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Editor's notes

I was recently speaking with a fellow I know who, along with his wife, is in his mid-seventies. He is worried about his financial position and is concerned that he and his wife will outlive their money. I pointed out that the small town in which they live and their reduced travel schedule will keep their costs low, and that their house is worth quite a bit of money, so they could sell it and move to a smaller home if they had to. Finally, if all else fails, they do have two perfectly able-bodied children to whom they could turn for help. His response? "Oh, no. We'd never dream of asking the kids for help. We couldn't be a burden on them."

Similarly, a young, uneducated, unemployed woman I know who has just had her second child despite the absence of any live-in father, when asked about the possibility of moving back home with her mother, says, "Oh no. I couldn't. Mother doesn't like the kids' father. Anyway, she doesn't have much money and couldn't really afford to help."

Conversations such as these are quite common. People don't want to rely on their families. There are a lot of reasons for their reluctance. Key among them, though, is that most people are very reluctant to impose financial hardship on their families, which is what most requests for help boil down to. They know that making demands on their relatives—that not pulling their own weight for whatever reason—will mean that their families will have to adjust their spending priorities, sometimes significantly. In other words, while there are countless exceptions, people generally treat their family's money with the same respect they treat their own. They don't want to "impose" because they know how hard the family has worked to accrue they money they now need.

On the other hand, these same people who are so careful with their own families' money are often much more willing to turn for help to their neighbours, in the form of taxpayers. Yet taxpayer help, funnelled through government, is rarely, if ever, as efficient and cheap as the help families provide. For that reason, we taxpayers have every reason to want families to take care of their own; both parties will work hard to change the current unbalanced situation so that the person asking for help can become independent again as soon as possible—or at least so that the costs associated with taking care of them are as reasonable as possible.

The articles that form the focus of this issue are all about the balance between government and family spending on those who need some form of help. Should tuition for higher education be paid by families or by society? Should care of our elderly be paid for by families or society? Should both pay, and if so, how do we determine how much each should pay? From education, to child care, to home care, to care for the poor, these articles should help you understand the issue a little better.

But before you read on, pick up the phone. Call your parents. Phone your kids. Your family is precious—and is probably more willing to help you in times of real trouble than you realize.

—Kristin McCahon (kristinm@fraserinstitute.ca)

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BC's Dependency-inducing U-Turn on Welfare Reform

by *Sylvia LeRoy,*
Jason Clemens, &
Niels Veldhuis

In a U-turn on welfare reform, the British Columbia government delegitimized what was one of Canada's most important social welfare reforms to date: a limit that capped the amount of time employable adults could collect welfare to 2 out of every 5 years. Late on a Friday afternoon, February 6, 2004, the BC Liberals announced a series of new exemptions to the time limits, including one that exempts anyone abiding by their work plan. The policy change effectively nullifies the time limit rule.

The backtracking was not entirely unexpected. The BC Liberals have compromised on several of their major reforms: spending reductions, tax relief, and privatization. Now, in order to further placate the demands of organized labour and other left-leaning special interest groups, the welfare system will be transformed back to a system of near-perma-

nent entitlement rather than temporary insurance. Unfortunately, this move will harm society's most vulnerable citizens.

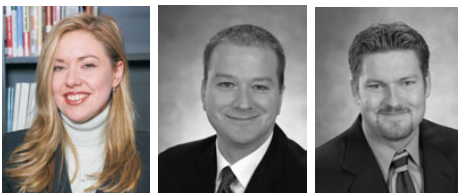
Why are strict time limits important? They transform welfare from a system of entitlement to one of insurance and temporary relief. In other words, confronted with time limits, welfare recipients change their behavior to minimize the amount of time they rely on welfare for casual relief in order to preserve their future eligibility in times of emergency. By abandoning benefit time limits the BC government is sending a dangerous message that welfare is guaranteed as an entitlement. It doesn't take a rocket scientist—or, for that matter, an economist—to predict that with the recent changes, people will once again begin to use the system more casually, perpetuating a tragic cycle of low income and welfare dependency that transcends generations.

Welfare time limits in BC were at least partially inspired by the success of US

welfare reform. In the US, five-year lifetime limits were imposed on welfare recipients although waivers (referred to as exemptions in Canada) were made available for up to 10 percent of cases. As a result of time limits and other reforms, US welfare rates have fallen by 60 percent since 1996 and have remained stable throughout a somewhat difficult recession. More importantly, between 63 and 87 percent of those leaving welfare have found employment (USHHS, 2003). Poverty rates have fallen to pre-1980 levels. Finally, single mothers with little education or work experience have made the most impressive gains in both employment and income. The poverty rate among women who left welfare in 1996 fell by about 50 percent in just five years, and continued to fall the longer a woman was off welfare (O'Neil and Hill, 2003).

Without question, the latest Liberal U-turn will undo some of the reform's early success—85,000 people have left the welfare rolls since spring 2001. Welfare rates will increase along with the associated costs, not only in dollars but in lives lost to poverty and despair. Not only will current welfare recipients have less incentive to leave the system, but employment rates and income levels of those potentially on welfare will likely fall. In addition, the expectation that social and economic conditions can be overcome through work and perseverance may also deteriorate. The only people for whom this is a triumph are those who oppose the reforms: advocates of unrestricted income redistribution.

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Private Sector Can Meet Child Care Demands

by Peter Shawn Taylor

Canada boasts an ample supply of many things: empty space, fresh water, and donut shops, to name a few. Yet there is one aspect of the Canadian landscape that is reported always to be in under-supply: regulated child care.

Some recent examples of the perceived shortage of regulated day care: in 2003 the Childcare Resource and Research Unit (CRRU) of the University of Toronto claimed only 12 percent of Canadian children had access to regulated child care (Friendly *et al.*, 2003). Campaign 2000, which focuses on child poverty, says the number of licensed day care spaces in Canada fell by 2 percent between 2001 and 2003 (Campaign 2000, 2003). And in 2002 a federal Liberal caucus committee proposed that Ottawa spend \$4.5 billion per year on day care for 3- to 5-year-olds because the current system was under-providing for the nation's children (National Liberal Caucus Social Policy Committee, 2002). And yet most of these alleged shortages are ideological constructs. If and where under-supply is an issue, it

has been created by government interference.

Child care is provided through a continuum of services. At one end is the time-honoured method of the stay-at-home parent. Greater preference or need among mothers to work while their children are young has led to increased demand for non-parental arrangements, although 62 percent of two-parent families with at least one spouse working and a child under four years old still rely primarily on parental care. The most popular form of non-parental care is for a relative, neighbour, or nanny to provide care in the parental home. This option provides the greatest flexibility. At greater cost and reduced flexibility are family day care providers, individuals who look after others' children in their homes. They may or may not be regulated. Together, in-home and family day care account for the primary form of care for 32 percent of two-parent families with at least one spouse working and a child under four years old. Finally, the most expensive and least flexible arrangement for child care is the provincially-licensed day care centre, which can be operated on a

for-profit or not-for-profit basis. Centre-based care accounts for only 6.5 percent of two-parent families with at least one spouse working and a child under four years old. Parents may select formal child care for reasons of convenience, structure, or the fact that provincial regulation imparts an air of authority to the centre (Lefebvre and Merrigan, 2002).

While a small minority of parents prefer formal child care, it is the only option that captivates the social policy sphere. The CRRU achieves the 12 percent figure it promotes by dividing the total number of children in Canada aged 0 to 12 by the number of regulated child care places. To argue that 12 percent coverage represents a chronic deficit, as the CRRU does, assumes that all pre-teen children require institutional child care. Such a claim bears no connection to demonstrated parental demand, although it is attractive to some academics and unions for ideological reasons.

That said, the broad issue of whether governments should be encouraging one form of child care over another is beyond the scope of this paper. I propose only to investigate how government policies can lead to an inefficient allocation of resources within the licensed child care sector. If the supply of regulated day care spaces is indeed a concern, advocates should be promoting a greater role for the private sector.

Canada is well-suited to an investigation into the best methods of providing day care since children are a provincial responsibility and the ten provinces have adopted a diversity of policies in this area. In particular, attitudes towards commercial day care centres vary widely from province to province.

Some provinces have a lengthy record of animosity towards for-profit day care

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operators. Policies designed to limit the for-profit sector range from outright moratoriums on new licences for commercial child care centres (Quebec from 1997 to 2002) to denying for-profit centres access to fee subsidies or grants (Saskatchewan and Manitoba currently) to exerting financial and moral suasion to convert existing for-profit day cares to charitable status (Ontario under the Bob Rae NDP government). In addition, federal grants under the Community Access Program (CAP) during the 1970s were reserved exclusively for charitable child care centres. Policies that seek to reduce child care spaces based on ownership status are puzzling given frequent complaints about insufficient supply.

Other provinces have traditionally treated all child care centres equally, regardless of ownership status. These include most Atlantic provinces and Alberta. In fact, Alberta opted out of the CAP grants, at great expense, in order to protect its for-profit sector. These provinces typically allow fee subsidies to flow through parents to the day care of their choice.

It should be noted that provincial regulations imposed on formal day care centres, covering such things as child-staff ratios, staff credentials, floor space per child, and meals, are applied equally to the for-profit and not-for-profit sectors in every province. If it is provincial regulation that makes formal day care attractive to parents, then there is no legitimate argument against for-profit day cares. Approximately one-quarter of all day care spaces in Canada are run on a for-profit basis. It should also be noted that some charitable, non-profit day cares are run in the same manner as for-profit centres, with a view to efficiency and surplus maximization. Most, however, operate as extensions of the public sector and display the traditional failings of that sector.

Table 1: Efficiency of Provincial Funds in Regulated Day Care, 2001

Province	Regulated Day Care Spaces ¹	Provincial Government Spending on Regulated Day Care	Regulated Day Care Spaces per \$1,000 in Provincial Government Spending	For-profit Spaces as a Percentage of Total
Newfoundland	4,226	\$7,753,000	0.55	64
Prince Edward Island	4,270	\$4,229,708	1.01	46
Nova Scotia	11,464	\$12,892,278	0.89	43
New Brunswick	11,086	\$11,823,000	0.94	60 ²
Quebec	234,905	\$1,092,427,654	0.22	14
Ontario	173,135	\$451,500,000	0.38	17
Manitoba	23,022	\$62,876,400	0.37	8
Saskatchewan	7,166	\$16,311,911	0.44	1
Alberta	47,693	\$57,500,000	0.83	56
British Columbia	72,949	\$164,563,000	0.44	42

¹Includes licenced pre-school, school-age, and family day cares.

²Government of New Brunswick estimate.

Source: Friendly *et al.* (2003), *Early Childhood Education and Care in Canada 2001*, Government of New Brunswick; and calculations by author.

What impact does this range in policies towards for-profit child care have on the industry? Table 1 presents data on the efficiency of provinces in using public funds to create day care spaces. It also shows which provinces have the largest for-profit sectors, a proxy for how commercial-friendly child care policies are in that province.

PEI is the most efficient province in providing child care, boasting one child care space for every \$1,000 spent by government. For-profit child care accounts for nearly half the sector in this province. PEI's policies do not discriminate against for-profit centres and provincial fee subsidies are allocated to centres chosen by the parents.

Next in order of efficiency are New Brunswick, Nova Scotia, and Alberta. Again, all three provinces have comparatively large for-profit sectors. In gen-

eral, these provinces do not discern between for-profit or charitable auspices in allocating fee subsidies or other funding, relying instead on parental choice to determine the destination for fee subsidies. Nova Scotia, however, does restrict certain equipment grants to not-for-profit centres.

