone, Canada's oil and gas sector will lose nearly C\$16 billion due to discounting from restricted market access.

The federal government has also failed to expand pipeline capacity. It cancelled Enbridge's previously approved Northern Gateway pipeline that would have delivered oil to the West Coast. TransCanada Corp. abandoned its cross-country Energy East pipeline weeks after the new regulatory review process was announced. The government was also forced to nationalize Kinder Morgan's Trans Mountain pipeline in a last ditch effort to add pipeline capacity. But even that plan is now in limbo, as Canada's Federal Court of Appeal rejected the \$9.3 billion deal in August citing inadequate consultation with First Nations and concerns over marine tanker traffic. As we documented in the study *The Cost of Pipeline Constraints in Canada*, it's estimated that this year alone, Canada's oil and gas sector will lose nearly C\$16 billion due to discounting from restricted market access.

Prime Minister Trudeau has intimated that the ultimate goal is to shut down the oil industry. These policies and anti-development rhetoric from the federal government have been exacerbated by similar policies and rhetoric from Quebec, Ontario and British Columbia.

It's difficult to imagine a starker contrast than with the United States where almost immediately after his inauguration President Trump began promoting the country's energy sector. He rescinded or scaled back several Obama-era regulations that impeded resource development including controls on power-plant emissions and regulations on hydraulic fracturing on federal lands. In addition, he withdrew from the Paris Agreement on climate change.

The administration, along with Congress, also passed sweeping tax reforms that significantly reduced the

cost of capital, facilitated the repatriation of offshore profits, and provided immediate relief for firms making capital investments. In short, the Trump administration has made the United States a much more competitive and attractive jurisdiction in which to do business and invest, particularly in the energy sector.

The results have been even better than many advocates had predicted. Production of oil has increased significantly, breaking 10 million barrels a day in November 2017 for the first time since production peaked in 1970. As reported by the Energy Information Administration, US oil production will rise to an expected 12 million barrels per day by the fourth quarter of next year.

Similarly, natural gas production in the US has also increased, reaching 33.2 trillion cubic feet of natural gas in 2017—a 1.7 percent increase from 2016 production.

And a recent survey by Barclays estimated that capital spending for exploration and production in the US oil and gas industry will rise by 9 percent this year alone. Perhaps most telling is that the International Energy Agency expects the US to emerge as the undisputed global oil and gas leader over the next decade.

So while Canada diverts resources away from its oil and gas sector and makes it more expensive and risky to do business in the country, the US is making its industry more competitive and hospitable to development, investment, and even entrepreneurship. The results are self-evident. The US industry is booming, benefiting both consumers and producers, while Canada's sector is struggling. [FI](#)



ELMIRA ALIAKBARI



ASHLEY STEDMAN

Elmira Aliakbari is associate director and Ashley Stedman is a senior policy analyst in the Centre for Natural Resource Studies at the Fraser Institute. They are co-authors of *The Cost of Pipeline Constraints in Canada*.

Ontario Should Kill and Bury Electric Car Subsidies

Kenneth Green



Many people mistakenly believe that electric vehicles, including Tesla models, run on electricity. That's partly true—power stored in the batteries makes the wheels go round. But while electricity (in part) powers the cars, government subsidies get them built. But in Ontario, Premier Doug Ford has cut the subsidies (up to \$14,000 per vehicle) that drive electric car purchases.

In response, Tesla, led by CEO Elon Musk, sued Ontario, claiming a case of “unjustified targeting.” Recently the Ontario Superior Court agreed, basically saying the government singled out Tesla for harm.

Premier Ford should stick to his guns and continue to phase out green rebates—electric cars have been an expensive boondoggle for decades, using taxpayer dollars to subsidize wealthy buyers so they can signal

environmental virtue, while doing virtually nothing for the environment.

The first commercial-scale electric vehicle appeared late last century in California, thanks in part to a state mandate aimed at pollution control. But only buyers who made more than US\$100,000 per year were eligible to lease the vehicles (they were not sold). Buyers also had to install \$2,500 charging stations in their garages (meaning they were also wealthy enough to own detached homes—in Los Angeles).

