



THE Quarterly

WINTER 2021

Canadian Economy: From Bad to Worse



**Niels Veldhuis**

President, Fraser Institute

Dear Friends,

Inflation just hit 4.4 percent in Canada and prices are up in every major spending category. In addition to inflation taking a huge bite out of our wallets, there are serious risks of it becoming permanent, which will cause considerable additional economic pain. That's the last thing Canadians need as our economy is already on the brink.

In this issue of *The Quarterly* you will find summaries of several important new studies and commentaries that analyze Canada's economic performance (pre-COVID) and examine policies that could further adversely affect Canadian families.

Take, for example, Senior Fellow Philip Cross' latest study, *Canada's Faltering Business Dynamism and Lagging Innovation* (see page 4). It found that real economic growth in Canada over the past decade was the slowest since the 1930s. Resident Scholar Steven Globerman and Senior Economist Joel Emes found in their new study, *An International Comparison of Capital Expenditures* (see page 14), that "Canada's growth rate of business investment—a key driver of higher living standards—neared a 50-year low."

In large part due to the massive shift in federal policy since 2015—namely higher taxes, higher debt-financed spending, and more regulation of the economy—Canada has, for the first time, fallen out of the top 10 most economically free nations in the world (see page 20). Economic freedom is of course the engine that powers growth, prosperity, income mobility, and a broad array of improved social outcomes.

And things might only get worse. Consider that the federal government recently decided to ban gasoline-powered cars by 2035 in the drive to achieve "Net Zero" emissions and limit warming to 1.5°C. Before pushing ahead with such a drastic policy, our federal government should have reviewed the economic literature (see page 2) which shows that the extreme policies associated with achieving Net Zero and the 1.5°C target impose costs that far exceed the expected benefits.

In addition, the Liberal minority government will likely partner on most legislation with the NDP and both parties support the creation of a new wealth tax in addition to higher capital gains taxes. With Canada facing real challenges in attracting business investment and entrepreneurs, introducing a wealth tax and/or raising the capital gains tax would make a difficult situation worse (see page 16).

Canadians need to hear these messages, so once you have finished reading this edition of *The Quarterly*, I hope you will pass it on to your friends, family, and colleagues.

Stay safe!

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

Best,
Niels

New Research



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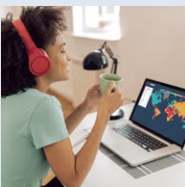
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UN Climate Goal of Limiting Warming to 1.5°C Contradicts Expert Advice; Significant Costs Compared to Estimated Benefits

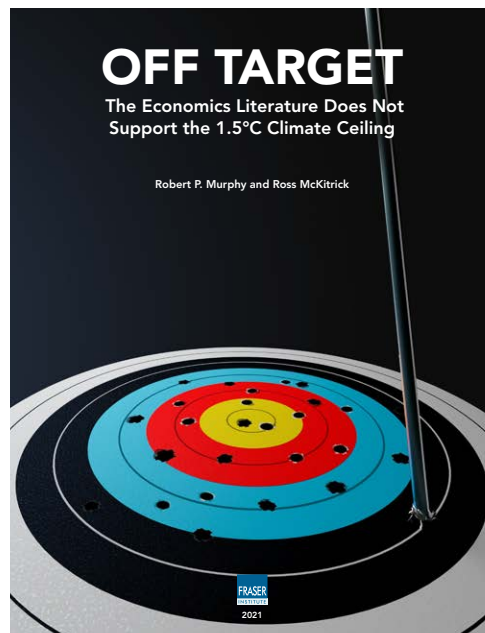
Ross McKittrick and Robert P. Murphy

On its first day in office, the Biden administration cancelled the Keystone XL pipeline and in April hosted the “Leaders Summit on Climate,” a gathering of presidents, prime ministers, and other leaders to discuss climate policy. This is all part of a global policy agenda kickstarted by a 2018 “Special Report” issued by the United Nations’ Intergovernmental Panel on Climate Change (IPCC). The UN report, titled *Global Warming of 1.5°C*, was commissioned to study the potential benefits of limiting warming to 1.5 degrees Celsius, rather than the 2.0°C target stated in the Paris Agreement.

But the UN report did not try to justify the more aggressive target by conducting a cost-benefit analysis; it took the 1.5°C target as externally-given. For the most part, the UN report simply compared the model-projected climate impacts of 2.0°C warming versus 1.5°C, and not surprisingly concluded that the former would be larger. It did not show that the benefits of the policies required to achieve the more stringent target would be worth the costs.

Before we rush into extreme policy responses and further limit access to the energy we depend on every day, we need careful cost-benefit analyses. Fortunately, these analyses have been done in the mainstream economics literature. In a new study published by the Fraser Institute, *Off Target: The Economics Literature Does Not Support the 1.5°C Climate Ceiling*, we show they do not support the 1.5°C target.

Back in 2018, on the same weekend that the UN released its “Special Report,” Yale economist William Nordhaus won the Nobel Memorial Prize for his work on the eco-



nomics of climate change. Major media outlets treated the two events as complementary, assuming Nordhaus’ work supported the 1.5°C goal. On the contrary, his modeling work estimated that the 1.5°C ceiling would be so harmful that it would be better for humanity if governments did nothing at all rather than pursue such a draconian policy.

Nordhaus’ 2016 modeling run estimated there would be \$134.2 trillion (in present-discounted dollars) of climate change damages if the governments of the world did nothing to limit emissions. In contrast, if governments implemented what Nordhaus recommends as the optimal carbon tax, then climate change damages would drop to \$84.6 trillion, but conventional economic growth would suffer by \$20.1 trillion for a net benefit (relative to the baseline) of almost \$30 trillion.

However, if policymakers tried to limit global warming to 2.5°C, the economic costs swamp the extra reduction in climate damages. Nordhaus estimated that this policy goal would actually be \$43.2 trillion worse than the “no controls” baseline. To be clear, this estimate is for the target of 2.5°C; Nordhaus didn’t evaluate the more draconian goal of limiting global warming to 1.5°C, for which the cost/benefit results would have been even less appealing.

“ Mainstream economists have shown that the 1.5°C policy target will pose costs that far exceed the benefits, and the emission reductions flowing from adherence to the 1.5°C target would be worse than doing nothing at all. It’s ironic that those who demand we “follow the science” have so completely disregarded the peer-reviewed literature on the economics of climate change.”

Besides Nordhaus’ work, we can consider the “social cost of carbon,” which is the present-discounted value of future damages caused by the emission of an additional metric ton of carbon dioxide. The Biden administration’s EPA in February 2021 estimated the social cost of carbon for the year 2030 at \$62. According to standard principles of policy analysis, this is the most we should pay per ton of emissions reductions. Yet the UN “Special Report” admitted the policies needed for achieving the 1.5°C goal would have costs ranging from \$135 to \$5,500 per metric ton, which are 2 to 89 times the benefits.

The “Special Report” (again, published in 2018) also claimed that warming would have much larger impacts than the IPCC’s 2014 Fifth Assessment Report projected. But it’s not that the IPCC experts changed their minds, it’s that the IPCC changed their experts. Notwithstanding the similarity of the topic and the short

interval (only four years) between the two reports, the UN picked a very different team of authors for the Special Report on 1.5°C. Comparing the relevant chapter from the Fifth Assessment Report to that of the “Special Report,” there was no overlap between the coordinating lead authors, lead authors, review editors, or chapter scientists, and among the 69 contributing authors to the “Special Report” chapter, only one also contributed to the Fifth Assessment Report’s chapter on climate change impacts.

Finally, in our Fraser Institute study we show that the “Special Report” chose to highlight two recent studies in the literature that claim very large economic impacts from warming. In doing so, the “Special Report” authors overlooked other contemporary studies that confirmed the earlier IPCC consensus—the two new studies have been criticized on methodological grounds, and other papers in the literature failed to confirm their findings.

Mainstream economists have shown that the 1.5°C policy target will pose costs that far exceed the benefits, and the emission reductions flowing from adherence to the 1.5°C target would be worse than doing nothing at all. It’s ironic that those who demand we “follow the science” have so completely disregarded the peer-reviewed literature on the economics of climate change. [FI](#)



ROSS MCKITRICK



ROBERT P. MURPHY

Ross McKittrick and Robert P. Murphy are Fraser Institute senior fellows. They are the authors of *Off Target: The Economics Literature Does Not Support the 1.5°C Climate Ceiling*.

Business Ambition Must Be a Canadian Value

Philip Cross

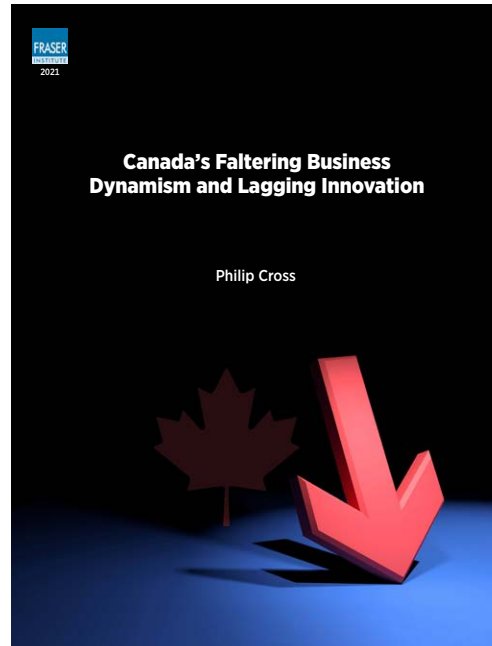
It's well-documented that Canada's economy has underperformed for more than a decade. Business investment has slumped, productivity growth has almost completely stalled, innovation has lagged, and our major companies are no longer global leaders. The result has been that real GDP grew more slowly over the past 10 years than in any decade since the 1930s. Like many European countries, Canada has fallen behind the United States.

What has gone wrong with Canada's economy? In a paper recently released by the Fraser Institute, *Canada's Faltering Business Dynamism and Lagging Innovation*, I outline some of the major factors.

To start with, too much of Canada's economic model is based on limiting competition. Firms and workers have come to rely on a broad array of government devices that restrain market forces, including interprovincial trade barriers, exemptions from international trade agreements for large sectors of the economy, restrictions on foreign investment, extensive licensing that erects barriers to entering many occupations, and myriad other regulations.

The mistaken mindset behind much of this obstructionism is that favouring producer over consumer interests demonstrates a government's pro-business credentials. In fact, putting producer interests before consumer interests is the very opposite of what economists say is best for society. In *The Wealth of Nations*, Adam Smith made the point that "Consumption is the sole end and purpose of all production and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer."