Provinces that are less efficient in creating spaces, such as Ontario, Manitoba, and Saskatchewan, either discriminate against for-profit centres, or have done so in the past. They all display much smaller for-profit sectors.

The province that is least efficient at creating regulated child care space is Quebec. For every \$1,000 the Quebec government spends on child care, the province produces only 0.22 of a space in a regulated centre. Quebec is the only province to pursue a publicly-funded, universal day care program through its



\$7-a-day child care (formerly \$5-a-day) policy. Restricting private sector supply through a five-year moratorium and artificially reducing the price of public care has distorted the child care market and increased the cost per space to the government.

While Canada is rich in evidence supporting the thesis that the private sector is more efficient than the not-for-profit sector in providing regulated day care spaces, Australia offers even more striking evidence. A bold policy experiment in that country 13 years ago provides irrefutable proof that parental choice and entrepreneurial instincts, rather than central planning, are the best determinants of the child care services market.

Prior to 1991, the Australian federal government provided child care subsidies exclusively to not-for-profit centres. This was motivated by the political belief that it is improper to allow profit-making in the child care industry, as some Canadian provinces argue today. In 1991 the Commonwealth government abandoned the policy with great success, as this OECD report explains:

For almost the decade prior to 1991, the supply of child care spaces through Commonwealth funding was subject to a needs-based planning process and all funding was available only to the community-based non-profit sector. During this time, demand for child care places far outweighed supply... In 1991 the supply of long day care [full-day care] spaces was transformed with the granting of fee subsidies to families using the private sector. This change in policy provided the stimulus to

private sector investment... and unforeseen growth resulted, with some areas experiencing an over-supply of places. (Press and Hayes, 2000)

... experience and common sense suggest that the private sector will always be more efficient at allocating scarce child care resources than the public sector ...

By shifting the funding mechanism to one based on parental choice and by allowing the private sector to participate fully, the Australian government was able to boost supply and satisfy parents. A recent survey reports that 94 percent of Australian families are content with their access to all forms of child care (Australian Bureau of Statistics, 2003). Within one year the number of day care centres doubled and a temporary over-supply of regulated day care became the public policy dilemma of the day (Department of Family and Community Services, 2004).

Domestic and international experience, as well as common sense, suggest that the private sector will always be more efficient at allocating scarce child care resources than the public sector. In Canada, provinces that allow commercial operators to participate in fee sub-

sidy and grant programs spend less per regulated child care space than those provinces that discriminate against private operations. And when provided with a choice between for-profit and not-for profit centres, parents do not appear to share the aversion some governments display towards private sector child care. If the supply of child care is a problem and government funding a constraint, then the solution lies in encouraging greater private sector participation.

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The Increasing Cost of University: Is it Fair for Lower-income Families?

by *Claudia R. Hepburn*

On February 4, 2004, university students across the country staged a protest against rising tuition fees. This year, Canadian university students faced the largest increase in tuition in years, and nowhere were the increases higher than in British Columbia, where average undergraduate tuition rose by 30 percent last year, more than four times the Canadian average. Word has it that large increases may be expected in that province again this year, so it's not surprising that those faced with these unforeseen bills are upset.

What are the implications of these increases for Canadian families with lower-incomes? Are they fair? Should we expect students, particularly those from lower-income families, to suffer negative consequences as a result?

Although the tuition increases, particularly in British Columbia, have been sharp and painful for those students and their families paying the bills, they should be considered in relation to the real cost of education and who is paying for it. According to the 2003 Statistics Canada Financial Management System (FMS), total revenues of universities

and colleges in Canada in 2002/03 totaled \$22.7 billion. Of this students paid \$4.4 billion through tuition, while other taxpayers contributed \$12.8 billion through federal and provincial funding. (The remainder comes from sales of goods and services, investment income, and other own-source revenue.) That means that university students and their families are paying only about \$1 for every \$3 contributed by other Canadian families. As a portion of GDP, Canadian taxpayers contributed more to university funding than those in any other of the 29 OECD countries (Kedrosky, 2003, p. FP13; Lines, 2003, p. 12). It's not just students who are paying a lot for their degrees; the rest of Canadians are paying even more.

The sudden increases, precipitated in British Columbia by the deregulation of tuition, have led to shock and outcry, and have temporarily caused those most affected to forget the inherent value of the education they seek. The benefits of a university education are numerous and significant. Students and their families weighing whether or not an education is worth the cost should remember that higher earnings, lower levels of unemployment, higher rates of satisfaction, better health, and longer life go to those holding a sheepskin.

Many studies show that the financial benefits to an individual from a university degree are so great that even if tuition rates become much higher than they currently are in Canada, the investment is still sound. The rate of return to a university education in the 1990s was between 12 and 17 percent for men and between 16 and 20 percent for women (Boothby and Rowe, 2002; Vaillancourt and Bourdeau-Primeau, 2002). Because more and more jobs—including 25 percent of all new jobs—demand a university degree, the unemployment rate of Canadians with a university education in 1997 was half that of those whose education stopped at high school (4.4 percent versus 8.8 percent) (Alexander and Lascelles, 2004, p. 2). As a result of their higher income and lower unemployment, Canadians with a bachelor's degree have a net worth 70 percent higher than a high-school graduate, and those with master's and doctorate degrees have a net worth 2.7 and 3.5 times higher, according to Statistics Canada (Alexander and Lascelles, 2004, p. 2).

The benefits of a degree or two, however, extend far beyond the financial rewards. Higher education is also associated with longer life expectancy, better health, reduced participation in crime (Haveman and Wolfe, 1984, cited in Riddell, 2001) and better child-rearing skills (Stager, 1996, cited in Vaillancourt and Bourdeau-Primeau, 2002). Higher education also appears to offer its graduates greater satisfaction in their field of



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endeavour. A recent study showed “emphatically” that “even those in less profitable career paths have a higher rate of satisfaction regarding their choice of degree—in other words, they would pick the same discipline if given a second chance” (Alexander and Lascelles, 2004, p. 2). Surely it is not too much to ask recipients of these many precious blessings to pay for a fraction of the cost themselves, even if that small fraction is more than they were used to paying.

Student protestors respond to these arguments by saying that though tuition doesn’t cover the full cost of their educations, it is too high if it deters the participation of students from lower-income families, or saddles students with unmanageable debt loads. On both counts, one can whole-heartedly agree. There would be no reason to have any government subsidy of post-secondary education if that subsidy were spent financing only the educations of children from wealthy families. The very fact that the majority of university students still do come from middle- and upper-middle class families is in itself a reason to raise tuition costs further, to reflect the real cost of the education, and focus public assistance on scholarships, bursaries, and loans for those with the greatest financial need.

In fact, research indicates that there is no reason to fear that the current increases in tuition will result in lower participation of students from lower-income families. As Norman LaRocque revealed in these pages 6 months ago, experience of rising university tuitions in Australia and New Zealand in the 1990s is very encouraging. In New Zealand, tuitions increased far more dramatically in the 1990s than they have done in Canada or even British Columbia, and not only did participation increase overall, but so did the

proportion of students from low-income schools (by 50 percent) and from low-income communities (by 44 percent). Increases in participation also occurred in the minority Maori population, among women, and for graduate students (New Zealand University Students’ Association). The increases happened despite dire predictions from student leaders to the contrary.

In Australia, which also introduced new, higher tuition fees and income contingent student loans in 1989, higher fees have not affected the participation of students from relatively poor families (Chapman and Ryan, 2002, p.13; Department of Education, Science and Training, 2003, p. 202, both cited in Larocque, 2003). OECD data confirms that, internationally, low levels of private spending on education are the norm in countries with the lowest enrolments in tertiary education.

This research conforms with a range of international reports that indicate that post-secondary participation is relatively insensitive to price (Larocque, 2003, p.16). The decision to enroll in university seems to be based less on the cost to students and more on employment and earning prospects for graduates, which as we know are much higher in Canada for university graduates than the rest of the population. Decisions to attend university are also based on less tangible characteristics such as culture, attitude, and motivation, which are more difficult to change.

But surely, opponents will argue, increased student debt loads will overburden our youth. They cannot cope with any more.

Research suggests that, in fact, Canadian students are managing admirably with their debt loads after graduation. A study undertaken by Saul Schwartz and

Ross Finnie at Carleton and Queen’s Universities indicates that the vast majority of student borrowers are not having difficulty repaying their debts. Less than half of students have government loans when they graduate, and only 7 to 8 percent have trouble repaying their loans over the long term. Twenty-five percent of borrowers repay their loans within two years. As one would expect, our intelligent, well-educated young adults are living up to their potential, fulfilling their financial obligations after graduation as well as they fulfilled their academic ones before graduation. Student leaders simply do not have the facts on their side.

Rather than continuing the extreme subsidizations of tuition that have existed in Canada in the 1990s, provincial governments should direct relief to students with the greatest financial need. Financial aid, including both bursaries and loans, should be widely available for those from the lowest income families, while those from wealthier families should be expected to pay a higher percentage of the real cost of tuition themselves. Such a policy would ensure that higher education is accessible to all families, yet would ensure that those who will benefit most from the education take more responsibility for its cost. Other Canadians, most of whom have never had the benefit of a university education, should be given a break.

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Does Canada have a Marriage Tax Penalty?

by Niels Veldhuis & Jason Clemens

As the United States and Canada head into federal elections, the debate about taxes is bound to heat up. Since 2001, the United States has enjoyed some important tax relief and reform. Unfortunately, Canadian tax burdens have risen over the same time.¹ One area of tax reform that has received considerable attention, at least in the United States, is the marriage tax penalty. A marriage tax penalty exists if a married couple pays higher income tax than they would have paid had they remained an unmarried couple.²

In February 2000, the US House of Representatives passed the Marriage Tax Penalty Relief Reconciliation Act, which proposed to eliminate the marriage tax penalty incurred by approximately 25 million American couples.³ The Act was quickly vetoed by then-president Bill Clinton and consequently became a significant issue in the 2000 presidential election. In 2001, newly-elected US

president George W. Bush signed the Economic Growth and Tax Relief Reconciliation Act, which planned to phase out the marriage penalty gradually by 2009.⁴ President Bush initiated further relief in 2003 by completely eliminating the marriage tax penalty for the 2003 and 2004 tax years.⁵

The US marriage tax penalty

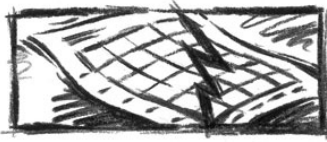
The marriage tax penalty in the United States is primarily caused by two factors: lower standard deductions for married couples compared to unmarried couples and income tax thresholds for married couples that are not double those faced by unmarried individuals.

Consider a hypothetical couple, John and Jane America. Table 1 illustrates the difference in income tax John and Jane would have paid in 2000 depending on their marital status. As an unmarried couple, John and Jane file separate income tax returns⁶ and receive equal



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Tax Burden

Table 1: The US Marriage Tax Penalty, 2000

	John	Jane	John and Jane filing as a married couple
Income	\$40,000	\$40,000	\$80,000
Less personal exemption	\$2,800	\$2,800	\$5,600
Less standard deduction	\$4,400	\$4,400	\$7,350
Taxable income	\$32,800	\$32,800	\$67,050
Income taxed at 15%	\$26,250	\$26,250	\$43,850
Income taxed at 28%	\$6,550	\$6,550	\$23,200
Total Tax	\$5,779	\$5,779	\$13,081
Marriage Tax Penalty			\$1,523

Note: The analysis is limited to Federal Income Tax.