While electricity (in part) powers electric cars, government subsidies get them built.

All this for a car with a top speed of 75 miles per hour and a range of about 80 miles on an overnight charge. Eligible buyers received up to \$8,400 worth of rebates and tax credits, partly funded by middle-class taxpayers and renters who couldn't buy the car. Times have changed, of course, and technology has improved. The Tesla Model S has a range of more than 300 miles and can accelerate from 1 to 100 km/hr in 2.7 seconds. But the affordability issue hasn't changed much, with the Tesla Model S P100D selling for a cool C\$176,000.

Tesla has promised accelerated deliveries of lower-priced Model 3 vehicles, which start at “only” \$56,000. Meanwhile, Ontario taxpayers have been paying to get electric cars on the road. In 2016, according to the CBC, Ontario paid nearly \$800,000 in rebates for electric cars with “six-figure price tags” including C\$170,000 to subsidize the sale of 20 Tesla Roadster convertibles that retailed for C\$138,000.

To be fair, subsidies to other high-end electric cars such as the BMW i8 are equally egregious, though I have not read that BMW plans to sue the government. And there remains little or no environmental benefit if the power generation for electric cars isn't greenhouse gas emission-free (and in most places, it's not).

Finally, a study for the Montreal Economic Institute pegged the cost of emission reductions from electric

vehicles at an estimated \$523 per tonne of averted GHGs—an absurd number, when carbon offsets in North America were selling for about C\$18 per tonne.

There remains little or no environmental benefit if the power generation for electric cars isn't greenhouse gas emission-free (and in most places, it's not).

Premier Ford should stick to his guns and stop paying for rich people's expensive electric cars. That Musk has sued Ontario for “unjustified targeting” may mean he knows there's no market for his cars at full cost. [FI](#)



Kenneth Green is a resident scholar and chair in Energy and Environmental Studies at the Fraser Institute.

Ottawa's Planned Changes to the Review Process will Limit Patient Access to Lifesaving Drugs

Kristina M.L. Acri

While the entity is unknown to most Canadians, the Patented Medicine Prices Review Board (PMPRB) performs a vital role in the health and well-being of patients across the country. The board was created to balance two major policy objectives: protecting consumers from excessive patented medicines prices, and ensuring sufficient incentives for innovators to introduce new medicines to Canada.

Unfortunately, recently proposed changes by the Trudeau government clearly discourage the introduction of innovative new drugs to Canada, potentially

de-prioritizing Canada in the global launch sequences for new drugs. The proposed changes would lower patented drug prices, jeopardizing the delicate policy balance between controlling expenditures on drugs and promoting access to beneficial and potentially lifesaving drug therapies.

At the federal level, Canada regulates the prices of all patented medicines to ensure prices of patented drugs are not “excessive.” This extends to every patented drug, whether covered on an insurer’s formulary or not. In May 2017, Health Canada proposed an update to several aspects of PMPRB regulations governing patented medicines.

A new Fraser Institute study, *Implications of the Proposed Changes to Canada's Pharmaceutical Pricing Regulations*, examines these proposed changes and identifies several areas of critical concern.

In particular, in establishing the maximum allowable price for patented drugs, the PMPRB currently compares Canada's patented drug prices with prices in seven other countries: France, Germany, Italy, Sweden, Switzerland, the United Kingdom, and the United States. Under the proposed changes, the reference countries would no longer include the US or Switzerland, and would instead add seven other countries: Australia, Belgium, Japan, the Netherlands, Norway, South Korea, and Spain. This new reference-country basket will undoubtedly lower the maximum allowable prices of drugs, thereby requiring pharmaceutical innovators to lower their prices in Canada to comply, a policy some innovators will refuse to accommodate.

Ottawa's proposed changes will reduce the financial capacity of innovators to invest in the Canadian life sciences sector, decreasing revenues of the innovative biopharmaceutical sector by an estimated C\$8.6 billion over the next 10 years. The unfortunate result will be less innovation and less access to new drugs for Canadian patients.

So what's the problem with lower prices?