Underlying the proliferation of rules and regulations that put the interests of producers ahead of consumers is a shift in values. University of London Professor Gylfi Zoega described this shift as being one "in which protection of the vested interests is prioritized over innova-

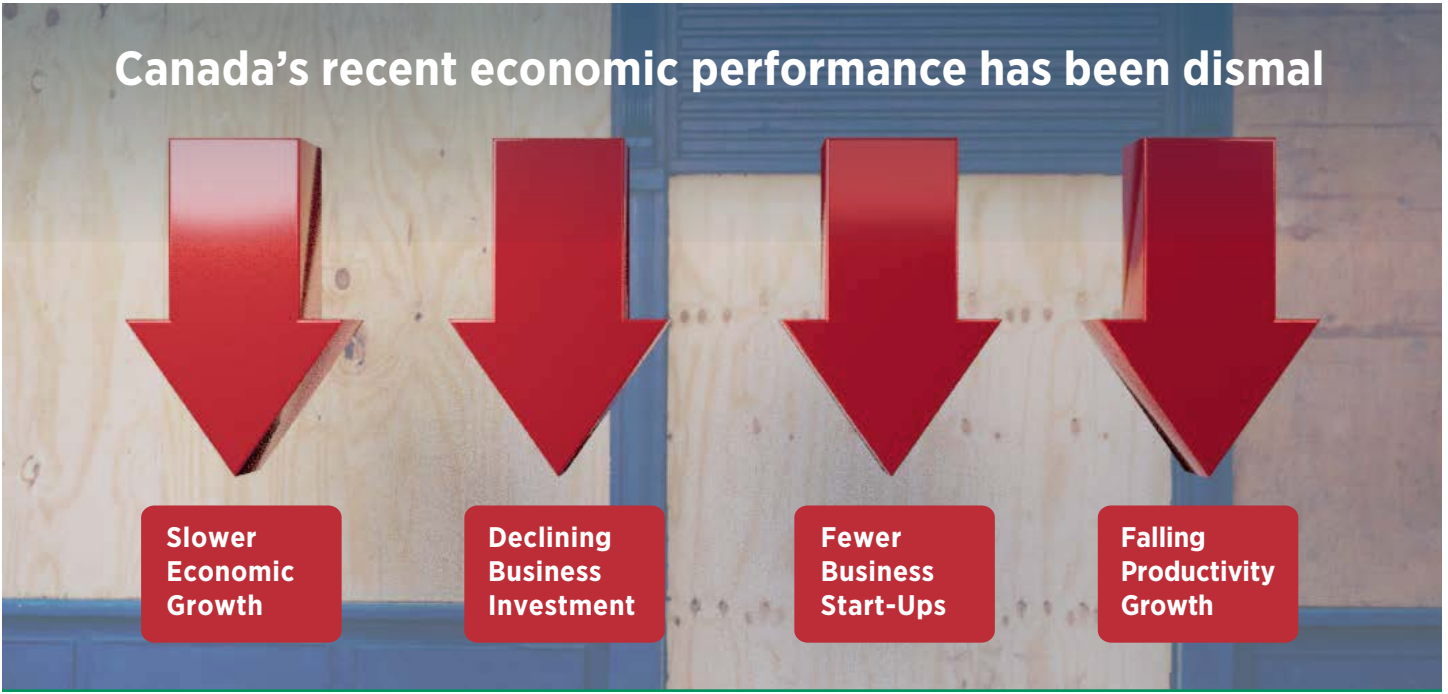


tion and risk-taking. The corporatists do not approve of uncertainty and disorder, something that is ingrained in a dynamic, innovative economy." A country cannot reap the benefits of creative destruction if it resolutely resists all forms of destruction—outside the resource sector, at least—while erecting barriers to creative innovation that by its very nature disrupts the status quo.

Stimulating and rewarding innovation would lead to exactly the opposite of governments favouring particular firms and coddling special interest groups, practices that may be pro particular businesses but are anathema to well-functioning capitalism. This is partly because indulging businesses' rent-seeking only encourages them to ask for more protection and handouts, which for good reason further undermines public trust that businesspeople earn their incomes fairly. The resentment this largess nurtures in the public is then used to justify raising taxes on high incomes and corporations, which further depresses growth.

The only truly pro-business policies are those that foster competitive markets and produce a more level playing

Canada's recent economic performance has been dismal



field for all firms by relaxing regulatory controls, cutting taxes, removing tariffs, reining in occupational licensing rules, encouraging startups, and boosting business investment. Such widespread reforms can only happen in a country whose values support business dynamism and private-sector innovation, including a willingness to take the initiative even if doing so entails risks and the acceptance of competition. Canada today is a long way from being such a country.

“Canada’s biggest problem is that it lacks the values that foster innovation.”

Despite all the talk in political circles about “Canadian values,” the country’s biggest problem is that it lacks the values that foster innovation. Instead, our governments wrongly continue to target more education, science, and R&D in a futile bid to boost innovation. The damning result, in the words of University of Toronto Professor Daniel Breznitz, is that “since 2007, the more the Canadian government has invested taxpayers’ money in trying to spur innovation, the less Canadian private businesses have done so. Canada easily wins the wooden-spoon award for the worst innovation policy among all the developed nations.”

The result of all these barriers, regulations, and restrictions has been a clear loss of dynamism in Canada’s business sector. This is reflected in: a steady decline of both firm entry and exit over the past decade; an inability to scale up the dwindling number of startups brave enough to launch a business in Canada; a 30 percent drop in business investment since 2015; fading competitiveness in export markets that has lowered our share of the US market; and a reduced ability to respond to the opportunities offered by the trade deals we recently negotiated with both the European and the Pacific regions.

It’s remarkable that the recent federal election campaign featured almost no discussion of Canada’s lagging innovation and declining business dynamism. In a campaign that many characterized as being about nothing, this was a missed opportunity to debate what needs to be done to restore our competitiveness and reignite the growth of businesses in Canada. [FI](#)



PHILIP CROSS

Philip Cross is a Fraser Institute senior fellow. He is the author of *Canada’s Faltering Business Dynamism and Lagging Innovation*.

Canada's Approach to Long-Term Care Markedly Different from Other Successful Countries

Yanick Labrie

The long-term care sector in Canada has received a lot of media attention since the beginning of the COVID-19 pandemic. This is not surprising, given the tragic consequences that have affected the residents of public and private nursing homes and their families. However, the difficulties in meeting the care needs of the elderly in nursing homes or at home precede the arrival of the pandemic in the country.

As with many other aspects of their health care systems, provinces struggle to provide needed long-term care for the elderly population in a timely fashion. In the nursing home sector, the wait time to obtain a place can drag on for many months in several provinces. Admissions to publicly financed institutions are controlled by governments and providers' revenues do not depend on the quality of service provided nor on their effectiveness in attracting clients. Access to nursing care delivered at home is also limited and most patients have very few options and little control over the basket of services offered to them. As we document in our recent study, *Rethinking Long-Term Care in Canada*, over one-third of Canadians aged 65 and older have unmet home care needs.

In recent weeks, calls for the integration of long-term care into public health systems in Canada have been heard again. Various commentators and lobby groups are calling for a substantial increase in public spending and a major overhaul of the system. The leader of a major federal party even suggested getting rid of private for-profit providers, accusing them of being at the root of the many failures observed in the sector.






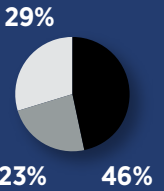





However, before embarking on such a change, it would be wise to take a look at what other comparable countries with older populations are doing to overcome the



demographic challenges that Canada now faces. For example, Germany, Japan, the Netherlands, and Sweden, have successfully integrated long-term care into their universal health-care systems, while devoting to health care a share of their GDP comparable to, or less than, that allocated by Canada. However, none of them rely on a government monopoly for the financing and delivery of long-term care services.

In fact, in these four countries, private for-profit entrepreneurs have been called upon to play a key role in the provision of long-term care services and have shown that they can respond effectively to changes in client needs and preferences. In Germany, Japan, and the Netherlands, more than 60 percent of home care providers work for private for-profit organizations, and that share has increased over time. Choice and competition between providers have also been encouraged by policy makers and have helped improve the quality of services and the efficiency with which they are delivered. Unlike the Canadi-

Comparison of Long-Term Care in Select Universal Health Care Countries

	 CANADA	 GERMANY	 JAPAN	 NETHERLANDS	 SWEDEN
Eligibility for Public Programs	Means-tested	Universal	Universal	Universal	Universal
Provision	 <p>29% 23% 46%</p>	 <p>43% 4% 53%</p>	 <p>14% 7% 79%</p>	 <p>12% 88%</p>	 <p>19% 1% 80%</p>
	 <p>Public Private not-for-profit Private for-profit</p>				
Choice of care providers?	Limited	Yes	Yes	Yes	Yes

an situation, health care providers in these four countries are not guaranteed to operate at full capacity, and good quality is rewarded through user choice.

Further, instead of focusing narrowly on institutionalized care, in recent decades these countries have made a major shift towards providing options for long-term care in the patient's own home. While such in-home care services account for only 18 percent of public funding for long-term care in Canada, other countries devote a markedly larger portion of their health care budgets to these services. In Germany and the Netherlands, in particular, a cash benefit system has been put in place to leave more room for patients to choose a provider and organize their own long-term care as they see fit. Seniors can even hire family members or relatives and pay for domestic help or home care with the personal allowance they receive. These programs have brought increased autonomy to users and care solutions better suited to their needs and preferences. They have proven to be more cost-efficient than traditional government-run programs, thereby effectively helping to mitigate the impact of an aging population on long-term care spending in these countries.

This is not to say that these four countries are immune to the challenges posed by an aging population or that they can eliminate them. But they have responded to the growing concerns about the aging of their populations and the financial sustainability of their public health care systems mostly by adopting a decentralized approach that efficiently leverages collaboration between the public and private sectors, while providing added flexibility for care in the patient's own home. Canada should learn the necessary lessons from their experience before adopting a potentially expensive government program for long-term care. [FI](#)



YANICK LABRIE

Yanick Labrie is a health economist and a Fraser Institute senior fellow. He is the author of *Rethinking Long-Term Care in Canada: Lessons on Public-Private Collaboration from Four Countries with Universal Health Care*.

Top 20 Percent of Canadian Income-Earning Families Pay More than Half of All Taxes

Jake Fuss and Tegan Hill

During the federal election campaign, several political parties called for tax increases to ensure that high-income workers pay their “fair share.” However, this type of rhetoric involves little discussion of actual facts about who pays taxes.