Source: US Department of the Treasury, Internal Revenue Service, *Your Federal Income Tax for Individuals*, publication 17, cat. No. 10311G; calculations by the authors.

personal exemptions, equal standard deductions, and have the same portion of their incomes taxed at the various income tax rates. Both John and Jane pay \$5,779 in income tax for a combined total of \$11,558.

If John and Jane were to marry, they would most likely file a joint income tax return.⁷ Their combined personal exemption is double the exemption for an individual. Their standard deduction however, is less than double the standard deduction for an individual.⁸ As a

result, if John and Jane marry, they have more income that is deemed taxable than if they remained unmarried. In addition, the upper income threshold for the 15 percent tax bracket is \$26,250 for an individual, but only \$43,850 for a married couple. Therefore, a greater portion of John and Jane's income is taxed at 28 percent. The combined effect of the lower standard deduction and the increased amount of income taxed at higher rates increases the total amount of income tax John and Jane must pay. The difference between filing

as a married couple versus an unmarried couple—the marriage tax penalty—is \$1,523 (table 1).

Recent tax changes implemented by US President Bush increase the standard deduction for a married couple to twice that of an individual and, more importantly, increase the income tax thresholds for a married couple to double that of an individual. The end result is the elimination of the marriage tax penalty for the 2003 and 2004 tax years.⁹

Does Canada have a marriage tax penalty?

In Canada, unlike the United States, almost all taxpayers must file separate income tax returns regardless of marital status. In other words, married and common-law couples do not file joint returns. Further, Canadian couples are considered common-law (*de facto* married) after 12 continuous months of cohabitation.¹⁰ Canada's income tax system is therefore essentially marriage neutral.

The fundamental issue for most taxpayers in this country, however, is not the marriage neutrality of the Canada tax

Table 2: The Leave-it-to-Beaver Tax Penalty, 2003

	Scenario 1			Scenario 2		
	James	Joan	Total	James	Joan	Total
Income	\$40,000	\$40,000	\$80,000	\$80,000	\$0	\$80,000
Less personal exemption	\$7,756	\$7,756		\$7,756		
Less spousal exemption	\$0	\$0		\$6,586		
Taxable income	\$32,244	\$32,244		\$65,658		
Income taxed at 16%	\$24,427	\$24,427		\$17,841		
Income taxed at 22%	\$7,817	\$7,817		\$32,185		
Income taxed at 26%	0	0		\$15,632		
Total tax paid	\$5,628	\$5,628	\$11,256	\$14,000	\$0	\$14,000
Leave-it-to-Beaver tax penalty						\$2,743

Note: Analysis is limited to Federal Income Tax. Source: QuickTax; calculations by the authors.

Table 3: The Leave-it-to-Beaver Tax Penalty (including child care deductions), 2003

	Scenario 1			Scenario 2		
	James	Joan	Total	James	Joan	Total
Income	\$40,000	\$40,000	\$80,000	\$80,000	\$0	\$80,000
Less personal exemption	\$7,756	\$7,756		\$7,756		
Less spousal exemption	0	0		\$6,586		
Less child care deduction		\$11,000		0		
Taxable income	\$32,244	\$21,244		\$65,658		
Income taxed at 16%	\$24,427	\$21,244		\$17,841		
Income taxed at 22%	\$7,817	\$0		\$32,185		
Income taxed at 26%	0	0		\$15,632		
Total tax paid	\$5,628	\$3,399	\$9,027	\$14,000	\$0	\$14,000
<i>Leave-it-to-Beaver</i> tax penalty						\$4,973

Note: Analysis is limited to Federal Income Tax. Source: QuickTax; calculations by the authors.

system, but rather whether or not families with equal incomes pay equal amounts of income tax. Unfortunately, the progressive nature of the Canadian tax system discriminates against couples in which one partner earns the majority of income. Rather than penalizing marriage, the Canadian tax system, unlike its US cousin, penalizes the *Leave-it-to-Beaver* family, one supported by a single breadwinner (in reference to the popular TV series of the 1950s which featured the Cleavers, a family with a breadwinner father, a homemaker mother, and their two children).¹¹

The *Leave-it-to-Beaver* tax penalty

Consider a hypothetical couple, James and Joan Canada. Table 2 displays two scenarios for James and Joan's family income. In Scenario 1, James and Joan each earn \$40,000 and receive equal personal exemptions of \$7,756. Neither James nor Joan receives the spousal exemption, as it only applies if a spouse earns less than \$7,245. In addition, both partners have the same portion of their

incomes taxed at the various income tax rates. James and Joan pay equal amounts of income tax for a combined total of \$11,256.

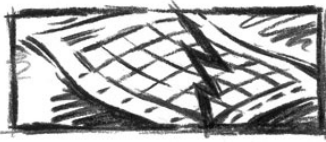
In Scenario 2, one partner (James) is the sole breadwinner. Since Joan does not earn income, James is eligible for a spousal exemption of \$6,856 in addition to his \$7,756 personal exemption. Their combined exemption is less than it was in Scenario 1. Further, since James is subject to the same tax brackets as an individual, a greater portion of their family income is taxed at higher rates. The combined effect of the lower exemption and the increased amount of income taxed at higher rates increases the income tax paid by James and Joan. The difference in taxes paid by the single-income and the dual-income families, the *Leave-it-to-Beaver* tax penalty, is \$2,743 (table 2).

The tax penalty widens as family income increases and also if the couple has dependent children. Child care expenses, amounts paid to someone to look after a child, are deductible from taxable income.¹² Assuming that dual-income couples require child care

assistance, in Scenario 1 James and Joan would be able to deduct at least a portion of their child care expenses from their taxable income.¹³ For example, if James and Joan had two children, one under age 7 and one between 7 and 16, one of them would be able to claim a deduction for child care of up to \$11,000. Therefore, either James or Joan's taxable income will decrease from \$32,244 to \$21,244, and the income taxes they pay will decline from \$5,628 to \$3,399 (table 3). In Scenario 2, James is the sole breadwinner and Joan is a stay-at-home mother. Under this arrangement, James is unable to claim child care expenses as they cannot be claimed if services are provided by the child's parents, the tax filer's spouse or common-law partner, or a person under 18 related to the taxpayer. The difference in the *Leave-it-to-Beaver* tax penalty increases from \$2,743 to \$4,973 when child care deductions are included in the analysis.

Conclusion

While Canada does not have a specific marriage tax penalty, our tax system is



clearly biased towards dual-income families and against single-income families. For an effective tax system to be fair, individuals or households with similar incomes must face similar tax burdens.¹⁴ While many solutions to the *Leave-it-to-Beaver* tax penalty are available, some are much better than others. Canada could increase exemptions and thresholds for couples such that couples with equal income would pay equal tax regardless of their income split. A superior solution would be to move towards a single-rate tax. Either way, without major tax reform, Canada's tax system will continue to penalize those families with only one earner.

Notes

¹Canada's Tax Freedom Day arrived on June 28 in 2003, two days later than 2001.

²A marriage subsidy exists when a married couple pays less tax than they would pay had they remained unmarried.

³The Congressional Budget Office in the United States estimated that over 40 percent of married couples incurred marriage penalties in 1999.

⁴The Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 only eliminated the marriage tax penalty for income taxed in the 15 percent bracket.

⁵Marriage tax penalty relief is temporary and will expire in the 2005 tax year. The gradual phase-out of the marriage penalty will then resume according to the Economic Growth and Tax Relief Reconciliation Act of 2001. Unfortunately, unless made permanent, all marriage tax penalty relief will expire in 2011.

⁶In the United States, common-law status is determined by individual states. Most states do not recognize common-law marriage.

Further, requirements for common-law marriage are more stringent in the US than in Canada. In Canada, a couple is considered common-law after 12 continuous months of cohabitation, whereas US states do not explicitly define the period of time that couples must live together before being considered common-law.

⁷In the United States married couples can file separately under "married filing separately" status. However, the standard deduction for a spouse filing separately is lower than for an unmarried individual. In addition, the US tax system encourages joint filing through many other tax incentives.

While Canada does not have a specific marriage tax penalty, our tax system is clearly biased towards dual-income families and against single-income families.

⁸The rationale being that it is cheaper for a married couple to live together than two individuals living separately.

⁹See footnote 4 and 5.

¹⁰Requirements for common-law marriage are more stringent in the US. See footnote 6.

¹¹In 2001, 13.5 percent of all Canadian families had single-earner males and 4.9 percent of all families had single-earner females.

¹²Children must be under 16 years of age at sometime during the tax year. The maximum deduction is \$7,000 for a child under the age of 7 and \$4,000 for a child between the ages of 7 and 16.

¹³In most cases the Child Care Expenses Deduction must be claimed by the partner with the lower net income. When a couple has equal income, as in John and Jane's case, they must agree on which one of them will claim the expense.

¹⁴For a thorough discussion, see Clemens and Emes, 2001.

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The Greying of Home and Community Care in Ontario: *An Agenda for Reform*

by *Mark Mullins*

It is commonplace to assert that health care is driven by demographics, with a coming fiscal crunch as members of our society, and especially the baby boomers, age. However, rapid and large increases in health care spending in recent years show that we need not necessarily wait for that aging factor to hamper fiscal sustainability.¹ The crunch is already upon us.

Public spending on seniors (defined as those over the age of 65) is already a major component of the health sector. Seniors tap into all areas of public health care, but large segments of home and community care are designed to serve seniors exclusively. With public spending already in excess of \$8 billion across Canada, this area can only grow in importance over time.

In the past, support services for those who are frail and infirm because they are old would have been delivered and

financed in the home or by civil and religious organizations. The situation is vastly different today, with many governments acting as agency of first resort for home and community care.

This article provides an overview of the largest public home and community care system in Canada, operating in Ontario. It describes the structure of the system and then suggests a number of reforms that could simultaneously tame costs, enhance service, and offer more choice to seniors in the province.

In short, a new emphasis on creating a competitive market for home and community care services would have the usual beneficial impacts seen in other areas of society. In this sense, there is nothing particularly unique about this area of health care provision that prevents positive reforms from occurring.

Background

Public sector health spending in Ontario is estimated by the Canadian Institute for Health Information (CIHI) to be almost \$32 billion at present, equivalent to 6.4 percent of the provin-

cial economy. Such spending has grown by 60 percent over the past decade.²

For those areas that break spending out by age use, which includes hospitals, physicians, drugs, and home and community care, exactly half of public sector spending goes to those over 65 years of age.

Hospitals account for almost half of this health spending on seniors. Slightly more than 20 percent goes to home and community care, and about 16 percent each is spent on drug programs and physician care.

Total home and community care spending is up 65 percent over the past decade and accounts for \$1 in \$10 of the overall public health spending increase. The sector is highly skewed to providing services to seniors, with 92 percent of spending on those over 65 years of age and almost half allocated to those over 85 years old.

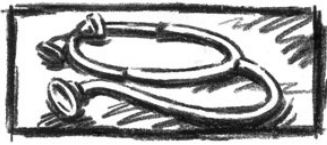
The main conclusion to draw from this short fiscal survey of home and community care is of a large and fast growing sector, catering to an elderly clientele. Given its size, growth, and the greying of Ontario, it should continue to be a focus of health policy interest in coming years.