While lower prices are ordinarily good news, they're only good news if the drugs are actually available. Health Canada estimates the proposed changes will generate savings of C\$12.6 billion over the next 10 years through reduced prices for patented medicines. However, there's reason to worry that the proposed changes may also reduce the availability of new therapies for Canadian patients.

For example, if biopharmaceutical innovators in the burgeoning field of biologic drugs believe the new regulations prevent them from profitably marketing their drugs in Canada, they may simply choose not to launch new products in Canada. Instead of improving access to new medicines for Canadians, the new regulations may create another barrier to access.

At a fundamental level, profit both encourages innovation and helps fund research and development. Accordingly, higher prices boost profitability, allowing for more investment, increased research and development, and ultimately more innovation and drug discoveries. Profit creates a virtuous cycle where profitable innovations today finance life-saving and life-enhancing treatments and cures tomorrow. But Ottawa's proposed changes will reduce the financial capacity of innovators to invest in the Canadian life sciences sector, decreasing revenues of the innovative biopharmaceutical sector by an estimated C\$8.6 billion over the next 10 years. The unfortunate result will be less innovation and less access to new drugs for Canadian patients.

The extent that these proposed changes will alter the role and responsibilities of the PMPRB is alarming—they will transform the review board into a more restrictive national price-control regulator for patented medicines. The new and expanded role of the PMPRB will adversely affect patient access to medicines and the viability of the Canadian life sciences sector.

Any government should approach changes of this magnitude with thoughtful study and consideration. In this case, the Trudeau government has done neither. While the proposed changes purport to bolster Canada's health care system, in reality they will only undermine the system and constrict patient treatment options. Canadians should think twice before accepting policy changes that will only hurt them. [FI](#)



KRISTINA M.L. ACRI

Kristina M.L. Acri is an associate professor of economics at Colorado College and a senior fellow at the Fraser Institute. She is the author of *Implications of the Proposed Changes to Canada's Pharmaceutical Pricing Regulations*.

Morneau Reduces Government Revenue, Punishes Charities by Penalizing the One Percent

Niels Veldhuis and Jason Clemens



In delivering his government's first budget, Finance Minister Bill Morneau said, "We raised taxes for the top one percent. It's only fair to ask those who can afford it to pay a little more so that we can help those who need it."

Sounds simple enough—take from some; give to others in need. But as the late American writer and scholar H.L. Mencken said, "There is always a well-known solution to every human problem—neat, plausible, and wrong."

In 2016, Minister Morneau increased the top personal income tax rate to 33 percent from 29 percent on incomes above \$200,000. The Liberals originally

expected to generate \$2.8 billion from the tax increase. However, they scaled that estimate back to \$2.0 billion one month after being elected in November 2015—with no mention from the government on how intelligent and successful Canadians might respond to the tax change.

Consider the extensive body of research on the impact of taxation on a variety of important economic decisions, which shows that increasing personal income tax rates, especially on higher incomes, results in lower investment, savings, willingness to work, entrepreneurship, and reported income. And this is not just a short-term effect.

Even the federal department of finance studied this effect in 2010 in the paper *The Response of Individuals to*

Changes in Marginal Income Tax Rates. To quote: “Individuals can alter their real economic behaviour and/or adjust their efforts to reduce taxable income.” Furthermore, the finance department said its results were “broadly consistent with other Canadian studies, providing strong evidence that individuals, especially those with higher incomes, do respond to changes in tax rates.”

In 2016, Canadians in the top one percent reduced their charitable donations by \$249 million. Charities should be outraged... at the government for foolishly trying to squeeze ever more from a group that historically pays nearly a quarter of all personal income tax revenue collected by the federal government.

Lo and behold—in November 2016, the government released its financial update showing that personal income tax revenues for 2016–17 would decrease by \$1.2 billion. As the government noted then, “The reduction in 2016–17 largely reflects the impact of tax planning by high-income individuals to recognize income in the 2015 tax year before the new 33 percent tax rate came into effect in 2016.”

Put simply, the government, albeit subtly, acknowledged that people do indeed respond to incentives.

Fast forward to the present and the Canada Revenue Agency’s recently released preliminary data for the 2016 tax year. No surprise: the tax revenue collected from those in the top one percent (Canadians earning above \$250,000 a year) fell by \$4.9 billion in 2016. That’s probably worth repeating. Instead of generating \$2.8 billion from taxing these Canadians at a higher rate, the government lost \$4.9 billion.