In 2016, the Liberals raised the top personal income tax rate from 29 percent to 33 percent to improve tax fairness. Five years later, the Liberals and the NDP (the Liberals’ potential partner in today’s minority government) have proposed further tax increases.

While the Liberal platform includes taxes on luxury goods and a new “minimum tax rule” for high-income workers, the NDP plan calls for increasing the top personal income tax rate from 33 percent to 35 percent, implementing a wealth tax, and raising taxes on capital gains. If these parties work in tandem, Canadians could see some combination of these tax increases.

However, these proposed tax increases to improve “fairness” ignore basic facts about the current distribution of taxes in Canada. In a recent study, *Measuring Progressivity in Canada’s Tax System*, we found that the top 20 percent of income-earning families pay nearly two-thirds of all federal and provincial income taxes (63.2 percent) while earning less than half of the country’s total income (44.1 percent). These families are the only income group in Canada that pay a larger share of income taxes relative to their share of income.

In fact, all other Canadian families with incomes below the top 20 percent pay a smaller share of personal income taxes relative to their share of total income. For example, the bottom 20 percent of income-earning families pay 1.0 percent of personal income taxes while earning 5.5 percent of total income.

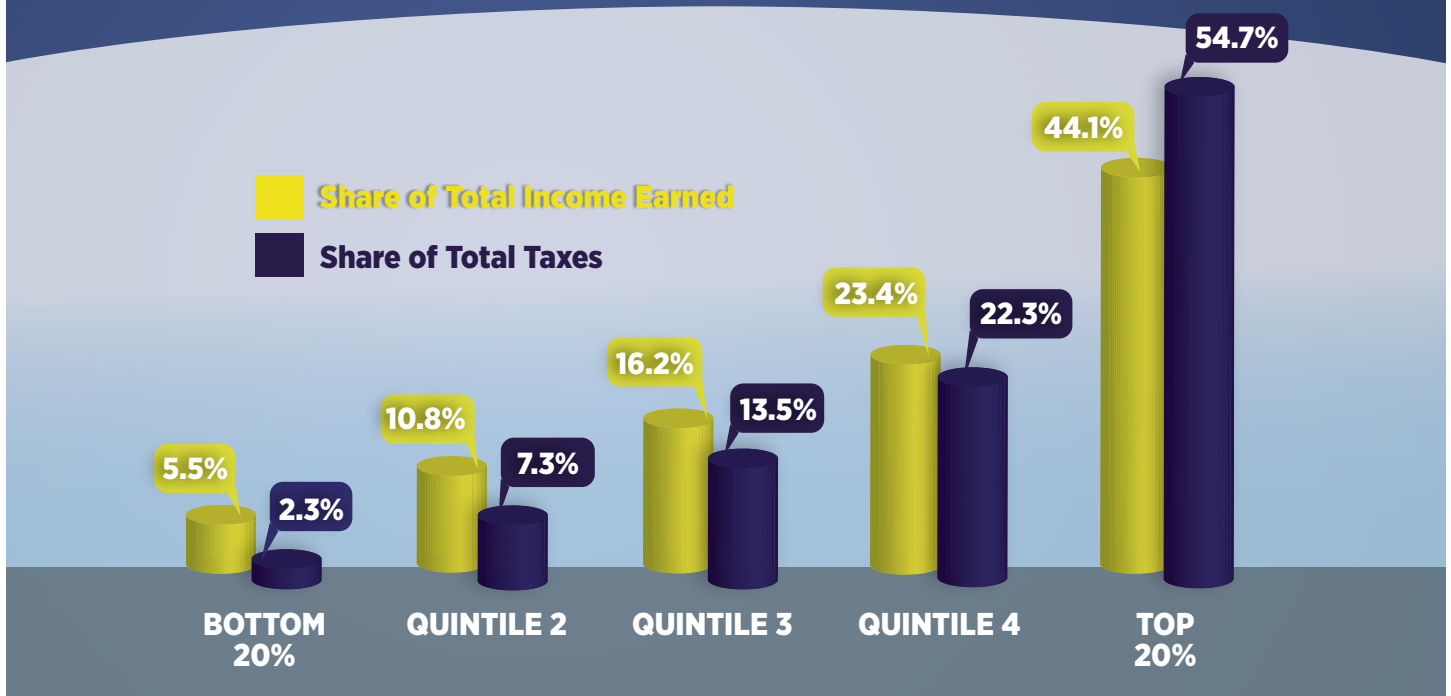


Why? Mainly because of Canada's system of progressive income taxes where individuals are taxed at increasingly higher rates as their income increases. For example, the marginal federal tax rate is 15 percent on individual incomes up to \$49,020, while income that exceeds \$216,511 is taxed at more than double that rate (33 percent). Many low-income families also do not pay any personal income taxes because their tax credits and deductions are greater than their taxes owed.

Canadians also pay a myriad of federal, provincial, and local taxes in addition to personal income taxes, including payroll taxes, sales taxes, property taxes, fuel taxes, and many others. Even after including all taxes, high-income families still pay a disproportionate share of Canada's taxes.

In fact, the top 20 percent of income-earning families pay more than half (54.7 percent) of all federal, provincial, and local taxes while, again, earning less than half of all

Share of Total Income Earned and Total Taxes by Quintile, 2021



income (44.1 percent). Clearly, the rhetoric that higher-income Canadians pay little in taxes is not based in reality.

“The top 20 percent of income-earning families pay more than half of all federal, provincial, and local taxes while earning less than half of all income. Clearly, the rhetoric that higher-income Canadians pay little in taxes is not based in reality.”

Finally, calls to raise taxes on high-income workers typically overlook the economic consequences. Put simply, people respond to incentives. So when governments raise or introduce new taxes, they reduce incentives for important economic activity including entrepreneurship, investment, and innovation because the financial

benefits from engaging in those activities are reduced. We shouldn't use the tax system to penalize the very activities we need and want more of—particularly during the COVID recovery.

While there can be reasonable debate over the structure of Canada's tax system, Canadians should be wary of misguided rhetoric about implementing tax increases as policy solutions. [FI](#)



JAKE FUSS



TEGAN HILL

Jake Fuss is a senior economist and Tegan Hill is an economist at the Fraser Institute. They are co-authors of *Measuring Progressivity in Canada's Tax System*.

Atlantic Canada Lost 66,396 People to the Rest of the Country since 2000

Alex Whalen and Ben Eisen

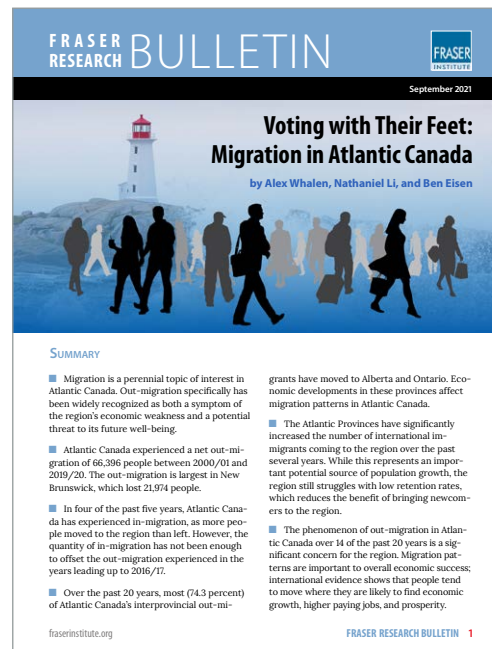
It is no secret that Atlantic Canada faces demographic challenges. In addition to having the oldest population in the country, the region has in the past often faced a situation where young people have left in search of good jobs in Central and Western Canadian provinces.

However, recent population estimates from Statistics Canada show that over the past half decade (and especially more recently) things have changed. In these recent years more Canadians have come to the region than have left for other provinces.

It would be a mistake, however, to assume that the recent influx of migrants from the rest of Canada means that the issue of interprovincial outmigration has been solved. While the region may have some advantages (for example, housing costs), the underlying economic problems that have caused decades of outmigration still exist.

“Between 2000/01 and 2019/20, 66,396 more people left Atlantic Canada for other provinces than came to the region from elsewhere. The majority of those who left the region were working-aged people between the ages of 20 and 44.”

First, let’s consider the scale of the problem. Our recent study, *Voting with Their Feet: Migration in Atlantic Canada*, quantified the number of people who have left

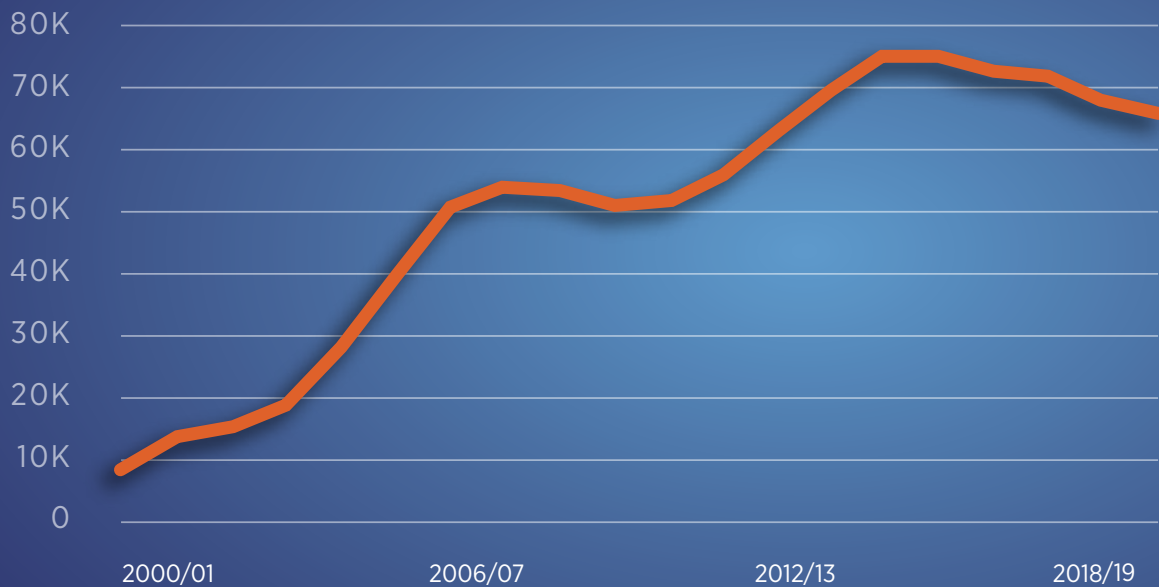


the region for other provinces and found that between 2000/01 and 2019/20, 66,396 more people left Atlantic Canada for other provinces than came to the region from elsewhere. The majority of those who left the region were working-aged people between the ages of 20 and 44.

