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FRASER INSTITUTE

# THE Quarterly

SUMMER 2018

## Canada: A World-leader in Environmental Performance

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**ALSO INSIDE** Electricity in Ontario Women and Progress Canadian Health Care

FRASER INSTITUTE

# MESSAGE FROM THE INSTITUTE'S PRESIDENT

**Niels Veldhuis**
President, Fraser Institute

**Dear Fraser Institute Friends and Supporters,**

Canadians are bombarded with negative news about our environmental record from activists and others opposed to the development of Canada's natural resources. It's why we recently released a major new study, *Environmental Ranking for Canada and the OECD* (see page 12).

This peer-reviewed study ranks 33 high-income countries on a wide range of environmental indicators that relate both to the protection of human health, such as air pollution, and the preservation of Canada's ecosystems, such as water quality.

The study's main finding is that Canada is a world leader in environmental performance! Canada's overall environmental record ranks in the top ten among comparable high-income countries and more specifically, we rank 9th in air quality and 3rd in water quality.

Given that Canada is much larger and colder than the other comparator countries and has a large natural resource industry, these results are even more impressive. Rather than be shamed by rhetoric unsupported by facts, Canadians should be proud of their environmental record.

This is just one of the 35 studies we published in the first five months of 2018.

Several other important studies and commentaries are highlighted in this issue of *The Quarterly*.

This includes *Time for Tax Reform in Ontario* (page 4) which provides a detailed proposal to replace Ontario's overly complex personal income tax rate system with a simple and fair single rate personal income tax of 8 percent. It also proposes to reduce the corporate income tax rate to match the personal 8 percent rate—which would make Ontario one of the most competitive pro-growth tax jurisdictions and help the province compete for business investment and skilled labour with neighbouring US jurisdictions. If Ontarians again want their province to be one of the most attractive jurisdictions on the continent, big ideas like this are needed.

I would also recommend "Canadian Health Care—Big Bills, Terrible System" on page 18, which highlights the findings of a recent Fraser Institute study comparing Canada to other developed countries with more successful universal health-care systems.

I unfortunately cannot highlight all of the important work contained in this issue, but I would encourage you to read it all. After you are finished doing so, please pass this issue on to your friends, family and/or colleagues.

As always, thank you for your ongoing support.

Best,

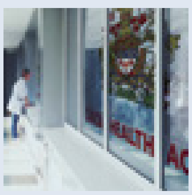
Niels

THE Quarterly

## New Research

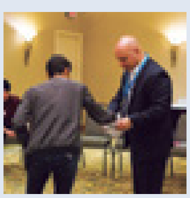


## Recent Columns



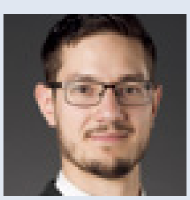


## Education Programs





## Staff Profiles





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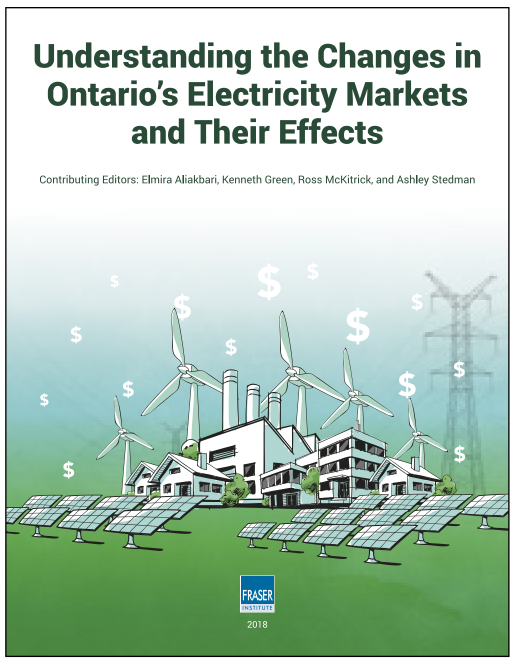
# Understanding the Changes in Ontario's Electricity Markets