Home and community care structure

The provincial government is responsible for all of the public health provision in the home and community care area. Two streams of activity form this area: home and community support services, and residential care.

Support services are organized around two areas: home visits by health professionals, personal care attendants, and homemakers, and community services

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that include transportation, meal delivery, security, and social activities. Home visits are completely paid for with public funds, while there are subsidies for the community services accompanied by modest user charges.

Residential care is organized on two levels, according to the degree of care required.

Supportive housing is for those requiring minimal to moderate care; accommodations are typically rental units in an apartment building. Accommodation costs for low-income residents may be subsidized by the government and personal and support costs are publicly paid.

Long-term care facilities are for those seniors who require around-the-clock nursing care and supervision. The government pays for capital costs and subsidizes services and accommodation on a per bed basis, adjusted for the complexity of patient care.

Regional, publicly-funded Community Care Access Centres (CCACs) authorize and coordinate home and community health services, manage entry to long-term care facilities, and provide a referral service for other community agencies and services.

Policy issues

The CCACs typically outsource home and community support services to other providers, who are contracted on multi-year regional agreements. Funding goes directly to the provider and the CCACs determine the recipient's eligibility for care.

There is little recipient cost sharing, aside from payments for meals and transportation costs for some programs. The largest budget items are non-professional home visits by homemakers

and personal care attendants, a program that falls outside of health care *per se*. Costs per service also tend to vary widely by region, a possible indication of an uncompetitive market outcome.

This structure is a central planner's approach, with decision making and financing held in producer, rather than consumer, hands. Choices are proscribed by the contractual arrangements between CCACs and providers and there is very little involvement by the recipients of the service in finding, choosing, or financing their care.

Further, the provincial government directly funds non-health care services that are only offered on a co-payment basis in all other provinces.

As for residential care, the province is currently expanding the system's capacity by financing the construction of 20,000 new beds and refurbishing another 16,000. This capital expansion has been centrally financed and administered and is essentially being allocated on a per-bed basis to facilities operators over the next two to three decades.

As with home and community support services, the ministry allocates operating funds for residential care directly to the service provider. Various formulas are used to determine the exact per-bed transfer, along with the amount of accommodation subsidy that is required when low-income residents cannot afford that co-payment. These facilities are highly regulated, with rules that specify the type and amount of service provided and constrain spending flexibility within the facilities.

A policy reform agenda

Three fundamental reforms could reduce costs and enhance choice and satisfaction for seniors in this overly allocated system.

The first suggestion is to send funds directly to care recipients, thus concentrating decision making in the hands of the users. An unrestricted choice of service provider would introduce competitive forces that would keep costs down and service quality high. Reforms introduced in Germany, as one best-practices example, show that patient satisfaction can actually rise with more personal control of funds, even with a net reduction in the transfer.³ There would also be administrative savings as the CCACs and the health ministry reduce the scope of their operations to care assessment only.

A second structural change is to introduce provider competition into the system directly.

The funding change discussed above would make regional agreements between CCACs and service providers redundant. CCACs could then act as agents for service recipients, rather than as central allocators of scarce resources. It is even possible that a competitive agency market could develop, thus transferring the assessment and agency activities to the private sector.

Regulatory liberalization of residential care facilities would allow those institutions to set prices and service offerings in line with customer preferences. Options for care would increase, as those able and willing to pay for enhanced care would do so. A well-defined minimum standard would continue to provide a "safety net" function for those of lesser means.

On the capital side, future bed expansion would also be dependent on market demand instead of being designed and implemented by the health ministry using political or bureaucratic criteria.

The third change would enhance incentives for more effective use of public funds.

Co-payments should be introduced for both health and non-health services. At a time of a significant provincial deficit (now in excess of \$5 billion), and competition from higher priority programs, it is also appropriate to question whether non-health care subsidies should exist at all. The use of at least partial recipient funding will introduce an element of tangible consumer demand that is lacking at present.

These three changes would increase the power and influence that seniors and their families can have over their own care. They would ease the public financing burden in this area and help to modernize a system that currently relies on outdated and ineffective mid-twentieth century modes of public administration. Barring such reforms, we are instead likely to see rising costs without any improvement in service, a truly grey future for seniors' health care in Ontario.


Notes

¹For example, Ontario public health spending has grown annually by 3.9 percent in excess of inflation and population growth over the past six years, following a five-year period that saw little growth. This compares to a 25-year average growth rate above inflation and population of 2.3 percent.

²These and the following figures in this section are based on CIHI data and the author's calculations.

³For example, see MacAdam, 2000, cited in an unpublished work by Ken Boessenkool.

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The Choices Families Make: Home Schooling in Canada Comes of Age

by Deani Van Pelt

Canadian parents face a variety of educational choices for their children, and a small but growing number are choosing neither public nor independent schools, but to educate their children at home themselves. Estimates based on home school support group memberships suggest that 80,000 Canadian students are educated from home. Though still a small fraction of the school-aged population, home education is catching the interest of researchers and policy makers because its results are so impressive. Study after study has shown that the “academic and socialization outcomes for the average home schooled child are superior to those experienced by the average public school student” (Basham, 2001, p. 15) at a fraction of the cost.

New research (Van Pelt, in press), the largest Canadian study on home educa-

tion ever conducted, confirms and adds to these findings. Clear evidence is emerging that families that home educate, and their children, are flourishing academically, socially, and civically. Today, near the end of the first generation of contemporary, home-educated students, home schooling has been transformed from the choice of a few pioneering families into a movement that is leading the way in innovative educational models.

In March 2004, the Canadian Centre for Home Education, together with the Home School Legal Defence Association, will release the results of this study. This research captures a demographic snapshot of today's home-schooling community, determines the academic achievement and life satisfaction of currently home-educated students, and uncovers some variables that appear to be associated with higher academic achievement among the home educated. Home school graduates, older siblings of the research participants, also describe their current education, employment, volunteer, and family status.

Deani Van Pelt, BComm, BEd, MEd, a former teacher in both public and private high schools, lives with her husband Michael in Ancaster, Ontario, where they currently home educate their three children, ages 13, 11, and 7.



Almost 1,650 families (28.3 percent response rate) responded to a 16-page questionnaire and 1,080 students took part in the Canadian Achievement Test (CAT-3). Current home school students also completed a six-question Student Life Satisfaction Scale (Huebner, 1991) and formerly home-educated students, now adults, filled in the Satisfaction With Life Scale (Pavot and Diener, 1993) to determine their level of contentment and satisfaction with life.

A preview of the report reveals that the academic achievement of home-schooled students remains dramatically above the Canadian norm of the national percentile rank of 50, and the scores are consistent with previous research on home-educated students.¹ The mean national percentiles for the CAT-3 test were calculated for three subject areas: reading, language, and mathematics. The students scored, on average, at the following percentiles: (a) first to eighth graders in reading, 81st; language, 76th; and mathematics, 74th; and (b) ninth to twelfth graders, in reading, 85th; language, 84th; and mathematics, 67th. Several variables related to higher academic achievement scores among elementary students were discovered. For example, academic achievement rose if students had been entirely home educated rather than experiencing a mix of school and home school, if the father had participated in their instruction, or if the children watched less television.

The benefits of home education, according to this research, seem to extend much more significantly into children's lives than merely academic achievement. Although many factors influence a student's satisfaction with life, the study found that the life satisfaction of students educated at home was higher than a recently-studied group of American public school stu-

dents. Canadian home-educated children scored an average of 4.94 out of a possible 6 on the Student Life Satisfaction Scale while their US counterparts scored an average of 4.21. As life satisfaction and subjective well-being research are emerging areas of study, this finding will prove helpful for future comparisons as data on more student groups become available.

The report describes the demographics of the typical, 2003 Canadian home-educating family. It is a two-parent family with the father as primary income earner. Although mothers now contribute to the family income at a higher rate than in the past, their financial contributions are typically lower than those of mothers in other two-parent families. While, on average, most home-educating parents have some college or university education, few are certified teachers. No significant difference was found in Canadian Achievement Test scores for those students whose parents were certified teachers compared to those whose parents were not.

The study found that the most common motivation for home schooling (up to 85 percent) was to achieve superior results in three diverse areas: family relationships, the children's moral environment, and their academic achievement. A smaller majority of families (up to 55 percent) were home educating to avoid negative aspects of schooling such as safety concerns, frustrating experiences with the system, and wasted time. Less than 20 percent were motivated to home educate due to their child's special learning needs. Home educators, apparently, have vivid dreams of academic, familial, and moral excellence for their children and evidently do not view the school system as the optimum place to achieve these goals.

Contrary to a common perception that home educators insulate their children from the broader community, the research revealed that these families are well connected and involve their children in a wide variety of community activities. Over 70 percent belong to a local, provincial, or national home school support group; many belong to groups at each level. On average, home-schooled students participate in eight types of extra-curricular activities per year, an increase over findings of previous studies that showed their involvement in an average of 5.2 different types of activities. Many adults participate in the education of today's typical home-schooled child. In addition to mom and dad's direct instruction (almost 100 percent of mothers and 60 percent of fathers are directly involved in their children's home schooling), the students are involved in virtual classrooms, private tutoring, and group (or co-operative) instruction. Substantial home libraries—45 percent of families report owning over 1,000 books—are augmented by library trips at least monthly. Home-educated students are active and engaged in a wide variety of pursuits under the direction of many adults within and outside of the home.

In light of the academic benefits to and broad-based socialization of home-schooled students, the direct costs associated with this form of education are extremely low. Whether families use highly-structured traditional textbook materials or an unstructured approach following the child's interests, the median amount spent per child is merely \$700.00 per year, less than one tenth of what is spent per child by public school systems in Canada.

But what happens to home-educated children when they become adults? How do they function in our society?

This report, also one of the first Canadian studies to survey home-educated adults, found that responsible citizenship ranked high: 72 percent had voted in the last 5 years, less than 7 percent had ever collected employment insurance benefits and none had ever received any social security assistance. Over 80 percent volunteered in one or more capacities.

The home-schooling model of delivering an effective and cost-efficient education deserves the recognition of policy makers. Parents, it seems, are collaborative and capable directors of their children's education. In fact, the more involved they are, the better their children do academically. The keys to academic success in this model include plentiful parental involvement, curricular flexibility, ample and engaging activities outside of the home, limited television viewing, and an abundance of books. Home-educated students, as well as home-school graduates, report having highly satisfactory lives. As adults they participate democratically, for example, through voting and extensive

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volunteering. Their educational pursuits and employment histories, combined with their lack of reliance on social assistance, indicate a healthy and contributing life after home education. Can any other education model match the cost efficiency and the academic, social, and civic effectiveness of this innovative, contemporary movement? Perhaps education policy makers should be paying more attention to the innovations suggested by this model.

Note

¹In a 1994 Canadian study, B. Ray found that students scored, on average, at the following percentiles on standardized achievement tests: total reading, 80th, total language, 76th, and total mathematics, 79th.

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BC's Dependency-inducing U-Turn on Welfare Reform continued from page 1

Their goal is not to help people become self-sustaining and productive, but rather, simply to provide them with income and support programs.