The reason for the recent change, with more people coming to the region than leaving, has not necessarily come about because of positive economic developments in Atlantic Canada. Rather, the Alberta and Ontario economies have stagnated. These two provinces have been the primary destination for Atlantic Canadian out-migrants in recent years. With fewer good jobs to be found in Alberta and Ontario, it is not surprising that fewer people have been leaving Atlantic Canada.

If the economies in the two main destination provinces for Atlantic Canadians improve, it is reasonable, all else being equal, to expect the longer-term reality of outmigration to resume.

The number (net) of Atlantic Canadians who have left the region since 2000/01



So, what can the region do to retain the new arrivals for the long term and attract and retain more people in the future? Historical evidence clearly shows that people tend to move to places with strong economies in search of jobs and opportunities. Therefore, governments in the region must focus on creating the conditions for stronger economic growth and the creation of good jobs.

“Historical evidence clearly shows that people tend to move to places with strong economies in search of jobs and opportunities. Therefore, governments in the region must focus on creating the conditions for stronger economic growth and the creation of good jobs.”

Achieving this objective will require substantial policy reform. The region is still contending with the four prov-

inces having among the highest tax burdens in North America, a weak climate for investment, and economies that are dominated by government.

In sum, the recent inflow of people to Atlantic Canada does not mean that the longer term problem of outmigration has been solved. Substantial policy reform can help the economy grow over time, creating the jobs and opportunities that will induce working-age people to come and stay in the region. [FI](#)



ALEX WHALEN



BEN EISEN

Alex Whalen is a policy analyst and Ben Eisen is a senior fellow in Fiscal and Provincial Prosperity Studies at the Fraser Institute. They are co-authors, with Nathaniel Li, of *Voting with Their Feet: Migration in Atlantic Canada*.

New Rules—Including Inflation-Proofing and Dividends for Albertans—Would Improve Heritage Fund

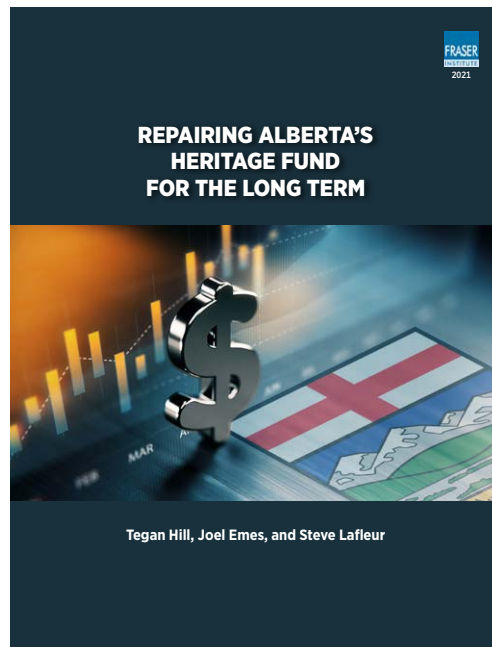
Tegan Hill, Joel Emes, and Steve Lafleur

The Heritage Fund has the potential to provide vast benefits to Albertans, but it's been hamstrung by weak fiscal rules. Fortunately, the Kenney government can learn from Alaska's Permanent Fund, which through robust fiscal rules has grown to US\$65.3 billion (as of 2019/20) while paying more than US\$26.0 billion in direct dividends to Alaskan citizens since 1982.

First, let's review Alberta's Heritage Fund, which was created in 1976/77 to save a share of the province's resource wealth for the future. Historically, however, rules that would have helped ensure the fund's growth (for example, a requirement to deposit 30 percent of resource revenue annually) were statutory in nature, which meant governments could easily disregard, change, or eliminate these rules once they were no longer convenient.

“The Kenney government should renew the Heritage Fund by drawing lessons from Alaska's success and introduce a constitutional requirement for consistent contributions and inflation-proofing, while paying annual dividends to Albertans.”

As a result, the provincial government stopped consistently contributing resource revenue to the fund in 1987/88, the real value of the fund eroded over time due

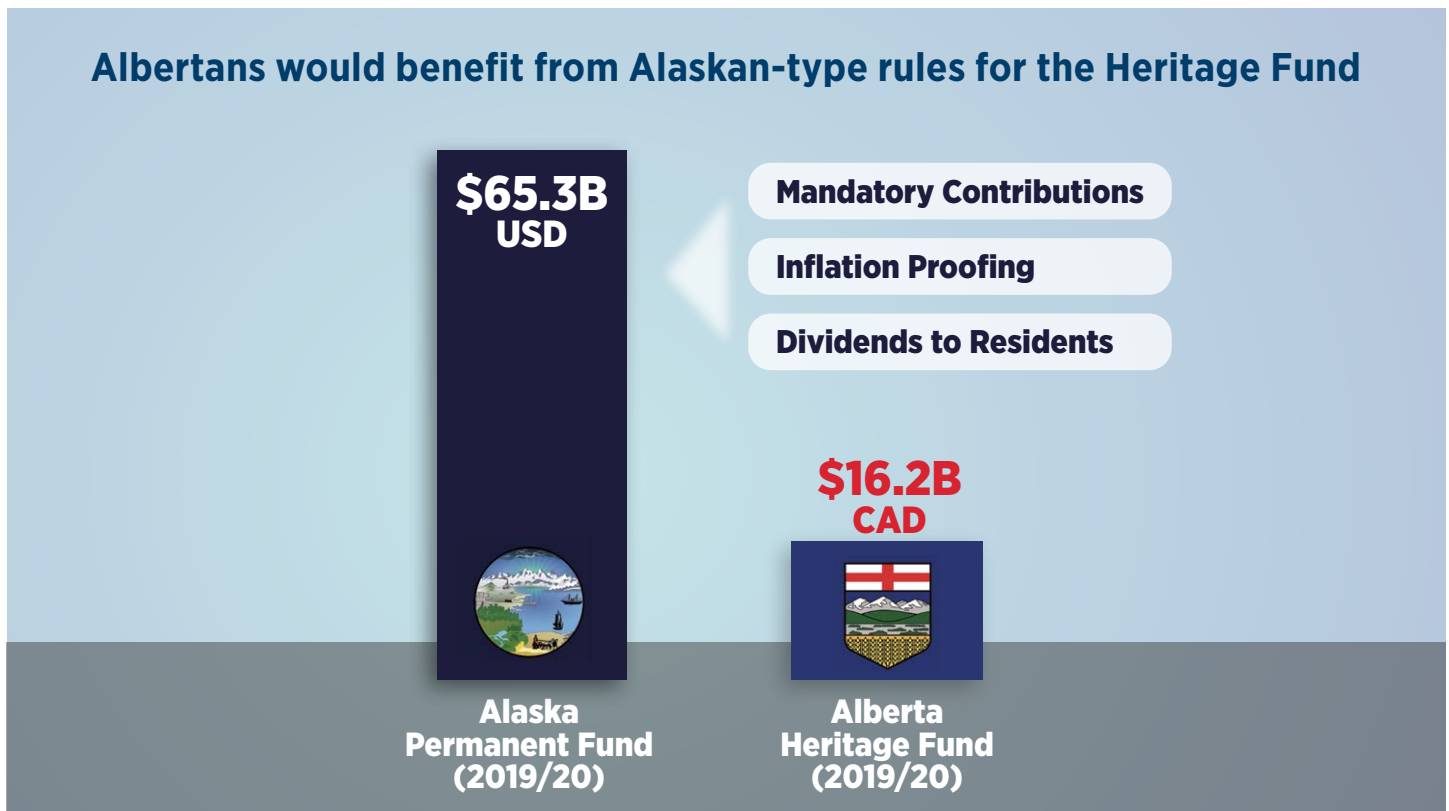


to inflation, and nearly all fund earnings have been spent. As of 2019/20, the Heritage Fund sits at just \$16.2 billion.

Now consider Alaska's resource revenue savings fund—the Permanent Fund, which was created in the same year as the Heritage Fund but adheres to robust fiscal rules.

First, according to Alaska's constitution and as documented in our recent study, *Repairing Alberta's Heritage Fund for the Long Term*, the state government must deposit 25 percent of all mineral revenues into the fund each year. A constitutional rule of this nature is much stronger than an equivalent statutory rule (similar to what existed in Alberta). Second, a share of earnings must be set aside annually to offset the effects of inflation—in other words, “inflation-proof” the principal of the fund to preserve its real value. Finally, a portion of fund earnings must be paid to Alaska's citizens in annual

Albertans would benefit from Alaskan-type rules for the Heritage Fund



dividends. As a result of these rules, the fund has grown steadily over time.

The logic of the first two rules is fairly simple—the Alaskan government promotes growth in the fund by depositing mineral revenue annually, and inflation-proofing maintains the fund’s purchasing power. Again, Alberta’s Heritage Fund had similar statutory rules, but they were simply too easy to change or ignore. To fix this problem, the Alberta government should make these rules constitutional, which would make them much more durable and difficult for future governments to change.

Now let’s consider the third rule regarding dividends—a topic that would surely pique the interest of many Albertans. In Alaska, the state government created the annual dividend to convince Alaskans of the importance of maintaining the Permanent Fund responsibly, thus creating political pressure for future governments to do so. Put differently, because citizens have an ownership share in the fund, they’re more interested in the state maximizing returns from its resource wealth. In effect, the dividend has helped maintain and reinforce robust fiscal rules that make the Permanent Fund successful.

To understand the potential for the Heritage Fund under a similar set of fiscal rules, let’s use a hypothetical example.

If Alberta had followed Alaska’s model since inception in 1976/77—including 25 percent annual resource revenue contributions, inflation-proofing, and annual dividends—the Heritage Fund would be worth approximately \$234.2 billion today compared to \$16.2 billion. In total, it could have paid out \$101.5 billion in dividends to Albertans, which would average \$1,018 (inflation-adjusted) per Albertan annually.

The Kenney government should renew the Heritage Fund by drawing lessons from Alaska’s success and introduce a constitutional requirement for consistent contributions and inflation-proofing, while paying annual dividends to Albertans. [FI](#)



TEGAN HILL



JOEL EMES



STEVE LAFLEUR

Tegan Hill is an economist at the Fraser Institute, Joel Emes is a senior economist, and Steve Lafleur is a senior policy analyst. They are the co-authors of *Repairing Alberta’s Heritage Fund for the Long Term*.