**Elmira Aliakbari, Kenneth Green, Ross McKitrick, and Ashley Stedman**




**Energy consumption is a driver of economic growth. Policymakers in Ontario have made poor policy decisions, resulting in rising electricity costs, lower employment, and lower competitiveness, while achieving minimal environmental benefits. A recent collection of essays published by the Fraser Institute, *Understanding the Changes in Ontario's Electricity Markets and Their Effects*, critiques the reasoning behind Ontario's electricity policy changes and spells out the long term consequences of those changes.**

Ontario's main policy shift began around 2005 when the government made a decision to begin phasing out coal. The next major step occurred in 2009 when the government launched its Green Energy Act (GEA). The centerpiece of the GEA was a Feed-In-Tariff program, which provides long-term guaranteed contracts to generators with renewable sources (wind, solar, etc.) at a fixed price above market rates. In order to fund these commitments, as well as the cost of conservation programs, Ontario levied a non-market surcharge on electricity called the Global Adjustment (GA). Between 2008 and 2016, the GA grew more than 70 percent, causing a drastic increase in electricity prices. The high cost associated with aggressively promoting renewable sources is particularly troubling given the relatively small amount of electricity generated by these sources. In

2016, renewable sources generated less than 7 percent of electricity in Ontario while accounting for almost 30 percent of the GA.

Ontario's decision to phase out coal contributed to rising electricity costs in the province, a decision justified at the time with claims that it would yield large environmental and health benefits. The subsequent research showed that shuttering these power plants had very little effect on air pollution. Had the province simply continued with retrofits to the coal plants then underway, the environmental benefits of the shift to renewables could have been achieved at one-tenth the cost.

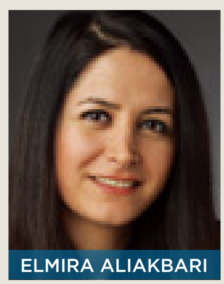
The issue of rising electricity costs in Ontario can be partly attributed to the imbalances between supply and demand of electricity. Between 2005 and 2015, the province decided to increase its renewable capacity to facilitate the coal phase-out. However, since renewable sources are not as reliable as traditional sources, the government contracted for more natural gas capacity as a back-up. Meanwhile, the demand for electricity declined, partly due to rising electricity costs. The increase in the total installed capacity, coupled with lower electricity demand, has resulted in excess production being exported to other jurisdiction at a significant loss.

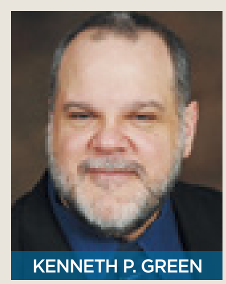
As a result of these structural shifts and poor governance, electricity costs have risen substantially in Ontario. Ontario now has the fastest growing electricity costs in the country and among the highest in North America. Between 2008 and 2016, Ontario's residential electricity costs increased by 71 percent, far outpacing the 34 percent average growth in electricity prices across Canada. In 2016, Toronto residents paid $60 more per month than the average Canadian for electricity.

Ontario's skyrocketing electricity rates also apply to the province's industrial sector. Between 2010 and 2016, large industrial users in Toronto and Ottawa experienced cost spikes of 53 percent and 46 percent, respectively, while the average increase in electric costs for the rest of Canada was only 14 percent. In 2016, large industrial users paid almost three times more than consumers in Montreal and Calgary and almost twice the prices paid by large consumers in Vancouver. Some select large industrial consumers were granted rate reductions but still paid higher rates compared to large electricity users in Quebec, Alberta, and British Columbia.

Soaring electricity costs in Ontario have placed a significant financial burden on the manufacturing sector and hampered its competitiveness. Compared to multiple comparable American and Canadian jurisdictions, Ontario has exhibited the most substantial decline in its manufacturing sector over the past decade. Overall, Ontario's high electricity prices are responsible for approximately 75,000 job losses in the manufacturing sector from 2008 to 2015.