Unfortunately, advocates of this redistributive system ignore the reality that supporting casual welfare use by employable individuals guarantees that less money will be available for other more pressing social concerns. In the US, for example, by reducing casual welfare use, the states are now able to direct more funding to support programs for single mothers in transition. In BC, the added costs of supporting employable welfare recipients will mean that less money will be available to assist such transitional cases.

If British Columbians truly want to help people without creating dependency, then time limits, with some allowance for exemptions, is the solution. Such policies have been pursued in the US to great effect: that nation now has lower welfare rates, higher income and employment levels, and reduced poverty. Unfortunately, the cost of the BC government's policy reversal will be borne by society's most vulnerable people.

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Welfare & Poverty: Family Matters

by Sylvia LeRoy

It has been 25 years since Charles Murray first pointed out what is easily the greatest counter-intuition of social policy in the twentieth century: the expansion of welfare entitlements as part of the “war on poverty” has actually increased the economic vulnerability of those it was intended to help, namely, single mothers and children. While this insight has been credited with sparking the revolutionary welfare reforms of the mid-1990s that brought poverty and dependency down to record lows, many of today’s social reformers continue to misunderstand the relationship between family status, poverty, and welfare.

Family status and poverty

No one has suffered more for this misunderstanding than single mothers and children. By 1996, poverty rates among single-mother families in the US had reached 41.9 percent, over 30 percent higher than that of married-couple families. This phenomenon is not



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unique to the US: the low-income rate for single-mother families in Canada also remains well above that of married-couple families. In 1996, 52.3 percent of children in single-mother families experienced low income, compared to 11.2 percent of children in two-parent families (figure 1). While low income rates have dropped since then, the income gap between these two groups has remained large.

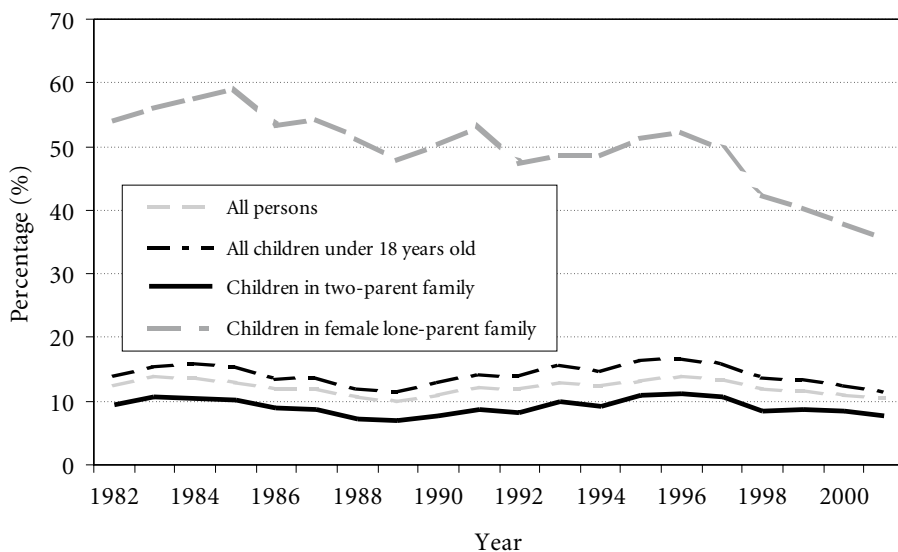
Even more troubling, single parents are much more likely to experience low incomes over the long-term. For instance, 2.5 percent of two-parent

families experienced low income for six continuous years between 1993 and 1998, while 19.4 percent of lone-parent families experienced low income continuously (Morissette and Zhang, 2001).¹ Single mothers are also more likely to become dependent on welfare in the long-term.

This bleak prospect for single mothers has prompted US public affairs columnist Jonathan Rauch to suggest that “marriage is displacing both income and race as the great class divide in the new century” (Rauch, 2001). Indeed, the growth of single-parent families accounts for virtually all the increase in US child poverty rates between the 1970s and early 1990s (Lerman, 1996; 2002; Sawhill, 1999). Children growing up in single-parent families are four times as likely to be poor than are those from two-parent families. Today, almost two thirds of all poor children are in single-parent homes (Haskins, *et al.*, 2003).

Growing up in single-parent families also has negative effects on the social

Figure 1: Low Income Canadians, 1982-2001



Source: Statistics Canada. “Persons in Low Income After Tax.” Available at <http://www.statcan.ca/english/Pgdb/famil19a.htm> (accessed Dec. 10, 2003).



outcomes of children. In addition to their high incidence of poverty and low income, studies show that children from single-mother families are much more likely to experience psychiatric disorders, ranging from hyperactivity, conduct or emotional disorders, and schooling problems, than those living with both parents (Dooloey *et al.*, 1998, p. 116). While children growing up in single-parent families are not doomed, the odds are certainly stacked against them.

The dark side of welfare

Unfortunately, the solution most widely advocated for improving the economic fortunes of single parent families—boosting social assistance—can be as much the cause of the problem as the cure. As Charles Murray argued in *Losing Ground*, his seminal study of American social policy between 1950 and 1980, by making it economically feasible for single mothers to remain unmarried, welfare actually increased the rate of out-of-wedlock births creating a new American underclass (Murray, 1984; see also Murray, 2001). With limited education or employment experience to begin with, welfare dependency became long-term for many single mothers, especially when eligibility requirements were relaxed and benefit levels increased. While the average length of time most recipients are on welfare is less than two years, single mothers average close to ten years on welfare and comprise almost 40 percent of all people on welfare for 10 years or longer (see Tanner, 2003, p. 11).

More recent data paints a clear picture of the link between the overall level of welfare benefits and dependency. For instance, one 1996 study found that increases in welfare benefits led to statistically significant increases in the number of welfare recipients, while another found that a decline in level of welfare

benefits led to nearly a one half percent decline in welfare caseloads (New, 2002; Niskanen, 1996).

Specific examples from Canada lead to the conclusion that welfare spending alone does not reduce poverty. Indeed, the massive increases in social assistance benefits in Ontario in the late 1980s has been identified as a major contributor to the doubling of unemployment among single mothers between 1998 and 1992 (Kapsalis, 1996). Long-term dependency also worsened in Ontario. While the average stay of a single parent on welfare was 36 months in 1987, it had lengthened to 55 months by 1994 (Sabatini, 1996).

... higher welfare benefits provided an incentive for single mothers to stay on welfare ...

This was unfortunate in light of Statistics Canada's finding that 91 percent of welfare leavers in the 1990s were in low-income families while on welfare,² while only 58 percent were so once they had left (Frenette and Picot, 2003, p. 11). Income continued to rise the longer that families remained off welfare. In other words, higher welfare benefits provided an incentive for single mothers to stay on welfare, even though their economic fortunes could have been better advanced had they been off welfare.

Conclusion

When it comes to poverty, family status clearly does matter. As a group, single

mothers and their children are more likely to be poor, and more likely to remain on welfare and have low incomes for extended periods of time. Fortunately, in both Canada and the US, mounting evidence shows that leaving welfare for work is the fastest and surest ticket out of poverty, both for single mothers and their children (LeRoy and Gabel, 2003). By getting the incentives right it is possible to create a superior social safety net—one that doesn't trap women and children in dependence on government, but encourages their long-term income independence and mobility.

Note

¹Overall, just over three percent of Canadians were continuously poor throughout this period.

²A number of provinces have programs that enable welfare recipients to work and thus augment their income with employment earnings while still receiving assistance.

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The Great Salmon Panic of 2004

by Kenneth Green

On January 9, the American journal *Science* released a report (Hites *et al.*, 2004) about the discovery of certain long-lasting environmental contaminants in farmed salmon. The findings were carried, largely uncritically, throughout the North American media. Environmental groups and anti-aquaculture activists trumpeted the findings of the study widely across the Internet and on television and radio. But did the story deserve all the hoopla?

The Hites team looked at a variety of chemicals, but the focus of the article and of the associated news coverage, was on PCBs, a family of over 200 different long-lived chemicals generated through a wide array of industrial processes, and released into the environment. Hites and his researchers found that farmed salmon carried higher levels of PCBs than wild salmon—a finding that should have surprised absolutely no one, as this has been common knowledge for years. Previous studies of PCB levels in food have shown that many of the foods we eat carry a certain amount

of PCBs, and salmon farmers have acknowledged for years that they're working to reduce the level of PCBs in their product.

Hites *et al.* found that Canadian farmed salmon averaged 37 parts per billion of PCBs in their tissue, mostly in the skin and subcutaneous fat. David Carpenter, one of the study's co-authors, proclaimed that, "These levels are sufficiently high in farmed salmon that unlimited consumption of these salmon is unwise," in an article provocatively titled, "Something Fishy about Farmed Salmon?" (*CBC News Online*, Jan. 9, 2004).

Alarmist groups were quick to trumpet the Hites team's findings: Friends of the Earth "Chemicals Campaigner" Mary Taylor said, "Consumers and retailers alike should be shocked by these findings" (Press release, Jan. 8, 2004). She called for stricter controls and a food-labeling regime for fish, based on the results of the Hites study.

But neither the media nor the alarmists did a good job of putting out a balanced representation of the Hites study that

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might help individuals understand the study, or evaluate their own safety in consuming farmed salmon.

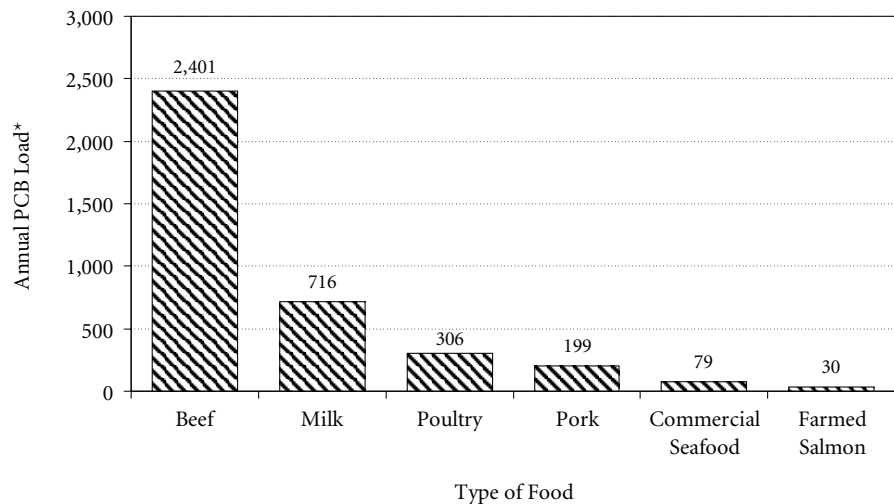
Dr. Charles Santerre, an associate professor of food and nutrition at Purdue University observes in a review of the Hites article, “[Farmed] salmon is safe to eat since contaminants were well below limits established by the Food and Drug Administration (FDA), the World Health Organization (WHO), and the Environmental Protection Agency (EPA) (Santerre, 2004).”

Santerre observes that Hites shows that:

- Concentrations of Mirex, DDT, dieldrin, chlordane and heptachlor epoxide [in farmed salmon] were well below FDA Action Limits.
- Concentrations of endrin, lindane, hexachlorobenzene and toxaphene were very low (< 0.005 parts per million (ppm)).
- Concentrations of mercury (although not reported in the manuscript but reported in past studies) were much lower than the FDA Action Level.
- Polychlorinated biphenyls (PCB) in farmed salmon were only about 3 percent of the FDA tolerance of 2 ppm.
- The Toxicity Equivalency Quotient for farmed salmon is well within the WHO recommended limits. For American consumers, the exposure to PCB would be even lower since most of the farmed salmon that is consumed in the US is from countries that have lower levels of dioxin-like compounds. Farmed salmon in the US comes from Chile (56%), Canada (31%), and the US (6%). Only 7% comes from Europe, which had higher PCB levels.