Even before COVID, Canada's Growth Rate of Business Investment—A Key Driver of Higher Living Standards—Neared 50-Year Low

Steven Globerman and Joel Emes

Most Canadians want a productive economy because it will deliver higher standards of living. Unfortunately, the typical Canadian household has experienced stagnant wage growth and virtually no improvement in living standards in recent years, even before the pandemic and economic turmoil.

According to Statistics Canada, household income per person (adjusted for inflation) increased by only 1.5 percent from 2015 to 2019. This is below the sub-par growth rate of 5.2 percent from 2010 to 2014. By way of comparison, as recently as 1997-2000, household income per person grew around four times faster than in recent years.

While there's no single explanation for the slow rate of growth of real incomes in Canada over the past decade or so, an important contributing factor has been the notable decline in investment in physical capital assets (machinery, equipment, etc.). Our recent study, *An International Comparison of Capital Expenditures*, found that from 2010 to 2019 the growth rate of total investment in Canada was below the United States and most other developed countries. Prior to 2010, Canada generally enjoyed a faster investment growth rate than other wealthy countries on average, including the US.

Moreover, residential housing construction accounted for a disproportionately large share of the growth of total investment in Canada compared to other wealthy countries, while Canada's corporate sector accounted for a disproportionately small share, especially in two key categories—machinery and equipment, and intellectual property products such as software. These categories are most closely associated with improvements



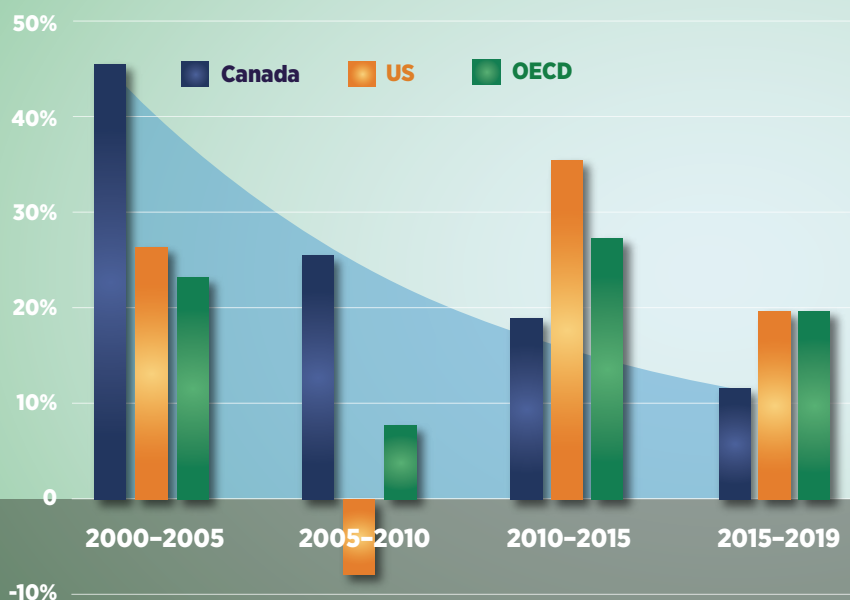
in productivity, which, in turn, spur improvements in living standards.

Unfortunately, the worrying trends don't stop there. From 2015 to 2019, the decline in business investment was fairly widespread throughout the Canadian economy. And a majority of industries in Canada reduced investments in machinery, equipment, and intellectual property products during that period.

Again—why should Canadians care?

Because investment in capital assets is critical to sustained productivity growth, which is the ultimate source of higher real incomes and improved living standards. Hence, it's hardly surprising that stagnating living standards coincide with declining investments in productivity-improving capital assets in Canada.

Canada's business investment growth rate has slowed recently, and now lags behind the US and other OECD countries



Therefore, the federal government should make reinvigorating the growth of private-sector investment a policy priority. This does not mean, however, that the government should actively promote investments in specific favoured industries such as “clean energy” or the entertainment industry through targeted direct and indirect subsidies. In reality, encouraging businesses to compete for such subsidies diverts valuable private-sector resources towards activities such as lobbying that do not help improve productivity.

“While extending a major capital gains tax advantage to investors in owner-occupied homes—but not to investors in productivity-enhancing business assets—might be good politics, it’s bad economics.”

Indeed, a more efficient approach to improving the business investment environment would involve broad measures such as eliminating the regulatory red tape that imposes economic costs, especially on small and medium-sized businesses, while providing few

to no offsetting social benefits and restructuring the tax system so there are greater incentives to invest in productivity-enhancing assets. In this regard, the current capital gains tax exemption for owner-occupied residential housing—an exemption that does not extend to other asset categories—is undoubtedly part of the reason that investment growth in Canada’s household sector has outpaced investment growth in the business sector.

While extending a major capital gains tax advantage to investors in owner-occupied homes—but not to investors in productivity-enhancing business assets—might be good politics, it’s bad economics. **FI**



STEVEN GLOBERMAN



JOEL EMES

Steven Globerman is a resident scholar and Addington Chair in Measurement and Joel Emes is a senior economist at the Fraser Institute. They are the co-authors of *An International Comparison of Capital Expenditures*.

Wealth Tax Would Make Canada's Bad Situation Even Worse



Jason Clemens and Jake Fuss

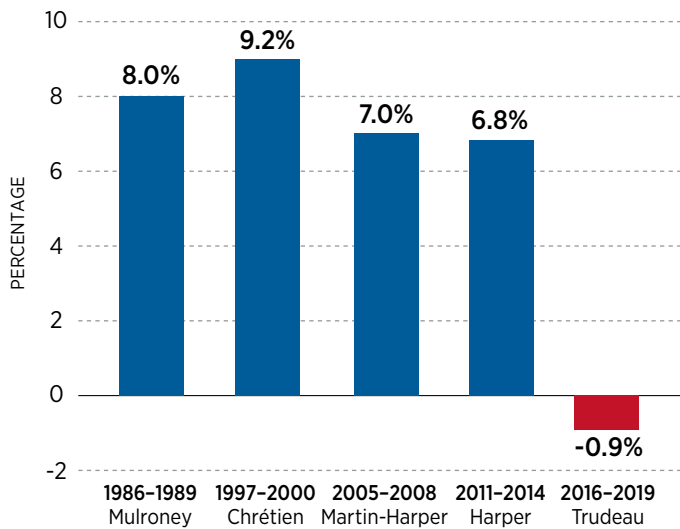
The Liberal minority government will likely partner on most legislation with the NDP. Given that both parties want to spend significantly more money, there's a real possibility that the government will create a new wealth tax in addition to imposing potentially higher capital gains taxes. Both policies would markedly damage an already reeling investment climate.

The NDP specifically campaigned on the introduction of a new wealth tax and a higher capital gains tax. The Liberals have mused about increasing the capital gains tax and Finance Minister Chrystia Freeland has supported the idea of a wealth tax.

It's important to understand the context in which these tax increases are being considered. Simply put, busi-

ness investment in Canada is dismal. A recent study published by the Fraser Institute, *Comparing Economic Performance in Five Pre-Recession Periods*, compared the rates of growth in business investment (excluding residential construction) for the four years preceding recent recessions. Liberal Prime Minister Jean Chrétien recorded the highest average growth rate of 9.2 percent. Tory Prime Minister Brian Mulroney had the second-highest average rate of growth of 8.0 percent. Prime Minister Justin Trudeau, on the other hand, was the only leader to record a decline in business investment—0.9 percent per year (on average) between 2016 and 2019. Another recent Fraser Institute study, *An International Comparison of Capital Expenditures*, compared business investment in Canada with that of other industrial countries. It concluded that Canada performed relatively well in attracting investment between 2000 and 2010 but

Average annual change (%) in total business investment excluding residential construction



since then has markedly underperformed compared to the United States and most industrial countries included in the analysis. Indeed, between 2015 and 2019, Canada's growth in business investment was lower than in virtually any other period since 1970.

Which brings us back to the wealth tax. Advocates misleadingly argue that many countries have imposed such taxes and that they can easily and simply be introduced without much cost. In his recent Fraser Institute paper *Does Canada Need a Wealth Tax?* Philip Cross, former chief analyst at Statistics Canada, found that many countries that experimented with wealth taxes eventually abandoned them as they were expensive to administer, raised little revenue, and imposed noticeable economic costs on the economy. Specifically, wealth taxes discouraged the very capital investment that is essential to raising living standards and prosperity.

Moreover, wealth is practically difficult to define, and thus even more difficult to tax without imposing enormous economic costs on Canadians. For example, will homes be included in the definition of wealth? If so, will they adjust for the level of debt linked with a home? If the answer to both is yes, there's a clear incentive for wealthy Canadians to load up on mortgage debt to avoid a wealth tax.

More worrying, though, is how such a tax would treat non-tradeable assets such as equity in private companies. A wealth tax on such equity could chase out of the country the very investment Canada so desperately

needs. Indeed, one of Canada's most successful entrepreneurs just warned about this very effect. Jim Pattison in a recent interview explained how a wealth tax would likely create an "exodus" of investment out of Canada.

Similarly, those advocating for capital gains tax increases tend to ignore the competitive and economic implications of a higher tax. A 2021 Fraser Institute study of 36 industrialized countries, *Correcting Common Misunderstandings about Capital Gains Taxes*, concluded that Canada's existing capital gains tax rate ranked between 16th and 19th highest depending on the province (capital gains are taxed both federal and provincially). If the tax rate were increased as the NDP propose, Canada would have between the 5th and 7th highest capital gains tax rate.

“A wealth tax on ... equity could chase out of the country the very investment Canada so desperately needs.”

Given the importance of business investment to workers and the economy more broadly, these types of taxes are some of the worst ways for governments to raise revenue. And they certainly shouldn't be introduced at a time when Canada already suffers from marked declines in business investment. Canada must become more attractive and competitive for business investment and entrepreneurs. Introducing a wealth tax and/or raising the capital gains tax would make a difficult situation worse. [FI](#)



JASON CLEMENS



JAKE FUSS

Jason Clemens is vice-president and Jake Fuss is senior economist at the Fraser Institute.

More Government Money Won't Move Needle on Housing Affordability



Steve Lafleur

During the pandemic, housing prices soared (or continued to soar) in many places across Canada including parts of British Columbia and Ontario, making it even harder for many families to buy a home.

Of course, housing affordability gets a lot of lip service from politicians. According to the 2021 federal budget, Ottawa plans to spend billions on “affordable” housing over the next several years. While this might suggest some sort of commitment to housing affordability, it really doesn’t. A few thousand subsidized units in a country of more than 38 million people won’t move the needle on affordability.