But what’s more, the top one percent also account for nearly 30 percent of all charitable giving in Canada. Tax them more and something has to give, right?

Devastatingly for Canadians who rely on private charities for assistance, in 2016, Canadians in the top one percent reduced their charitable donations by \$249 million. That’s a lot of money, and charities should be outraged. Not at high-income Canadians, of course, because they still gave \$2.4 billion to charity. But at the government for foolishly trying to squeeze ever more from a group that historically pays nearly a quarter of all personal income tax revenue collected by the federal government.

None of this should come as a surprise to Finance Minister Morneau. In addition to his own department’s research on the behavioural effects of income tax rate hikes on upper income Canadians, he was the chair of the board of the CD Howe Institute from 2010 to 2014. Over that period, CD Howe Institute published several studies on the impact of increased personal income taxes. One in particular looked at Ontario’s implementation of a new tax on the province’s high income earners in 2012. As the study author noted, “the new tax on high-income earners will likely create more economic costs than benefits: taxpayers’ behavioural responses will reduce revenue over the long run by more than the province can expect to collect from the tax hike.”

Need we say more? [FI](#)



NIELS VELDHUIS



JASON CLEMENS

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

Saudi Arabia's Anti-Women Laws Require Swift Dose of Economic Freedom

Rosemarie Fike

The Canada/Saudi Arabia diplomatic dispute, which peaked in August after Foreign Affairs Minister Chrystia Freeland tweeted her support for women's rights activist Samar Badawi, which in turn prompted Saudi Arabia to pull its students from Canadian colleges and universities (with a temporary exception for medical students), appears to have calmed—for now.

But while the spat made headlines, sadly, mistreatment of women in the Kingdom—and other countries around the world, particularly in the Middle East and Africa—is nothing new. Saudi officials arrested Badawi and fellow activist Nassima al-Sada on July 30, one of several recent cases of female human rights activists being detained in Saudi Arabia.

Most of these activists oppose Saudi Arabia's guardianship system, which legally requires women to have a

male guardian—a husband, father, or other male relative—who controls their major life choices. For example, Saudi women must obtain permission from their guardians before they travel, go to university, get a job, or even marry. According to Saudi law, they must obey their guardian's decisions.

If a woman disobeys, she can be charged with disobedience, which is exactly what happened to Badawi in 2009. She became the first woman to bring a court case challenging this system—no easy feat, considering a woman's testimony carries less weight in Saudi courts than a man's. Women like Badawi are fighting for freedom and the right to choose their futures. And in doing so, they are underlining the gender disparity that exists in Saudi law while sparking a broader conversation about women's rights worldwide.

In my recent Fraser Institute policy report, *Women in Progress*, I rated countries based on how equally men

and women are treated under the law. Saudi Arabia has the highest amount of legal gender disparity in the world.

But it's hardly alone: 19 countries require women to obtain permission from husbands or guardians before finding employment. Even if they are permitted to work, women in 104 countries face gender-specific labour market restrictions on the type of work they can do and the hours they can work.

Nineteen countries require women to obtain permission from husbands or guardians before finding employment. Even if they are permitted to work, women in 104 countries face gender-specific labour market restrictions on the type of work they can do and the hours they can work.

So what's the solution? How can women living in oppressive countries break free, prosper, and live healthier and more fulfilling lives?

Two words—economic freedom. With greater economic freedom, women can choose whether and how to contribute to the economy based on their talents and interests, move to new locations to pursue opportunities, and obtain greater access to financial institutions and improved legal status so they can start businesses and make investments for the future. Of course, progress for women not only affects individuals, but the economy at large. In Saudi Arabia, for example, nearly half of the population (women) is unable to contribute to the economy, so the country is missing out on the wealth and talent its female population could generate.

Women in Progress also analyzed the relationship between economic freedom and well-being, and found that women living in economically freer countries are better able to earn a living, have healthier lives, and have more opportunities to pursue education and financial independence.