PCB levels in the environment (from whence they enter the food chain) are

Figure 1: PCBs in different foods



Consumption data from United States Department of Agriculture, “Agricultural Outlook,” Table 39, Per Capita Consumption of Major Commodities, (<http://www.ers.usda.gov/publications/agoutlook/aotables/feb2003/aotab39.xls>).

Fat content of farmed salmon from: USDA Food and Nutrition Information Center (<http://www.nal.usda.gov/fnic/etext/000020.html>).

PCB level per unit mass of foods from: Environmental Working Group (2003), “PCBs in Farmed Salmon” (<http://www.ewg.org/reports/farmedPCBs/es.php>).

Farmed Salmon consumption data from Santerre, 2004.

*Annual PCB Load is expressed in picograms “toxic equivalent” ingested per year. A picogram is one trillionth of one gram. For perspective, a penny weighs about 3 grams (3 trillion picograms).

already in rapid decline. In the Great Lakes, once heavily contaminated with PCBs, improvements are dramatic; from 1974 to 2002, PCB levels declined 89 percent in Lake Ontario, 82 percent in Lake Erie, 80 percent in Lake Michigan, 87 percent in Lake Superior, and 92 percent in Lake Huron (Jones *et al.*, 2002).

Two other questions that were poorly communicated in the Farmed Salmon Scare of 2004 are the question of appropriate standards, and the broader context of PCBs in other foods.

On the question of appropriate standards, when selecting a standard to calculate allowable fish consumption, Hites’ researchers chose to use a particularly stringent standard derived by the United States Environmental Protection

Agency for a specific purpose: to protect native groups that consume quantities of fish vastly higher than the general population. As Stephen Strauss pointed out in a follow-up commentary in the *Globe and Mail*, aboriginals eat vastly higher quantities of fish than the general population. Strauss points to a 1997 survey showing that an Oregon native tribe consumed 1.2 pounds of fresh, dried, and smoked fish *per person per day* (Strauss, 2004). Another survey of four Oregon tribes in 1994 found that they ate upward of 12 ounces of fish *per person per day*. That’s hardly the norm for anyone other than a person whose entire diet consists of fish taken from PCB-contaminated waters. Further, the EPA standard applies only to risk. It is not balanced by the nutritional benefits of eating salmon, high in omega-3 fatty



acids, and relatively low fat. Agencies with a specific mandate to ensure food safety, such as the United States Food and Drug Administration, the Canadian Food Inspection Agency, Health Canada, Britain's Food Standards Agency, as well as the European Union, allow concentrations of PCBs 40 times higher than the EPA's.

In the context of other foods, farmed salmon is not the only food that carries a certain amount of PCBs, but it may be healthier than the choices that consumers may make if they are left thinking that the issue only applies to farmed salmon. Figure 1 uses data from a report by the Environmental Working Group. The figure gives food consumption and composition statistics for various protein sources from the United States Department of Agriculture to show the comparative levels of PCBs consumers ingest from different protein sources. Because people eat so much more beef than they do fish, their total intake of PCBs from beef is far higher than it is from farmed salmon.

Hites *et al.* draw a great deal of attention to one particular food—farmed salmon—and single it out for consumption advisories. But the study lacks a rationale for selecting health standards,

lacks context, and lacks an awareness of trade-offs, all of which are key elements in enabling people to manage their risks based on reason and logic.

Indeed, the Hites study, and the subsequent alarmist coverage of it, could do far more harm than good: with Canadians becoming obese at ever-increasing rates, frightening people away from a choice between more costly wild salmon and some other less nutritious choice could pose a greater risk than anything covered in the Hites study or associated media coverage.

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Economic Freedom & Prosperity: Study Confirms What We Already Know

by Amela Karabegović &
Fred McMahon

The second edition of *Economic Freedom of North America* is yet another powerful affirmation of the positive impact economic freedom has on economic prosperity. The study is unique in that it is the first to measure the differences in economic freedom among 10 Canadian provinces and 50 US states.

The study shows that the vast majority of the difference in affluence across Canada, and North America for that matter, can be explained by differences in economic freedom. That means that all Canadian governments, including Alberta, the freest province, can make their citizens increasingly prosperous by giving them the increased freedom to make their own economic choices. Individual drive and ingenuity is simply a

better motor of growth than an intertwined web of government planning and government restrictions, which now characterizes too much of the Canadian economy.

The study, released in January by The Fraser Institute in Canada and the National Center for Policy Analysis in the United States, gauges the severity of restrictions on economic freedom imposed by all three levels of government—federal, provincial/state, and local/municipal—where economic freedom is defined as the freedom to make personal choices, specifically, the freedom to keep one's property, to trade freely, and to enter into voluntary agreements.

The economic freedom index, computed on a zero to ten scale, is based on ten variables grouped into three broad areas: Size of Government, Takings and

Discriminatory Taxation, and Labour Market Freedom. The study computes two indices, sub-national and all-government. The sub-national index measures government restrictions on economic freedom at a provincial/state and local/municipal level.¹ The all-government index measures the restrictions on all three levels of government—federal, provincial/state, and local/municipal.

Canada's governments appear not to trust Canadians to make their own economic decisions. Governments have put powerful restrictions on our economic freedom. At an all-government level, Alberta, the Canadian economic tiger and the freest province in Canada, ranked as the tenth freest jurisdiction of the 60 Canadian provinces and states in 2001—the latest year for which data were available. Aside from Alberta, the results are dismal for Canada; all other provinces are all in the bottom 10 places. West Virginia (52nd) is the only state that ranks as poorly as Canadian provinces. Ontario is the second freest province in Canada, but ranks 51st within North America. British Columbia, Nova Scotia, Saskatchewan and New Brunswick, get a middle rank within Canada while Quebec, Newfoundland, Manitoba, and Prince Edward Island are the least free.

At a sub-national level, the rankings are similar to those at an all-government level for all provinces except Alberta, the ranking for which decreases from tenth at an all-government level to 25th at a sub-national level.

This study powerfully confirms the significant impact economic freedom has



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on economic prosperity.² At an all-government level, for instance, a one-point increase on the economic freedom index increases per-capita GDP in a Canadian province by Cdn \$4,368, whereas a one-point increase in economic freedom in a US state increases per-capita GDP there by Cdn \$8,313.³ Furthermore, a one percent increase in the growth rate of economic freedom leads to an increase of 0.64 percent in the growth rate of per-capita GDP in a Canadian province. A one percent increase in the growth rate of economic freedom creates an increase of 1.09 percent in the growth rate of per-capita GDP in a US state.

The impact of economic freedom on prosperity is stronger in US states than in the Canadian provinces mainly because fiscal federalism mutes the impact of economic freedom by, in effect, transferring money from economically free to economically unfree provinces. If, for example, Alberta decreases its tax rate, its economic freedom would increase and, because of that, its GDP would increase too. However, due to the increase in prosperity in Alberta, Ottawa would transfer more tax money out of Alberta to “have-not” provinces, which are typically have-not because they have limited their economic freedom. Although transfers between levels of government occur within the United States, the magnitude of these transfers is much smaller than in Canada.⁴

Our results indicate that if Quebec, for example, increased its economic freedom at the all government level—federal, provincial, and local—to that of Ontario, its GDP per capita would increase by about Cdn \$5,900. The actual gap between Quebec and Ontario’s per capita GDP is about Cdn \$6,400. In other words, the difference in economic freedom explains almost all the difference in prosperity between Quebec and Ontario.

What would happen if Saskatchewan increased its economic freedom at an all-government level to that of Ontario? The data show that Saskatchewan’s per capita GDP would increase by about Cdn \$3,900. The actual gap between Ontario and Saskatchewan’s per capita GDP is about Cdn \$4,600. Of course, special circumstances will occasionally produce exceptions to this precise relationship between economic freedom and prosperity, but rare exceptions do not lessen the powerful light this new tool shines on the reasons for economic success and failure.

... the difference in economic freedom explains almost all the difference in prosperity between Quebec and Ontario.

The Canadian provinces are less economically free and thus less prosperous than US states because Canadian provinces have higher government spending, higher taxes, and less flexible labour markets than their southern counterparts. Specifically, Canadian provinces have higher government expenditures and transfers relative to GDP; higher personal, sales, and other taxes relative to GDP; and higher minimum wages, a greater number of licensed occupations, and higher government employment relative to total employment than do the US states.

Economic freedom is one of the key ingredients of economic prosperity. To improve the lives of their citizens, provinces that have low levels of economic freedom should look at other jurisdictions that have high levels of economic freedom and thus high levels of prosperity. The wealth or poverty of any jurisdiction is in the hands of its own people because it is they who, through their policy selection, determine their fate.

The study is available at www.freetheworld.com.

Note

¹Canadian data were adjusted to take into account the fact that Canadian provinces and US states have different fiscal responsibilities (see *Economic Freedom of North America*, p. 50, available at <http://www.freetheworld.com>).

²A number of papers that link economic freedom and prosperity on an international basis can be found at <http://www.freetheworld.com/papers.html>.


³The exchange rate used to translate US into Canadian dollars was 0.75.

⁴See *Economic Freedom of North America: 2004 Annual Report*, p.16, available at www.freetheworld.com. A discussion of fiscal federalism in Canada can be found in McMahon, 2000b, ch. 3. The US fiscal structure is discussed in McMahon, 200a, ch. 4.

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World Social Forum No Help to the Poor

by Jayant Bhandari

On 21 January 2004, the World Social Forum (WSF) closed its meeting in Mumbai (formerly, Bombay), India. The \$2.3 million jamboree was meant to address all the problems of countries like India, and to relate these to the two well-known and accepted villains: globalization and America. As the WSF says, “Another world is possible.” But which world would that be if WSF’s social activists ruled?

While WSF claims to oppose globalization, the Mumbai meeting was itself a very global event, though in a somewhat perverse way. It was partly financed by Oxfam (UK) and by Canadian taxpayers through Canada’s state-run humanitarian agency.

The organizers had arranged for on-site computers to run on Linux, the open-source software, instead of Microsoft Windows (or Apple OS). This gesture was intended to convey the impression that big business can be defeated, but one wonders where the hardware came from. No doubt it bore names like Intel and Seagate.

At the Mumbai meeting, local food and drinks were sold—no McDonald’s burgers, Pepsi, or Coke. If the forbidden fruit had been on sale, many participants might well have made “wrong”

personal choices. “If 100,000 people gather and it doesn’t hurt the multinational corporations a wee bit, it sends a wrong message,” said a leading Indian trade unionist and one of the organizers (Neelesh Misra, 2004). Five-Star hotels in Mumbai, ironically, did a very good business (*Times News Network*, 2004), as did the airlines.

McDonald’s, Pepsi, and Coke are in India not because they are powerful colonizers, but because individual Indians want their products. Moreover, McDonald’s has brought with it a revolution by showing Indians what hygiene, quality, and service mean. Actually, since its arrival, McDonald’s has become a hygiene benchmark for the Indian fast food industry, which was never known for its cleanliness.