In reality, Canada’s housing problems stem largely from the unwillingness of municipal governments to allow enough housing to be built quickly enough to accommodate growth. Throwing money at housing without cutting the red tape strangling housing construction won’t solve the problem.

Housing markets—like all markets—are set by supply and demand. And demand for housing in Canada is extremely strong, particularly in Vancouver and Toronto that have long suffered from a lack of affordability. Why? Because Canada is an attractive place to live, and Vancouver and Toronto in particular attract people from around the country and the world. And

interest rates are low, which increases the purchasing power of Canadians and drives up the price of housing.

So what's the solution?

“Canada’s housing problems stem largely from the unwillingness of municipal governments to allow enough housing to be built quickly enough to accommodate growth. Throwing money at housing without cutting the red tape strangling housing construction won’t solve the problem.”

While some want to crack down on speculation or foreign buyers, we simply must build more housing if we’re serious about increasing affordability. A recent Scotiabank report showed that Canada has fewer housing units per capita than any other G7 country, and Toronto and Vancouver lag behind the national average.

Why?

For starters, most of the land in Vancouver and Toronto is either zoned for single-detached housing or remains off-limits to development thanks to the Agricultural Land Reserve in British Columbia and Ontario’s Greenbelt. So building upwards and outwards is heavily restricted. Even where development is permitted, burdensome municipal land-use regulations and glacial development approval processes prevent supply from keeping up with demand. In short, we don’t make it easy to build housing in Canada’s hottest real estate markets.

Some might argue that this inability to build housing means that government should step in and finance housing construction (like the Trudeau government and the Horgan government in BC plan to do).

Putting aside the fact that government-imposed barriers cause these problems to begin with, neither the Trudeau plan nor the Horgan plan will actually provide enough housing to move the needle on affordability.

Consider this. Among G7 countries, there’s an average of 471 housing units per 1,000 residents. As noted in the Scotiabank report, for Canada to achieve this average, we’d need 1.8 million more homes. The latest federal budget contains three separate commitments for new housing units (totaling 20,600 dwellings) and the BC budget pledges funding for 9,000 new homes. This combined total comprises less than two percent of the 1.8 million units needed to get to the G7 average. Clearly, governments should remove barriers to housing construction rather than trying to compensate for government-created shortages.

“Even where development is permitted, burdensome municipal land-use regulations and glacial development approval processes prevent supply from keeping up with demand. In short, we don’t make it easy to build housing in Canada’s hottest real estate markets.”

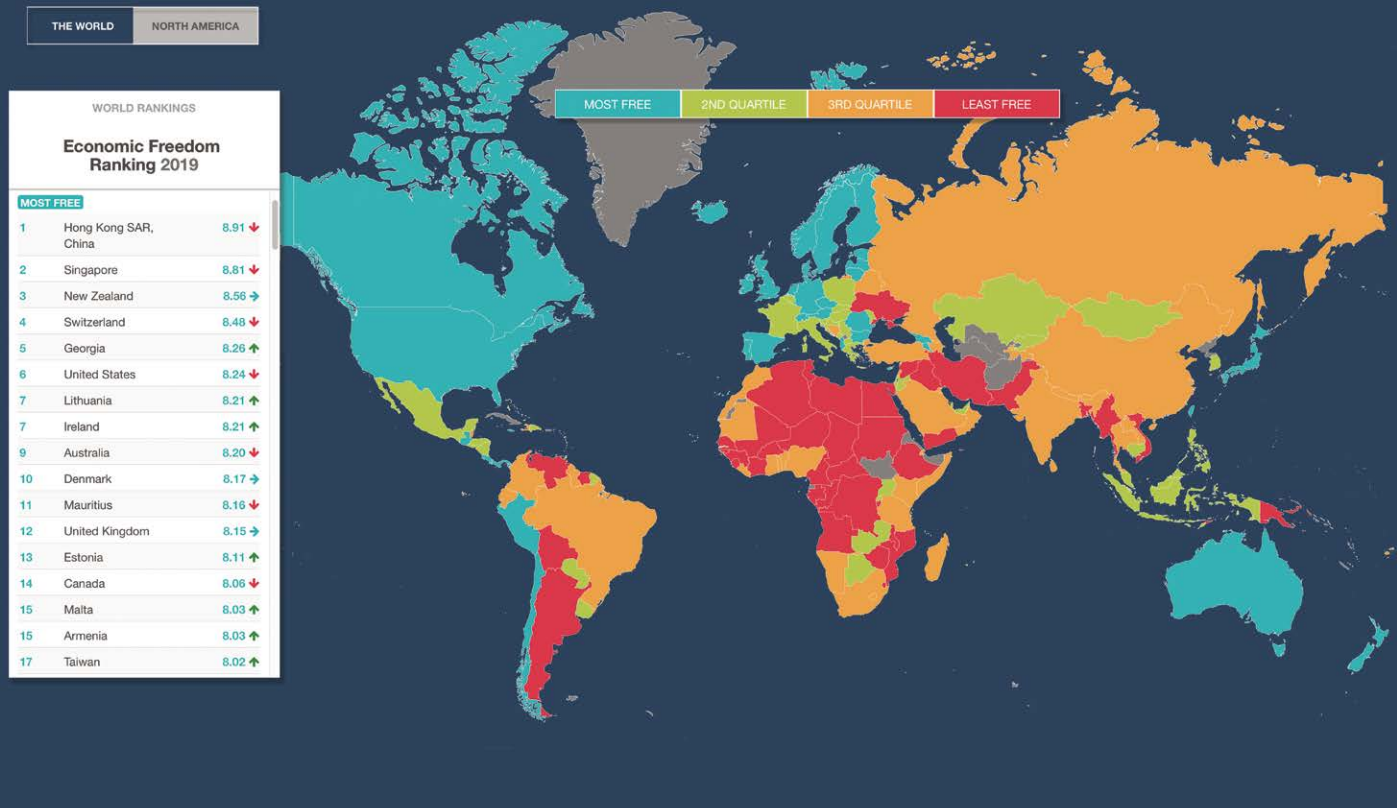
Simply put, cutting cheques is not the solution to Canada’s housing affordability challenges. Until governments in Canada recognize the need to remove obstacles to housing construction, many Canadians will continue to be needlessly priced out of cities such as Vancouver and Toronto, and locked into a spiral of rising rents and unattainable homeownership. [FI](#)



STEVE LAFLEUR

Steve Lafleur is a senior policy analyst at the Fraser Institute. He is a co-author, with John Palmer, of *Housing Codes, Homelessness, and Affordable Housing*.

Canada Slipping in Terms of Economic Freedom



Niels Veldhuis and Fred McMahon

Canada, after decades as one of the top-10 economically freest places on earth, has fallen into the teens for two years running, according to the just released *2021 Economic Freedom of the World* report, raising concerns about a long-term trend away from freedom.

Canada dropped to 14th in the new report based on 2019 data, the most recent available, down slightly from 13th the previous year. In all previous years, dating back to the first measurement in 1970, Canada was in the top 10. As recently as 2014, Canada ranked 6th. This is profoundly important. Numerous fact-based studies show economic freedom powers growth, prosperity, and poverty reduction.

And it risks getting worse. Both major parties in the most recent election promised to increase spending as a percentage of GDP, even as COVID, hopefully, recedes. Big spending reduces economic freedom by limiting the space for free exchange and by increasing government economic control. Soaring debts and deficits may be harbingers of worse as some governments will be tempted to increase taxes, rather than reduce spending to get deficits under control.

To see the path forward, we need to know where we are now. A recent Fraser Institute study by Livio Di Matteo, *Global Storm: The Effects of the COVID-19 Pandemic and Responses around the World*, shows that Canada was the 2nd biggest spender among advanced nations in 2020;

had the highest deficit-to-GDP ratio; and the 25th worst economic performance.

The International Monetary Fund (IMF) has produced comprehensive fiscal projections, which are scary and show huge increases in government spending, deficits, and debts around the globe, and for Canada.

In 2019, government spending in Canada equaled 41 percent of the economy, rising to 52 percent in 2020, and falling to 48 percent in 2021, compared to an advanced economy average of 39 percent in 2019, 47 percent in 2020, and 46 percent in 2021.

And Canada's government has been getting bigger for years, according to the *Economic Freedom of the World's* measure of Size of Government. In 2014, Canada was 68th out 165 jurisdictions, dropping to 112th in 2019, with lower ranks indicating bigger government.

Debt burden is also a big problem for Canada. Net government debt will increase from 88 percent of the economy in 2019 to 116 percent in 2021. And Canada already has significantly more debt than the average of advanced nations, which was 94 percent in 2021.

“Big spending reduces economic freedom by limiting the space for free exchange and by increasing government economic control. Soaring debts and deficits may be harbingers of worse as some governments will be tempted to increase taxes, rather than reduce spending to get deficits under control.”

IMF projections show fiscal improvements across the board as COVID recedes, but therein danger lies. As government spending increases, Canada and the world could be headed to a long-run slump in economic freedom and thus in economic growth and prosperity.

For example, the income of the poorest 10 percent in the freest nations is over US\$14,000 but under US\$1,600 in the least-free nations. In the least-free nations, over one in three people live in extreme poverty (\$1.90 a day) compared to under one percent in the most-free nations.

“Net government debt will increase from 88 percent of the economy in 2019 to 116 percent in 2021. And Canada already has significantly more debt than the average of advanced nations.”

The list goes on: economically-free nations have increased life expectancy, better health care, more educational achievement, and higher levels of happiness. Research has shown that happiness is driven even more by economic freedom than the increased prosperity it generates. People just like to be in charge of their own lives.

Re-establishing economic freedom is vital for future growth, prosperity, and other good things. None of the parties in the recent election spoke of economic freedom or its shrinking role in Canada's economy. For a brighter future, Canada needs to halt the long-term decline in the economic freedom of Canadians, something evident well before COVID. [FI](#)



NIELS VELDHUIS



FRED McMAHON

Niels Veldhuis is president of the Fraser Institute and Fred McMahon is a Fraser Institute Resident Fellow and holder of the Dr. Michael A. Walker Chair in Economic Freedom.

Federal Government Continues Misguided War on Plastic



Kenneth P. Green

In a recent speech to post-secondary students in Winnipeg, federal Finance Minister Chrystia Freeland announced a new phase in Canada's war on plastics. According to published reports, the minister said "Cabinet must consider penalties to meet targets on eliminating plastic waste" as the next step in the process of moving Canada to a posture of "zero plastic waste by 2030."