Given the critically important role that affordable energy plays in economic growth and prosperity, the Ontario government needs to pursue meaningful policy reforms aimed at lowering electricity costs for all Ontarians. FI


ELMIRA ALIAKBARI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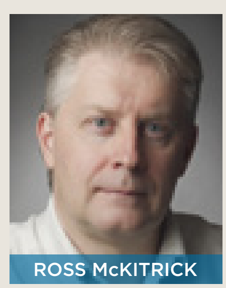
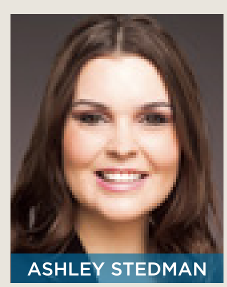
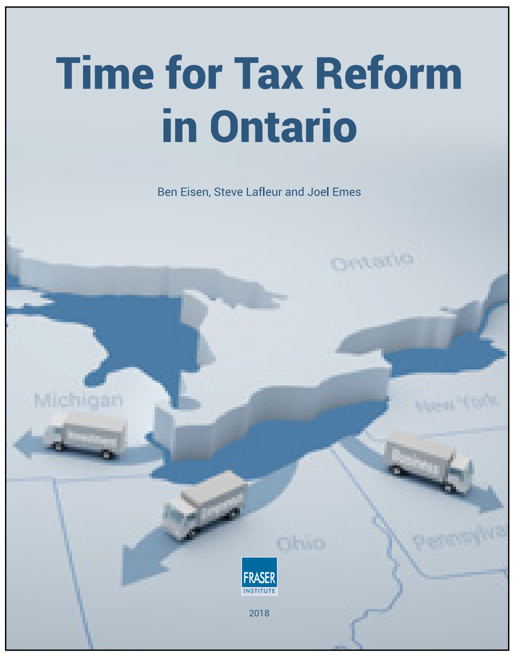

ROSS McKITRICK


ASHLEY STEDMAN

Elmira Aliakbari is associate director, Natural Resource Studies, Kenneth Green is senior director, Natural Resource Studies, Ross McKitrick is a senior fellow, and Ashley Stedman is a senior policy analyst at the Fraser Institute. They are contributing editors to the publication *Understanding the Changes in Ontario's Electricity Markets and Their Effects.*

# Policymakers Should Consider **Transformative Tax Reform for Ontario**

**Ben Eisen, Steve Lafleur, and Joel Emes**




**It's hard to think of a jurisdiction in North America more desperate for serious discussion about innovative pro-growth public policy than Ontario.**

When it comes to economic growth, government debt, private-sector job creation, or median household income growth, Ontario's performance over the past decade has been the worst, or among the worst, in Canada. Given this record, it's high time that public discourse in Ontario include important policy issues and big ideas for change.

Perhaps the best place to start is a fundamental re-examination of Ontario's approach to personal income taxation. Ontario's uncompetitive personal income tax (PIT) system (with seven brackets and a top combined federal/provincial marginal rate of 53.53 percent), can discourage higher-skilled Ontarians from engaging in productive activity such as work and entrepreneurship, through which they would create opportunities for other Ontarians.

Comparing Ontario's top PIT rate to other jurisdictions underscores the province's competitiveness problem. Again, the top marginal rate is critically important because that's what influences the economic decision-making of doctors, lawyers, professionals, entrepreneurs, and other highly skilled professionals.

At 53.53 percent, Ontario's is the second highest top combined federal/provincial (or federal/state) marginal income tax rate in Canada and the United States. Nearby states with whom Ontario competes, including Michigan, Pennsylvania, and Indiana, all have top marginal rates that are lower by more than 10 percentage points. Clearly, Ontario is uncompetitive in the PIT arena.

Another tax measure that a competitiveness-oriented provincial government could take to boost growth prospects would be to reduce Ontario's general corporate income tax (CIT) rate.

Recent federal corporate tax reform in the United States has wiped away Ontario's former business tax advantage over all US states, harming the province's overall ability to attract entrepreneurs and investment. Although Ontario is not as uncompetitive on business taxes as it is for the PIT, these recent changes in the states represent a real new source of competitive pressure.