Participants shouted against racism and American aggression in Iraq. They also discussed violence against women, the slaughter of minorities in the Indian province of Gujarat in 2002, and casteism, the Indian brand of racism, though the relationship of these problems with globalization and the USA is unclear. In fact, when they get jobs at McDonald’s, higher caste Hindus now have to clean the toilets like any other employee—a real assault on the caste system. And when thousands were slaughtered in Gujarat, it was protests from the USA and the EU that the Indian government finally heeded.

When one reads between the lines of press reports it is clear to those experienced in NGOs of this type what the feeling at the WSF forum was: people celebrated in an atmosphere of brotherhood, hugs, and universal love. Multi-ethnic crowds mixed, Indians wore saffron clothes, Tibetan women danced, flags and banners fluttered. Human dignity was glorified. Participants rose in thunderous applause for general (and empty) statements. A plan for action towards a new social order emerged—or at least, this was the impression conveyed.

All that is fine for the NGOs organizing such events, but the real Third World poor get nothing out of it. The poor are believed to have, in general, abstained from the WSF meeting. Of course they didn’t have the time to attend it, but more importantly they know—because they face the reality in their daily lives—that they would rather pay more for health, water, and electricity than not get any of those goods and services when they are subsidized. They would rather work in a McDonald’s or some so-called sweatshop than not work and send their children to sleep hungry. Multi-national corporations rank the top among the career choices of the young. But those who have grown up in the privileged world think they know better how the people of India should live. This is perverse globalization—it is imperialism.

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Poverty and Rents

by Chris Sarlo

Do the poor pay inordinately high rents? Does the basic needs poverty measure fully take into account the high cost (particularly in our major cities) of rental accommodation?

No and yes!

A frequently heard criticism of the basic needs poverty lines is that they are “unrealistic” and that they don’t reflect the costs that real people pay for things like rental accommodation. Rental accommodation is an especially important consideration, as it typically comprises the largest share of low-income household budgets. For example, in 2000, for households with incomes below \$20,000, rental payments were about one-third of total consumption spending.¹

When we look at the high cost of renting, particularly in our major cities, it might well appear that the poverty line is low by comparison. Table 1 shows the 2000 poverty line for a family of four for selected cities and the corresponding average rent for a three-bedroom apartment in those same cities in the same year.

While these cities are among the largest in the country, fully 52 percent of Cana-

dians live in other communities, most of them with much lower rents. As well, even in these large cities, the poor could well be paying lower than average rents, out of necessity. Their ability to do so will depend, of course, on many factors, including vacancy rates and length of time in the community.

It is important to note that the basic needs poverty line for each community is literally the sum of *all* of the costs of basic necessities in that community. The table shows that higher rents do drive the poverty threshold higher. The non-shelter component of the poverty line is much less variable and this largely explains the fact that high-rent commu-

nities also have a high ratio of rents-to-poverty line.

While the information in table 1 is helpful in telling us what people might expect to pay, on average, in various cities across Canada, what is most interesting is that actual rents paid are, in fact, quite a bit lower than this.

Table 2 shows the average annual rent that Canadians actually paid in 2000.

In 2000, just over one-third of Canadians rented their accommodation. Urban dwellers were much more likely (39%) to rent than residents of rural communities (16%). And renting is very much related to household income. Of households with annual income less than \$30,000, 59 percent rented, and that increased to 67 percent for those with incomes below \$20,000. The average income of renting households, in 2000, was \$33,428 compared to \$67,772 for “owner-occupied” households.

Table 1: Basic Needs Poverty Line for a Family of Four and Rents for Selected Cities, 2000

City (Metro)	Basic Needs Poverty Line for a Family of Four	Average Annual Rent (3 bdrm)	Ratio of Average Rents to the Poverty Line
Halifax	19,820	9,720	.49
Quebec City	17,847	7,284	.41
Montreal	17,756	7,584	.43
Ottawa	21,251	13,164	.62
Toronto	22,343	13,848	.62
London	20,250	10,020	.49
Winnipeg	19,013	8,796	.46
Calgary	18,299	9,780	.53
Edmonton	17,878	8,064	.45
Vancouver	23,291	12,252	.53

Sources: Sarlo, 2001, p.31-32; CMHC, 2000, “Average Annual Rents,” table 34.

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Table 2: A Profile of Canadian Renters, 2000

Household Income Range (\$)	Number of Households	Average Age of Head	Average Annual Rent (\$)	Number of Government Subsidized Rental Units	Proportion of Units Gov. Subsidized
≤5,000	151,625	36.65	3,166	17,297	11.41
5,000-10,000	377,906	47.35	3,525	115,566	30.58
10,000-15,000	555,351	55.23	4,745	176,633	31.81
15,000-20,000	525,537	47.64	5,603	73,241	13.94
20,000-25,000	384,676	48.40	5,986	31,119	8.09
25,000-30,000	313,129	43.00	6,222	22,424	7.16
30,000-35,000	331,912	41.76	6,583	12,031	3.62
35,000-40,000	234,235	42.54	6,980	7,119	3.04
40,000-45,000	222,078	42.52	7,570	7,325	3.30
45,000-50,000	190,559	41.68	7,440	5,069	2.66
50,000-60,000	281,391	38.98	7,423	5,733	2.04
60,000-70,000	182,965	39.66	8,501	2,495	1.36
70,000-80,000	150,030	39.58	8,425	0	0.00
>80,000	217,812	41.34	10,598	4,046	1.86
Overall Average		45.11	6,239		

Sources: Statistics Canada, 2000; and calculations by author.

The real message in Table 2 is the relatively low rents that poorer people do, in fact pay. This is partly due to government subsidies but, as table 2 shows, the majority of low-income renters are not subsidized. The cost that low-income people pay for rent is also attributable to the rental market conditions in many Canadian communities.

For those households with annual incomes below \$10,000 who rented their accommodation, average rent was only \$3,415. Of these households, 79 percent paid less than \$5,000 in rent and 89 percent paid less than \$6,000. For households with annual incomes between \$10,000 and

\$20,000 who rented, average annual rent was only \$4,941. Of these households, 55 percent paid less than \$5,000 in rent and 73 percent paid less than \$6,000.

These are useful data to bear in mind when thinking about poverty and the cost of rental accommodation. While some poor households pay very high rents (in the range of \$8,000 or above), this is not the situation for the vast majority of renters.

Note

¹Unless otherwise stated, all calculations are by the author and are drawn from Statistics

Canada, 2003, *Survey of Household Spending, 2000*.

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The Tax You Really Pay

by Niels Veldhuis,
Jason Clemens, &
Michael Walker

The first question people ask about Canada's tax system is: how much tax do I *really* pay? Thirty years ago, average Canadians would have had a difficult time answering the question. In 1975, however, The Fraser Institute embarked on a project to find out how much tax, in all forms, Canadians pay to their respective federal, provincial, and local governments. In 1976, the Institute published *How Much Tax Do You Really Pay? Your Real Tax Guide*. It was a non-technical, do-it-yourself manual that enabled average Canadians to calculate the amount of tax they really paid. Last month, we released the thirteenth edition of that book, now entitled *Tax Facts*. Although the series has undergone many changes and now contains much more detail than the original publication, most of the core features remain. What follows are highlights from *Tax Facts 13*.

The not-so-obvious taxes

Most Canadians would have little difficulty determining how much *income* tax they pay; a quick look at their income tax return or pay stub suffices. The amounts they pay of other prominent, direct taxes, such as Employment Insurance (EI), Canadian Pension Plan

... most Canadians are unaware that they pay the employer's portion of payroll taxes ...

(CPP) premiums, and property taxes are also relatively easy to determine as they are either deducted from workers' pay cheques (EI and CPP) or assessed annually (property taxes). However,

most people are unaware that the direct taxes listed above account for less than half of their total tax bill.

A host of other taxes exist that are not as obvious to most Canadians. The first of these is sales taxes. While Canadians are painfully aware of sales taxes, calculating the amount they pay requires people to track all of their purchases of taxable goods and services. The second class of taxes of which Canadians are largely unaware are built into the price of goods and services. The most significant of these "hidden" taxes are import duties, excise taxes on tobacco and alcohol, amusement taxes, and gas taxes. Finally, most Canadians are unaware that they ultimately pay the employer's portion of payroll taxes such as EI and CPP premiums and other taxes levied on corporations. In other words, although businesses pay these taxes directly, the cost of business taxation is ultimately passed back to the employees on whose behalf they were paid.

In 2003, the average Canadian family earned an income of \$58,782 and paid total taxes equaling \$27,640. Of that total tax bill, income taxes accounted for only 32 percent, or \$8,887 (table 1). Sales taxes, social security taxes, and a host of other taxes accounted for the other two-thirds of the tax bill.

The Canadian Consumer Tax Index

Tax Facts 13 updates the Canadian Consumer Tax Index (CCTI) which tracks how the total tax burden of the average



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Table 1: Tax Bill of the Average Canadian Family, 2003

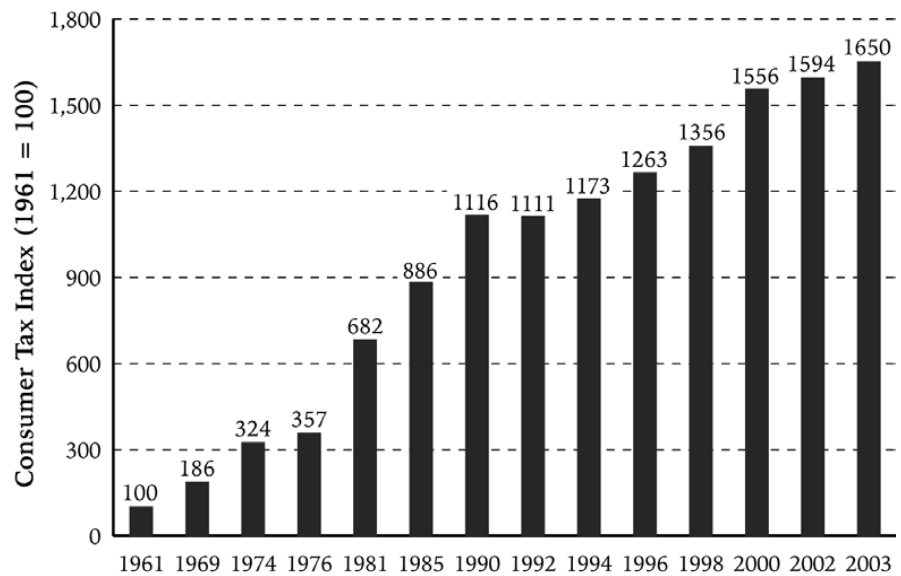
Total cash income	\$58,782
Taxes	
Income taxes	\$8,887
Sales taxes	4,507
Liquor, tobacco, amusement, and other excise taxes	1,772
Auto, fuel, and motor vehicle licence taxes	733
Social security, medical, and hospital taxes	5,659
Property taxes	2,375
Import duties	241
Profits tax	2,556
Natural resource taxes	333
Other taxes	578
Total taxes	\$27,640
Taxes as a percentage of total cash income	47.0%

Source: The Fraser Institute's Canadian Tax Simulator, 2003.

Canadian family has changed since 1961.¹ The value of the Canadian Consumer Tax Index for 2003 is 1,650, which indicates that the tax bill of the average Canadian family has increased by 1,550 percent since 1961 (see figure 1).