On the education front, women are more likely to invest in education if they can use that knowledge in the labour force. It's not surprising that adult literacy rates are higher, on average, in countries in the top quartile of economic freedom (94.1 percent) than in countries in the lowest quartile (59.7 percent).

Without removing gender-specific economic barriers, it's difficult—and in many countries, impossible—for women to share in the benefits of free markets.

Moreover, in economically free countries, women are nearly twice as likely to participate in the labour market as those living in countries with less economic freedom. And crucially, economically free women live nearly 17 years longer, on average, than women in countries with limited economic freedom (82.3 years vs. 65.3 years).

Back in Saudi Arabia, the regime recently granted women more freedoms including the right to drive. But clearly, there's much to be done. Without removing gender-specific economic barriers, it's difficult—and in many countries, impossible—for women to share in the benefits of free markets. Sustainable change does not happen over night, but when the potential benefits of protecting these rights are so significant, the recent Canada/Saudi back-and-forth raises a conversation that can literally save lives. [FI](#)



Rosemarie Fike is an economics instructor at Texas Christian University, a senior fellow at the Fraser Institute, and principal author of *Women in Progress*, the Fraser Institute's work on women, progress, and economic freedom.

Only Parliament Can Fix Canada's Pipeline Impasse

Tom Flanagan



Politicians are scrambling for ways to restart the Trans Mountain pipeline after the recent Federal Court of Appeal decision. Let me offer an explanation of how we arrived at this impasse.

What has happened to Trans Mountain is not surprising. This is the third time in 12 years that the federal Court has blocked a major pipeline proposal on grounds of insufficient consultation, following the Mackenzie Valley natural gas pipeline in 2006 and the Northern Gateway oil pipeline in 2016. In each case, the proposal was backed by many First

Nations and Métis organizations, but a small number of First Nations (six, in the case of Trans Mountain) was able to get a court ruling that some phase of consultation had been inadequate.

These results flow from the character of the jurisprudence. In the seminal *Haida Nation* decision (2004), the Supreme Court created the “duty to consult and accommodate” First Nations regarding development projects on their traditional territories. That right to be consulted was not entrenched in any constitutional document or federal legislation; the Court inferred it from the “Honour of the Crown.” It was not surprising for the

Court to create new law; it happens all the time. But in this instance the new law was exceptionally vague because the Honour of the Crown has no clear definition. It is, ultimately, whatever the courts say it is.

Since then, Parliament has passed no legislation to better define the duty to consult. In this legislative vacuum, the courts act in the only way they can, reviewing specific cases retrospectively. There are no bright lines in this jurisprudence; it is constantly evolving as courts hear new arguments about whether consultation has been adequate under the elastic concept of the Honour of the Crown.

The Supreme Court created the “duty to consult and accommodate” First Nations regarding development projects on their traditional territories. That right to be consulted was not entrenched in any constitutional document or federal legislation; the Court inferred it from the “Honour of the Crown.”

It’s a perfect environment for project opponents to conduct a kind of guerrilla warfare—sometimes dubbed “lawfare”—in the courts. Months stretch into years as the courts follow their methodical process of hearings and appeal. Meanwhile, costs mount, perhaps rendering a project unprofitable. Or conditions may change as time goes by. The Mackenzie Valley proposal died when fracking caused the price of natural gas to collapse. Northern Gateway died when a newly elected government delivered the *coup de grâce*. Small wonder that international investors are rushing for the exits.

Also, the jurisprudence has been largely developed around individual development proposals that affect only one or a small number of First Nations—a mine or oil well here, a forestry clear cut there. In those circumstances, consultation can work because both sides have incentives to settle. The company wants to get on with

its proposal, the First Nation (not always but often) would like what comes with an impact benefit agreement—cash payments, jobs, service contracts, training programs, sometimes even an ownership stake. Transaction costs may rise, but business can go forward.

But the jurisprudence has not taken account of the needs of corridor projects such as pipelines, which have to run from start to finish to be useful. Long corridor projects typically require consultation with dozens of First Nations, and anyone with experience of human affairs knows that unanimity is rarely achieved in any endeavour. Holdouts may block projects for strategic reasons, hoping for a better deal, or because they are opposed in principle.