To address both challenges, the Ontario government could tax all taxable income—personal income and general business income—at the same single rate of 8 percent. This reform, detailed in a recent Fraser Institute study, Time for Tax Reform in Ontario, would transform Ontario into one of the most attractive tax jurisdictions in North America for investment and talent.

On the PIT, this reform would leave Ontario with a top combined rate of 41 percent. Instead of the second highest marginal PIT rate in Canada and the US, Ontario would have the 12th lowest.

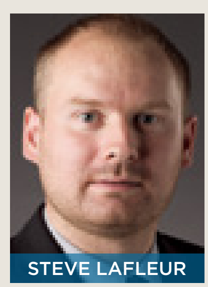
*When it comes to economic growth, government debt, private-sector job creation, or median household income growth, Ontario's performance over the past decade has been the worst—or among the worst—in Canada.*

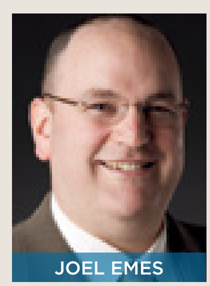
On the corporate income tax, a 3.5-point reduction from 11.5 percent to 8 percent would leave Ontario with one of the lowest combined federal/provincial statutory general corporate tax rates in the two countries, higher only than a handful of US states.

Some may object that such tax reductions, which would cost the province approximately $11 billion in 2018/19 (including provisions to ensure lower and middle-income families are not made worse off by the changes), are not fiscally prudent. But they are affordable if the government is willing to exercise spending restraint.

*The Ontario government could tax all taxable income—personal income and general business income—at the same single rate of 8 percent. This reform... would transform Ontario into one of the most attractive tax jurisdictions in North America for investment and talent.*

Specifically, holding nominal spending for this fiscal year at 2017-18 levels (instead of proceeding with a planned 6 percent spending increase) would "pay for" more than half the fiscal cost of this proposed reform. One more year of frozen nominal spending would cover the remainder, and then some. And importantly, this conservative calculation doesn't account for the increased economic growth and resulting increases in government revenue that such pro-growth tax reduction would likely generate. Clearly, pro-growth tax reform is possible if it's a priority. FI

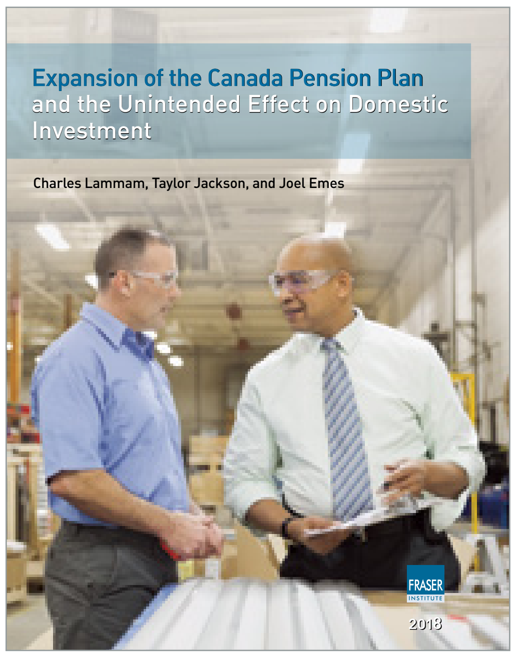




Ben Eisen is director of Provincial Prosperity Studies, Steve Lafleur is a senior policy analyst, and Joel Emes is a senior fellow with the Fraser Institute. They are co-authors of the recently published study, *Time for Tax Reform in Ontario.*

# CPP Expansion **Will Shrink Available Pool of Investment Capital in Canada**

**Charles Lammam, Taylor Jackson, and Joel Emes**




**Canada has a growing investment problem.**

**Business investment (excluding residential structures—houses, condos, etc.) has dropped nearly 20 per cent since 2014, and the level of business investment (as a share of the economy) in Canada is now second lowest among 17 advanced countries. Meanwhile, foreign direct investment into Canada has plummeted, and the ongoing saga of the Trans Mountain pipeline raises serious questions about Canada's ability to attract capital for major resource projects.**