"Voluntary compliance will not be enough," she added, even though "there are a lot of great companies out there." This might be the ultimate example of damned with faint praise.

The Trudeau government's war on plastic waste (and plastics more generally) is deeply misguided. (And no, I've never worked for the plastics industry in any fashion.) Plastics are amazing materials enriching our lives and helping us, including during the pandemic.

Those hygienic wipes for countertops and baby's hands and bodies? The ones that you would have mortgaged the house to buy in March 2020, but were already out of stock? According to the US Food and Drug Administration, they're made of "materials such as polyester, polypropylene, cotton, wood pulp, or rayon fibers formed into sheets." The containers holding the wipes? Plastic. That face mask Theresa Tam wants you to wear? It's made with "non-woven polypropylene," also a type of plastic. The syringe used to vaccinate you? Plastic. Intravenous medicine bags and tubing? Plastic. Bandages? Plastic. Surgical implants? Lots of plastic. Your hospital bed, and nearly every surface you'll encounter in the hospital? Much plastic. Medical gloves? Sterile dining utensils? Disposable diapers? Your car's seat belts, and practically the entire interior, including the airbags? Same for your airplane and ambulance. Plastic.

For Ottawa to declare a war on plastics is to literally declare war on modern life. Look around you, right this moment, and ponder how many things you see that have plastic components. Unless you're in a museum that disallows things produced after 1960, I'm betting it's a very large proportion of the objects and substances around you. Plastics are a purely human invention—nature gave us wood, metal, stone, bones, and skins. And that's about it. Can you imagine what a Pharaoh of old would have given for a nice bulletproof Lexan windshield on the royal chariot? Or an IV medicine bag for a dying child?

“The Trudeau government’s war on plastic waste (and plastics more generally) is deeply misguided... For Ottawa to declare a war on plastics is to literally declare war on modern life... Unless you’re in a museum that disallows things produced after 1960, I’m betting it’s a very large proportion of the objects and substances around you.”

Of course, people litter. And we should do more to give people the incentive to dispose of waste—all waste—more hygienically. But in Canada, that's not what the war on plastics is about. Even according to Oceana, a group dedicated to plastic waste elimination, about “86 percent of Canada’s plastic waste ends up in landfill, while a meagre nine percent is recycled. The rest is burned in incinerators, contributing to climate change and air pollution, or ends up in the environment as litter.” So let’s do some math—86 percent, plus 9 percent is 95 per cent. According to data submitted to Parliament, only 1 per cent of the remaining 5 percent ends up as litter. That’s a 99 percent rate of hygienic handling of plastic materials. (Incidentally, Oceana’s climate change angle is silly, since anything we use other than plastics also has a carbon footprint, so it’s a matter of trade-offs, not reductions when considering plastic bans.)

And what’s the real source of the world’s pollution problem? According to a *Scientific American* article,

93 percent of all plastics dumped into the sea every year come from 10 rivers in Asia and Africa. Canada doesn’t even merit a thin line in the pie chart of global plastic pollution.

“According to a Scientific American article, 93 percent of all plastics dumped into the sea every year come from 10 rivers in Asia and Africa. Canada doesn’t even merit a thin line in the pie chart of global plastic pollution.”

Nobody likes litter and Canadians are a proudly tidy people. But in a world of COVID-19 and economic mayhem, unemployment, increasing poverty, increasing drug dependency, human trafficking, and other mass afflictions (some of which hit unpleasantly close to home), is this really the best use of Ottawa’s attention, time, and resources?

The federal government and governments across the country should focus solely on improving the quality of life for Canadians. In case our policymakers hadn’t noticed, COVID is not gone and its variants and fellow viral threats will likely be with us forever. In a sane world, the pandemic would have ended the war on plastics. There’s still time for that. [FI](#)



KENNETH P. GREEN

Kenneth P. Green is a Fraser Institute Senior Fellow who has studied public policy involving energy, risk, regulation, and the environment for nearly 20 years at public policy research institutions across North America.

Canada Needs More Paycheque Writers



**Jason Clemens, Milagros Palacios,
and Niels Veldhuis**

A key takeaway from the federal election is that Canadians want their governments to focus on COVID and getting life back to some semblance of normality, particularly our economic lives. A key component of any economic rebound is the need for business investment and the job creation that flows from it. Unfortunately, Canada was struggling before the pandemic to attract investment and entrepreneurs and there are no signs that things are improving.

Total business investment, adjusted for inflation, declined (on average) by 0.2 percent per year be-

tween 2016 and 2019, pre-COVID. Contrast that with an average growth rate of 5.5 percent during the last Liberal prime minister to serve multiple terms, Jean Chrétien's tenure (1993-2003).

However, total business investment includes residential construction, which has been quite strong. But total business investment excluding residential construction—again adjusted for inflation—declined by 0.9 percent per year between 2016 and 2019. Chrétien, on the other hand, enjoyed average growth of 6.3 percent.

Further, consider the state of entrepreneurship. A key measure of entrepreneurship is small business startups, and the data for Canada is worrying. Since the turn of the

century, the rate of small business startups (measured as a share of existing small businesses) has declined by 10.9 percent. Simply put, fewer potential entrepreneurs are deciding to take the leap and start a business.

It shouldn't be surprising given the links between investment, entrepreneurship, and job creation that rates of private-sector job creation have been anemic. Consider that between 2016 and 2019, before the COVID recession, private-sector job creation was growing, on average, by 1.6 percent per year. Chrétien enjoyed average annual private-sector job growth of 2.6 percent, almost double the rate of Trudeau pre-COVID.

“A key measure of entrepreneurship is small business startups, and the data for Canada is worrying. Since the turn of the century, the rate of small business startups (measured as a share of existing small businesses) has declined by 10.9 percent. Simply put, fewer potential entrepreneurs are deciding to take the leap and start a business.”

The contrast in the economy's performance between these two Liberal prime ministers is equally as stark when their approach to the economy is considered. Chrétien led a revolution that resulted in a new consensus across the country characterized by lower government spending, lower taxes, balanced budgets and declining government debt, and a lighter regulatory touch on business.

Fast forward to Prime Minister Trudeau and an equally revolutionary change was introduced—this one characterized by large increases in both government spending and taxes, a return to permanent deficits and debt accumulation, and a much more activist interventionist approach to economic regulations.

Simply put, the approach of the Trudeau government since 2015 has not resulted in stronger economic

growth, business investment, or private-sector employment gains. Rather, economic growth, improvements in household income, business investment, and private-sector job creation have all lagged relative to previous governments. And our current prime minister promises more of the same.

“The approach of the Trudeau government since 2015 has not resulted in stronger economic growth, business investment, or private-sector employment gains. Rather, economic growth, improvements in household income, business investment, and private-sector job creation have all lagged relative to previous governments. And our current prime minister promises more of the same.”

In reality, if we want to create more jobs so that workers have cheques to sign and deposit, we need more people to invest and start businesses. In other words, we must encourage—or at least not discourage—people from signing the front of the cheques, which means more business investment and entrepreneurship. This requires a fundamental change in economic policy, which unfortunately doesn't appear to be on the horizon. [FI](#)



JASON CLEMENS



MILAGROS PALACIOS



NIELS VELDHIJS

Jason Clemens is vice-president, Milagros Palacios is director of the Addington Centre for Measurement, and Niels Veldhuis is president of the Fraser Institute.

Spending on BC Public Schools Increases While Student Results Decline



Paige MacPherson

This school year, with its new and evolving protocols, parents in British Columbia should know that one thing remains constant—they're spending more on public schools but students are getting less in educational results.

Indeed, while certain groups push the narrative that BC public school spending has been cut, in reality, spending on public schools has grown despite mediocre educational results for BC kids.

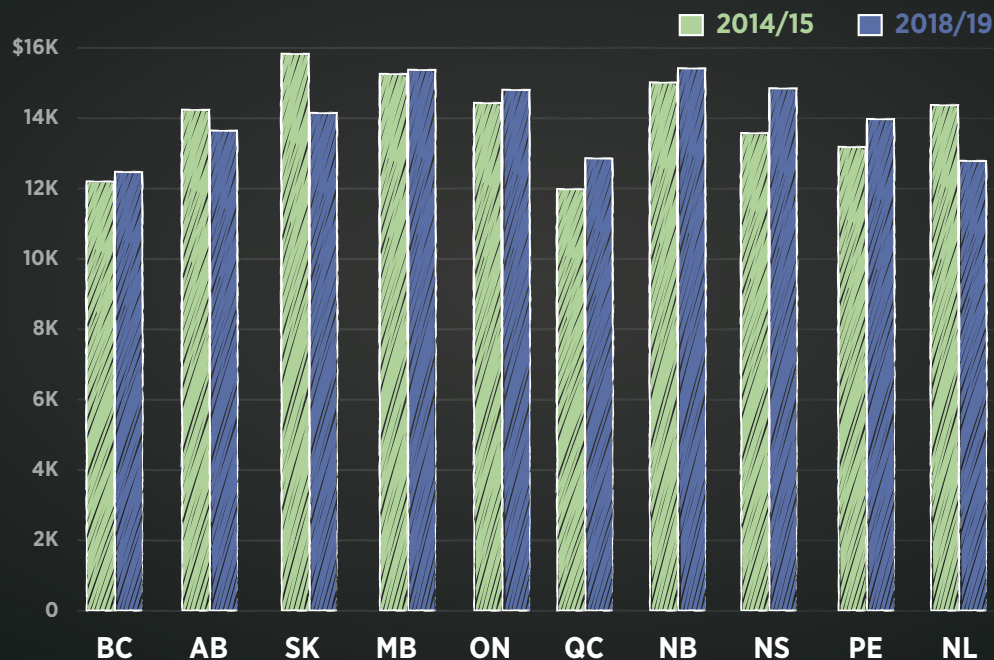
Consider this. As noted in our recent study, *Education Spending in Public Schools in Canada: Fall 2021*, from 2014/15 to 2018/19 (pre-COVID), total spending on BC public schools rose from \$6.2 billion to \$7.1 billion, a 15.4 percent increase, exceeding the national average.

Over that same period, student enrolment only grew by 2.9 percent, which is below the national average. As a result, BC's per-student spending increased by 12.1 percent over this five-year period. Even when per-student spending is adjusted for inflation, spending on public schools still increased from \$12,203 to \$12,513, a 2.5 percent jump.

Of course, quality education for our kids is critical. We know the BC government is spending more on public schools. So what are parents getting for their increased investment?

According to PISA results—an international assessment measuring the academic performance of 15-year-olds—between 2003 and 2018, the latest year of available data, BC's average math scores declined overall.