In the larger economy, this problem is solved by the exercise of expropriation. Acting under legislation that provides appropriate compensation, regulatory authorities can take possession of land required for essential corridor projects. Expropriation is not a perfect solution, but without it we would not have many pipelines, power lines, roads, or rapid transit lines, and modern industrial society could not exist.

The problem is that we have no equivalent legislation for First Nations’ property rights. Thus, even though the courts repeat that the right to be consulted does not entail a veto, the legal process as it has evolved effectively confers a veto power on small numbers of holdout First Nations. Ironically, that veto power damages not only the Canadian economy but many First Nations organizations who want economic development to raise their people’s standard of living. The courts have boxed themselves in, and only Parliament can break the gridlock. **FI**



TOM FLANAGAN

Tom Flanagan is a professor emeritus of political science at the University of Calgary and a senior fellow at the Fraser Institute. He is the author of *Specific Claims and the Well-Being of First Nations*.

Toronto Is Changing Whether You Like It or Not— Might As Well Be for the Better

Josef Filipowicz and Steve Lafleur



As the municipal election looms, housing affordability has become the number one issue in Toronto. According to polling by Forum Research, it has eclipsed the city's notorious traffic gridlock as the biggest concern of voters.

This is no surprise. Since the last municipal election in 2014, home prices have increased almost 50 percent across the Greater Toronto Area (GTA), while Toronto rents are the highest in the country. Though possibly good news for current homeowners, this trend

is devastating for newcomers, long-time renters, and businesses looking for talent.

Thankfully, city hall can address the affordability issue. Fundamentally, the cost of buying and renting is driven upward by a scarcity of available homes. This is why the cross-GTA rental vacancy rate is at or below one percent, a historic low falling woefully short of the healthier three percent in Montreal. To reverse this scarcity, local governments must approve the construction of more homes, and at a quicker rate—be it by streamlining the building permit approvals process or making

major changes to the city's zoning bylaws. Either way, city hall holds the key to cooling prices, which will help make room for newcomers.

Of course, achieving broad affordability through a growing housing supply inevitably means that the face of Toronto will change. It could mean more walk-up apartment buildings in traditionally detached home neighbourhoods. It could mean more modern architecture along historic street fronts or in neighbourhoods like the Annex. Or less ground-level parking as Toronto fills in. In short, choosing affordability means choosing change, including change to the city's physical appearance.

As Torontonians consider their city's future in October's election and beyond, they should ask themselves not whether they prefer the status quo over change, but rather what kind of change they prefer.

This kind of change will understandably make some people uncomfortable. Existing residents may worry about increased noise and traffic, or a change in neighbourhood character. Many housing opponents fight such changes, ostensibly to preserve the status quo.

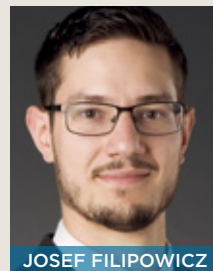
But there's a problem with that calculation. Opposition to development will help spur a different kind of change, as the city's existing population ages and young people—no longer able to afford city prices—depart for cheaper pastures.

As mentioned, the cost of buying or renting is on the rise in Canada's largest city—a trend with serious consequences. According to Statistics Canada data on intra-provincial migration (movements between Ontario communities), the number of young working-age people (20 to 34-year-olds) leaving the city for other (more affordable) parts of the province has accelerated in recent years. Fewer young people means fewer

families and fewer workers, making things difficult for growing businesses looking to hire or retain talent. It can also mean more people commuting into the city but paying taxes to other municipalities, leading to both foregone revenue at city hall and the threat of greater traffic congestion.

As such, opposing more housing in Toronto can help frustrate change in some neighbourhoods, but does nothing to preserve the defining element of any great city—its people. Maintaining the appearance of certain neighbourhoods might serve nostalgia, but freezing neighbourhoods in time will eventually strangle the city's life blood.

As the urban thinker (and former Torontonian) Jane Jacobs once wrote: "people make [the city], and it is to them, not buildings, that we must fit our plans." As Torontonians consider their city's future in October's election and beyond, they should ask themselves not whether they prefer the status quo over change, but rather what kind of change they prefer. Change that favours buildings, or change that favours people? The choice should be obvious. **FI**



Josef Filipowicz and Steve Lafleur are senior policy analysts at the Fraser Institute.