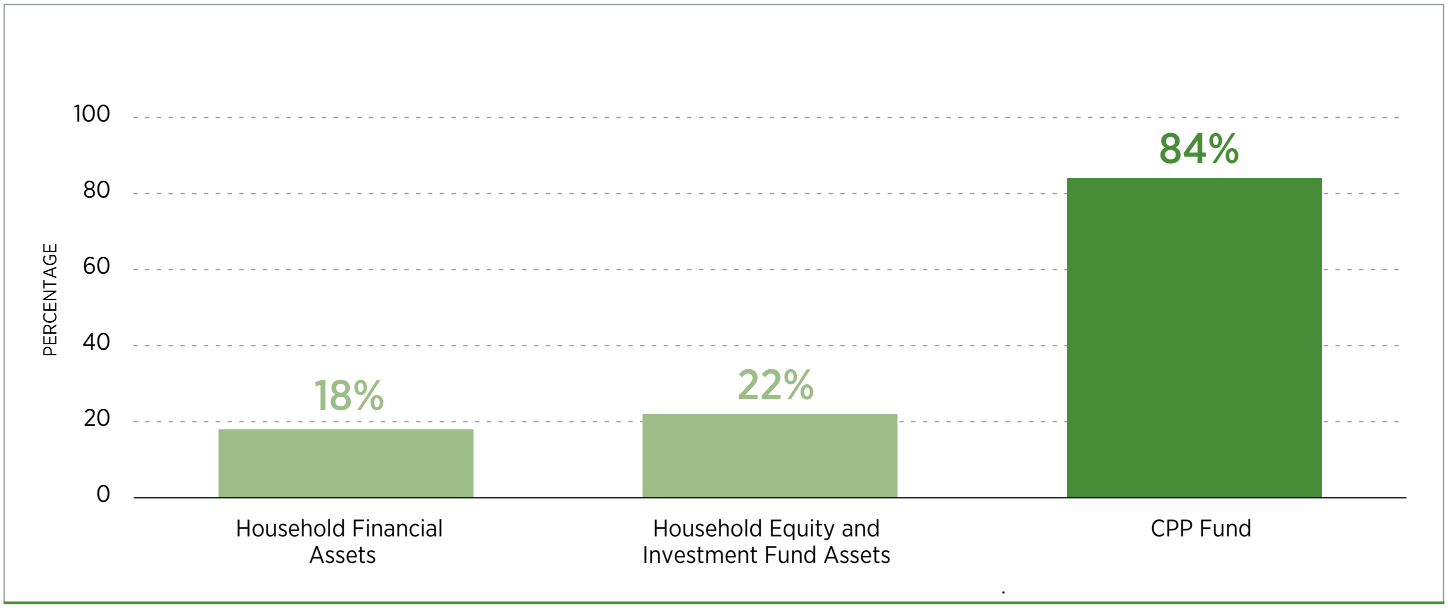
Unfortunately, expansion of the Canada Pension Plan (CPP), which begins next year, will make the investment problem even worse by reducing the money available for domestic investment. This matters, because a shrinking pool of domestic investment could leave less money available in Canada to finance innovative startup businesses, the maintenance and expansion of existing operations, and investments in new machines and technology—all of which are critical for improving the economy and living standards of Canadian workers.

Starting in 2019, Ottawa and the provinces will force Canadian workers to increase their CPP contributions, with increases phased in over seven years. However, in the past (between 1996 and 2004) when Canadian households were forced to increase their CPP contributions, they reduced the amount they saved in private vehicles such as RRSPs, mutual funds and TFSAs. In fact, research found that for every one dollar increase in CPP contributions, the average Canadian household reduced its private savings by approximately 90 cents.

As the CPP expands, and more and more money shifts from private saving vehicles to the CPP, there will be a decline in domestic investment. Why?