The dramatic increase in the CCTI from 1961 to 2003 was produced by the interaction of a number of factors. First, there was a dramatic increase in incomes over the period and, even with no change in tax rates, the family's tax bill would have increased substantially. In 1961, the average family had an income of \$5,000 compared to \$58,782 in 2003; this increase in family income alone would have produced a 1,076 percent increase in the tax bill from 1961 to 2003. The second contributing factor was an increase in the effective tax rate

Figure 1: The Canadian Consumer Tax Index, 1961-2003



Source: The Fraser Institute's Canadian Tax Simulator, 2003. Figure 4.1 from *Tax Facts 13*.

faced by the average family from 33.5 percent in 1961 to 47.0 percent in 2003.

To gauge the significance of the increase in the tax bill, contrast its evolution with other major expenditures of the average family. Figure 2 compares the total tax bill of the average family with spending on such basic needs as food, clothing, and shelter. It is clear from figure 2 that taxes have grown much more rapidly than any other single expenditure item. Taxes rose by 1,550 percent from 1961 to 2003. Meanwhile, expenditures on shelter increased by 936 percent, food by 460 percent, and clothing by 416 percent.

What benefits do families receive for their taxes? Did the average family's returns from government spending increase by as much as the tax bill? While it is relatively simple to calculate how the various governments spend a Canadian's tax dollar, doing this calculation does not answer the questions above. Whether or not our own per-

sonal benefits from government have increased relative to the rapidly increasing price we pay (taxes) is a question each of us can only answer for ourselves. For this reason, *Tax Facts* does not discuss the benefits that government spending creates.

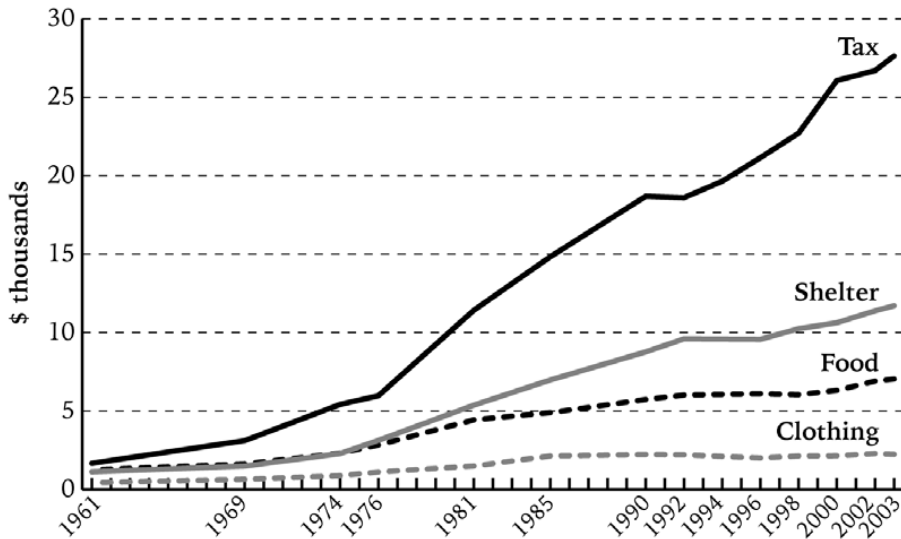
The relative tax burden

The next thing Canadians want to know is how much tax other people are paying. That is, how fair is the tax system? Are some people paying more or less than others?

To answer that question, *Tax Facts* examines the relative income and tax position of Canadians. To that end, families are arranged from lowest to highest according to their income; 10 percent of the families with the lowest incomes make up the first of 10 income groups called deciles. The second income decile represents the next 10 percent of families, and so on. Finally,



Figure 2: Taxes and Basic Expenditures* of the Average Canadian Family, 1961- 2003



*All expenditure items include indirect taxes
Source: Figure 4.4 from *Tax Facts 13*.

three broad income groups are created based on the income deciles. The lowest income group includes all of the families in the bottom three deciles; the middle income group includes the next four deciles; the upper group includes the top three deciles.

Table 2 shows the distribution of income and taxes for selected years. In 2003, the top 30 percent of families earned 59.0 percent of all income in Canada and paid 65.6 percent of all taxes. The bottom 30 percent earned 8.1 percent of all income and paid 4.3 percent of all taxes. Who belongs to the club of the top 30 percent of Canadian families? A family is included in the top 30 percent when its cash income exceeds \$73,016. The average family income in this group is \$122,882.

It is important to note that the figures presented in table 2 give only a snapshot of the number of Canadians who fall into various income groups at one time. Most families' incomes change over

time. Most young people start out in the low-income group and work up to the middle or high-income group. Given their initial lack of experience, their incomes start out low. Their incomes peak when they hit middle age, the prime earning years, and then begin to fall as they approach retirement. In other words, there is not a permanent underclass stuck in low income in Canada.

Statistics Canada's Survey of Labour and Income Dynamics has tracked just how much a family's income changes over time. Households in the survey were ranked based on their incomes and divided into five equal groups. The bottom group represents the 20 percent of families with the lowest incomes and the top group represents the 20 percent of families with the highest incomes. Over a five-year period, nearly 29 percent of all families moved up at least one group in earnings. More importantly, a total of 45 percent of those families in the bottom 40 percent of families (those in the bottom two groups) moved up at least

one group over the five-year period of the study.

The rags-to-riches tax burden

The above discussion demonstrates how progressive our tax system is and how it imposes ever-increasing burdens on people as they earn more income. What about an individual who had started off in 1961 with meagre earnings and had worked his way up the ranks of income earners? What kind of message does our tax system send to this person? To answer these questions we created a hypothetical situation—a Canadian whose income grew from half of the average income in 1961 to double the average income in 2003.

This fictitious Canadian earned \$2,750 in 1961 and paid a total of \$960 in taxes. During the next 42 years his income grew steadily and at such a rate that by 2003 he was earning \$116,513 a year

Table 2: Distribution of Income and Taxes

Year	Income Groups		
	Lower 3 deciles (%)	Middle 4 deciles (%)	Upper 3 deciles (%)
Decile distribution of income before tax (%)			
1961	10.8%	35.6%	53.6%
1992	7.6%	31.7%	60.7%
2003	8.1%	32.9%	59.0%
Decile distribution of taxes (%)			
1961	8.7%	30.6%	60.9%
1992	3.9%	28.5%	67.6%
2003	4.3%	30.1%	65.6%

Source: The Fraser Institute's Canadian Tax Simulator, 2003.

(double the average 2003 income) and paid taxes amounting to \$61,083. While the income of our hypothetical person increased by 4,137 percent from 1961 to 2003, the amount of taxes he paid increased by an astonishing 6,263 percent.


Conclusion

For all the money that Canadians pay to government, most know little about the Canadian tax system. *Tax Facts 13* was created to provide Canadians with basic knowledge about their taxation system. Within its pages is a simple tool that will help Canadians discover how much tax they really pay. It takes a few calculations, but arriving at the final result requires only a few minutes. Taxation is the most significant economic aspect of Canadian's lives. Can we afford not to know how much tax we really pay?

Notes

¹The CCTI does not track a particular family's tax burden from 1961, but rather the tax burden of a family that was average in each year.


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The Feudal Lords of Special Interests continued from page 32

wishes to start a channel that will expose corruption in the CRTC; that intends to spit and roast a certain prime minister who did favours for the owner of an inn; that is devoted to uncovering whatever mafia links may attach to a former minister of public works; and that supports US efforts to rid Iraq of terrorists. Then you can understand Shakespeare's words in *Richard III*: "Now are our brows bound with victorious wreaths. Our stern alarms turned to merry measure." Businesses wearing the victorious wreath of a monopoly protected by government muscle cannot afford to tell off the cabinet or its leader. Their "arms are hung up for monuments."

Africa, Russia, and just about any country chafing under the chains of corruption have learned that once government and special interests lock arms to enrich each other, reform is decades away. If Paul Martin's upcoming budget were to do one thing right it would be to tear off the covers from the cabal between government and special interests and restore the principle of taxation with representation.

One of Canada's most brilliant professors, William Stanbury, called for as much in his 1993 report to the Senate. He wished to see all regulations submitted to a cost-benefit analysis. If such a day comes, Canada will be able to say it has come out of the feudal age and recognized the rights of man. 

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The Feudal Lords of Special Interests

by Filip Palda

In Quebec, “taxage” signifies the lunch money bullies shake down from their classmates. We have no trouble seeing that housebreaking, extortion, and money laundering are taxes that criminals levy without our consent. We have a much harder time seeing that special interest groups have connived with government to tax us and pocket the money in a fashion that would make a street criminal drool with envy.

To understand how Canada’s private tax farmers work, take the case of Fairchild Television Ltd. In January 2004, a rival TV channel, China Essence Television Network proposed bringing Mandarin-language programming to cable viewers. Fairchild appealed to the CRTC to deny this rival channel on the grounds that the rival would compete head on with its programming. Instead of resolving the issue with knives and guns, both rivals submitted to the peaceful process of fawning before the CRTC, but the outcome promised the same sort of returns: exclusive right to a market of captive consumers forced to pay for, but not to choose, a specific service.

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The money we have earned sweating over grills and pushing papers in our corporate cubicles has swelled the coffers of our latter-day feudal lords: the Golden Aspers, the Gentle Shaws, and Rogers the Kind, making these renegades from competition among the richest in the land.

In feudal Europe, kings delegated the power to tax to nobles. The knight tied flocks of serfs to the land where they could be squeezed to within a few seed-corns of subsistence. The feudal system was not all bad. A chivalrous lord believed himself responsible for serfs and gave them law, and shelter from marauders.

The Canadian feudal system is without chivalry. What public service can we, captive viewers, expect from our local cable baron? Community programming, Canadian content rules that deny the Canadian-ness of Celine Dion and Brian Adams because they record in the US, and passive news programs that say nothing to offend a government that controls their licenses, are what we get for being cable serfs. At best we can expect the cable barons to donate money to the arts, like latter-day mini-Caesars scattering coins from their chariots to ensure themselves honourable burials.

A serf does not protest because his view is fixed on the plough. He does not

know that better exists. Similarly, we are mute about our cable servitude because it is against the law to sample competing services from the US. Why, then, are we mute about Alberta, which has given its NHL hockey teams the right to levy and pocket a tax on visiting NHL teams? Think of it. A hockey club that pays its players millions of dollars manages to convince government to give it the right to tax visiting players who will pass the tax onto fans earning a few thousands of dollars. Why can’t the Royal Bank get a tourist tax placed on its Toronto cash machines?

In Juvenal’s words, *panem et circenses*, bread and circuses, may be the answer.

The successful tax farmer must appeal to the spirit. If he is to tax and spend on our behalf, he must carry the Canadian flag. Where better can this flag flutter than over a hockey game or a transmission of *Canadian Idol*? Cable barons pledge to advance Canadian culture and hockey teams promise to sell Canadian hockey to a harvest of tourists. If there were a guide entitled *How to Succeed in Tax Farming without Really Trying*, it would insist on the need to emphasize abstract benefits and muffle real costs.

Dr. Johnson warned us that “patriotism is the last refuge of the scoundrel.” He might have added that gold may line this refuge. Ottawa is a breadline of special interests pleading for the right to tax us and spend on our behalf under guidelines so flimsy they would not even meet the emasculated Treasury Board standards of government program evaluation.

Of course, interest groups do not get their fiefdoms for nothing. Government drives a bargain. Imagine an applicant for cable telling the CRTC that he

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