POST-SECONDARY STUDENT SEMINARS

For three decades, the Fraser Institute's seminars have been engaging university and college students on critical policy issues—from the burden of taxes to the true state of the environment. With nearly a dozen post-secondary programs held annually across Canada, the Institute provides over 1,000 college and university students a year with a forum to learn about and discuss key policy issues. We offer these important programs so that young people will know *how* to achieve a better Canada—and *demand it*.

Former Chairman of the US Federal Reserve, Alan Greenspan, observed over a decade ago that “what is being taught in the universities today will determine national economic policy 10 years from now.”

Our fall post-secondary seminars took place in:

- Saskatoon, October 13
- Vancouver, October 20
- Victoria, October 26
- Guelph, October 27
- Ottawa, November 3

“We offer these important programs so that young people will know how to achieve a better Canada—and demand it.”

HIGH SCHOOL SEMINARS

In British Columbia and Ontario we reach students before they get to college or university by running seminars for Grade 7 to 12 students about the importance of economic thinking. These teenagers leave the seminar better equipped to critically evaluate decisions that they make in their lives and, more importantly, can use that same framework to understand decision-making in the world around them.

Our fall high school seminars took place in:

- Burnaby, October 11
- Vancouver, October 12 and October 15
- Toronto, October 18, October 19, and October 26



An auditorium packed with 300 interested and engaged senior high school students.

TEACHER WORKSHOPS

The Fraser Institute continues to fill the demand for resources on economic topics by developing and delivering a variety of workshops for teachers that are designed to make the teaching of economics fun and easy to understand. Teachers attending these workshops praise them for being a valuable resource of material that they can use in their classrooms. At the time of writing, three of our four fall teacher workshops are already full and have a waiting list.

“This was a fantastic opportunity for me and my students—the range of material will greatly benefit all four of my social studies grades.”

—an Alberta teacher

Our fall teacher workshops were held in:

- Burnaby, October 26: “The Economics of Sports”
- Edmonton, November 2: “Economic Freedom of the World”
- Toronto, November 16: “The Economics of Sports”
- Toronto, November 16: “Beyond the Basics: Teaching Advanced Economic Topics”



At a Vancouver program, high school students put themselves in the place of municipal workers facing pollution clean-up costs weighing the marginal costs of the clean-up against the marginal benefits.



A sample of the resources in our economic EduKits.

EDUKITS

EduKits are a box full of fun! Ready for a new school year, the Institute distributed 50 EduKits to teachers across Canada who were looking for fun and unique ways to teach their students about economic principles. With a wait list of over 100 teachers, another 50 kits will be distributed to eager teachers before year’s end. [FI](#)



Ashley Stedman

What's your role at the Institute?

I am a senior policy analyst working in both the Centre for Natural Resource Studies and the Centre for Environmental Studies, where we study and measure how government policies related to energy and the environment affect the lives of Canadians. Working in the energy and environmental policy space is both challenging and rewarding as the issues are rapidly evolving.

How did you arrive at the Institute?

I completed my Master of Public Policy degree under research supervisor Dr. Tom Flanagan, who is a senior fellow at the Institute. My capstone research topic focused on pipeline issues, and Dr. Flanagan pointed out that the Fraser Institute does timely and important work on energy and suggested that I might be well suited for a position at the Institute. His recommendation ultimately led to my being hired as a policy analyst.

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

I am working on a project that examines the federal carbon pricing scheme. Carbon pricing is prominent on federal and provincial policy agendas right now, which makes this project particularly timely. Carbon pricing and its impact on the economy is rigorously debated, so I am eager to dig into the data and see what the results show.

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

In my spare time I enjoy playing tennis and spending time with my dog. I have a goldendoodle named Carl (he is named after Carleton University where I completed my undergrad). He is very loyal and sweet. I am a true dog lover—Carl's photo sits right beside me on my desk.

The Fraser Institute Economic Freedom of the World website is the source for data on economic freedom.

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