Inflation-adjusted per-student spending on public schools has increased in 7 out of 10 provinces



In 2003, BC students scored above Canada’s national average, but by 2018 they had dropped below the national average. Indeed, BC experienced one of the steepest declines in Canada.

In PISA reading scores, between 2000 and 2018 we see the exact same trend—BC student scores declined overall, shifting from above the national average to below. In science, from 2006 to 2018, the trend was the same.

In short, we’re spending more on public schools but getting less in educational results (although BC has the lowest per-student spending among the provinces).

In terms of spending growth, however, BC ranks sixth-highest (from 2014/15 to 2018/19) while three provinces actually decreased real per-student spending over this period (Newfoundland & Labrador, Saskatchewan, and Alberta).

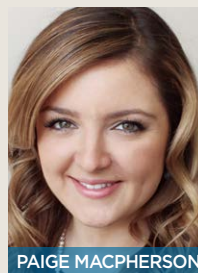
Some will argue that of course spending is going up because the government needs to build new schools. But even when capital spending is removed, BC’s spending on public schools still increased over this five-year period.

That’s because the main driver of these spending increases is compensation—including teacher salaries, benefits, pensions, and other costs. In fact, compensa-

tion accounted for more than half (50.6 percent) of the growth in spending on public schools in BC over this period—an increase of \$683 million in nominal dollars. The province spent just shy of \$5.2 billion on compensation alone in 2018/19.

Again, despite claims to the contrary, spending on BC public schools has increased despite mediocre educational results. These are the facts. And in public policy, just like in classrooms, facts matter.

Spending more on public schools for better educational results to brighten the future of our children is one thing. But spending more and getting less is a proposition that should be unacceptable to everyone. **FI**



PAIGE MACPHERSON

Paige MacPherson is the Associate Director of Education Policy at the Fraser Institute. She is the co-author, with Joel Emes and Nathaniel Li, of *Education Spending in Public Schools in Canada: Fall 2021*.



Ford Should Butt Out of Ontario's Business

Matthew Lau

In earlier days, Doug Ford often said that he would make Ontario “open for business.” But as premier during the pandemic, he’s displayed an inordinate zeal in keeping businesses closed. Toronto endured the longest continuous lockdown of any major city in the world. The only thing consistently “open for business” in Ontario has been the government.

The problem with government business is that the government shouldn’t be doing business. Governments should govern; businesses should do business.

The Ford government has turned this on its head; after constraining the activities of actual businesses, it’s expanded government business, most recently by creating a \$100 million venture capital fund to invest taxpayer money into technology companies.

According to the government’s announcement, “the fund will invest in venture capital funds focusing on in-demand, high-growth sectors where Ontario has a competitive advantage including life sciences, medical devices, clean technology, information technology and artificial intelligence.”

This strategy—putting government in the business of doing business—is sometimes called “industrial policy.” It relies on the fatal conceit that government planners can efficiently collect widely disbursed economic information to appropriately dictate what society should produce—where, when, how, and by whom.

However, in reality, no one, not even a committee of government planners who spend hours reading economic studies, has the omniscience necessary to centrally plan an economy efficiently. As George Mason University economics Professor Don Boudreaux writes, “the only way to discover what are better uses of resources is market competition.”

The government shouldn’t declare that certain sectors or businesses operate better than others, then allocate economic resources to those sectors and businesses. Boudreaux uses the analogy of an Olympic race where, instead of actually letting runners compete, Olympic officials declare that research shows that one runner is the fastest and should receive the gold medal.

It’s the same with so-called industrial policy where government officials decide, based on research (if they bother to do any), that resources are best used in some way or another, instead of letting the market, through competition, discover how those resources should be used.

“The problem with government business is that the government shouldn’t be doing business. Governments should govern; businesses should do business.”

According to the Ford government, the \$100 million will “assist high-potential technology companies innovate and grow, boosting the province’s long-term competitiveness.” This claim is nonsense. How can businesses in Ontario become more competitive if the government reduces the extent that businesses can compete and instead simply hands out money to certain companies? Picking winners does not increase competitiveness.

The government also claims its new fund will create jobs and improve economic growth. More nonsense. Essentially, the government accrues \$100 million by taxing productive economic activity, then spends that money to fund economic activity the private sector found insufficiently productive (as evidenced by the lack of private investment for projects that required government funding).

“How can businesses in Ontario become more competitive if the government reduces the extent that businesses can compete and instead simply hands out money to certain companies? Picking winners does not increase competitiveness.”

If Premier Ford really wants to improve the province’s competitiveness and economic growth, his government should leave the business of business to the private sector. [FI](#)



Matthew Lau is a Fraser Institute Adjunct Scholar. His commentaries have appeared in the *National Post*, *Toronto Sun*, and *Vancouver Sun*.

ENGAGING STUDENTS FROM ACROSS CANADA

This fall we will host 14 of our free, one-hour webinars for students which will reach thousands of Canadian post-secondary students. Speakers from this semester include William Easterly speaking on his book, *The Tyranny of Experts*, Adam Thierer on the freedom to innovate and the future of technology, and our very own Jake Fuss, discussing a guaranteed annual income.

Here is what some students have said about our webinars:

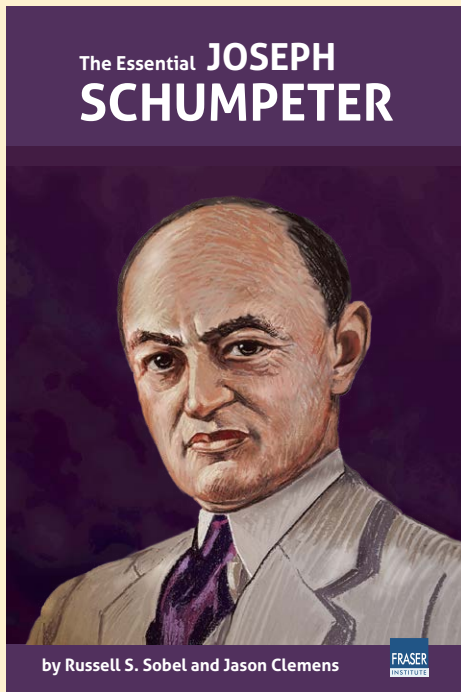
- “Thank you very much for your support—these sessions have vastly improved my economic knowledge and ability to formulate effective public policy arguments in the academic sphere.”
- “Thank you so much for supporting these programs as they have taught me so much over the course of

this year. These webinars have led me to discover new books that have deepened my knowledge on subjects I already knew about and allowed me to learn about new topics that I have since grown passionate about. Thank you so much.”

- “Given the current pandemic situation I have been looking forward to these Fraser Institute sessions for their quality and consistency of high calibre content as a social distancing, online educational bright spot!”

In addition to our webinars, our annual essay contest had nearly 200 submissions from high school, undergraduate, and graduate students. Students were asked to discuss the ideas of Joseph Schumpeter, and the concept of Creative Destruction. [FI](#)

CONGRATULATIONS TO OUR 2021 ESSAY CONTEST WINNERS



For the 2021 essay contest, students were asked to rely on their learnings from *The Essential Joseph Schumpeter* and discuss Schumpeter's concept of Creative Destruction.



HIGH SCHOOL

*The Ideas of Joseph Schumpeter:
Exploring The Concept of
Creative Destruction*

Leah Powell,
Tanenbaum Community Hebrew Academy
of Toronto



UNDERGRADUATE

*Exploring Schumpeter's Concept of
Creative Destruction: No Pain, No Gain*

Elena Dimitrov,
Western University



GRADUATE

Did Covid-19 Destroy jobs?

Mahita Reddy Gogireddy,
New York Institute of Technology

SUPPORTING TEACHERS WITH CREATIVE LESSON PLANS FOR USE IN THEIR CLASSROOMS

In addition to our student programs we also host several teacher workshops that provide engaging lesson plans for use in Canadian high school classes. Our workshops this semester include *Economic Freedom of the World*, *Key Lessons in Entrepreneurship*, and our newly released *Economics in Harry Potter* (parts 1 and 2).

Here is what some teachers have said:

- *“As I often say when your workshops are finished, I am left with excellent teaching resources that I can bring into my classroom with little to no modifications required. That is extremely valuable for any teacher, as time can be directed elsewhere.”*
- *“Thank you so much for providing teachers in rural districts access to amazing workshops (online)! I have been impressed with both presenters I have seen this year. Professional development of this quality would not be possible if I had to cover TOC*

costs, travel, accommodation, and conference fees. My students have enjoyed many of the lessons I have got from these sessions.”

- *“Looking at economics from a different, creative perspective. I enjoyed hearing about how the concepts can be applied to a topic that would actually be of interest to students.”*

We also received an overwhelming number of requests this year for our Economics Edukits, a free box of materials and lesson plans that teachers can use directly in their classroom to better teach economics. Over 400 Canadian teachers from all 10 provinces and Nunavut have requested these kits. Just this fall 110 of these kits were sent out and will subsequently have an impact on close to 10,000 high school students! [FI](#)

Please visit us at:

fraserinstitute.org/education-programs





Stephen McCreary

What's your role at the Institute?

As the Associate Director of Digital Marketing, I work with both our production and development teams to cultivate our email list, bring our research to as many people as possible, grow our donor base, and maintain a robust and engaging online presence.

How did you arrive at the Institute?

I have always taken a keen interest in how economic policies affect the lives of ordinary people. In 2009 I moved from my home province of Manitoba to Ottawa where I worked as Stephen Harper's Manager of New Media & Marketing and as the Digital Director of the Conservative Party of Canada. After spending over a decade working in politics I decided it was time for a change. I was very fortunately put in contact with the Fraser Institute, where I am thrilled to be able to continue contributing to the public policy process by using my skills and experience to help educate Canadians about the economic impacts of our various governments' actions.

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

As someone who is passionate about taxation, health care, and education policy, I am quite literally *always* excited about what we're working on at the Institute! More tangibly, I am very excited about a major transformation to our database infrastructure that will significantly improve our efficiency and productivity, allow us to more meaningfully engage with our subscribers, and bring our work to more Canadians than ever before. I'm also excited for a major revamp of our website that we have planned for 2022. Stay tuned!

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

My hobbies include graphic, video, and web design, all of which I try to continually improve upon to help my friends, family, and colleagues launch and promote their own businesses and passion projects. I've also been dabbling in DJ-ing and music production for the better part of 20 years. I spend my free time reading, writing, running, cooking, exploring my new home province of Alberta, and following my beloved Winnipeg Jets. Most of all I enjoy spending time with my wife and three young daughters.

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