Because the private savings of Canadian households are predominantly invested in Canada, due to a phenomenon

**PERCENTAGE OF ASSETS INVESTED IN FOREIGN MARKETS**




known as "home bias," where private investors prefer investing in their home country over foreign countries. For example, in 2016/17, Canadian households kept 82.2 per cent of their financial investments in Canada, with only 17.8 per cent invested in other countries.

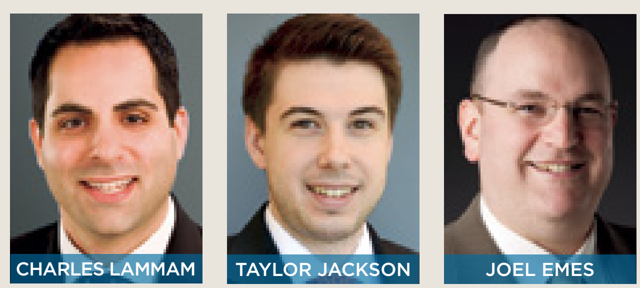
But the opposite is true for the Canada Pension Plan Investment Board, which manages the invested portion of CPP contributions. In 2016/17, 83.5 per cent of CPPIB's holdings were invested outside Canada—only 16.5 per cent in Canadian investments.

To recap, as governments force Canadian households to increase their CPP contributions, they will reduce their private savings, which would have mostly been invested within Canada. So, the amount of money available for investment in Canada will decline compared to the amount available if the CPP was not expanded.

Crucially, as noted in a recent Fraser Institute study, if Canadians respond to the upcoming CPP expansion like they did during the last CPP expansion—that is, by reducing their private savings by roughly 90 per cent for each additional dollar contributed to the CPP—we estimate that in 2019 domestic investment would be approximately $1.1 billion lower. By 2030, five years after the CPP expansion is fully implemented, the annual reduction in financial assets invested by Canadian households in the domestic market will be $14.8 billion. Cumulatively, CPP expansion could result in a reduction in domestic investment up to $114 billion from 2019 to 2030.

The solution to the potential decline in domestic investment is not to impose foreign investment restrictions on the CPPIB. This is a bad idea—the CPPIB (and Canadians more broadly) should be free to invest broadly in assets that will generate the highest risk-adjusted rate of return, regardless of location.

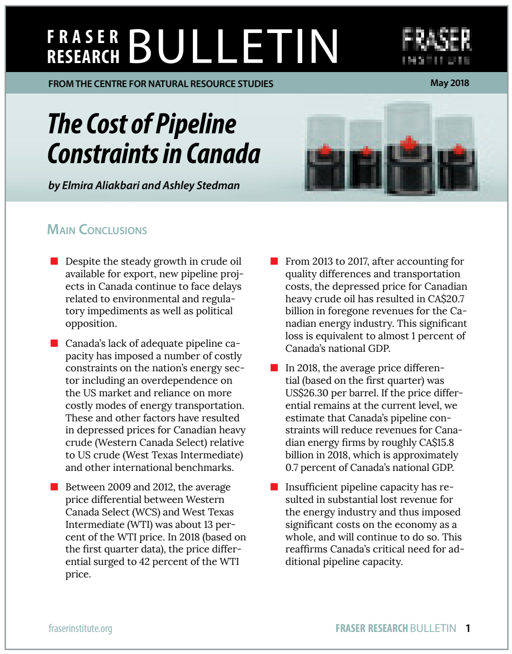
But at a time when investment in Canada is declining, expanding the CPP will only add to the country's investment woes. In response, Canadian governments should pursue policies to help spur investment, and in many cases this means a complete U-turn on the policy approach taken over the past three years. FI




Charles Lammam, Taylor Jackson, and Joel Emes are the co-authors of the Fraser Institute study *Expansion of the Canada Pension Plan and the Unintended Effect on Domestic Investment.*

# Pipeline Obstructionism Costing Canada Billions

**Elmira Aliakbari and Ashley Stedman**



FRASER RESEARCH BULLETIN

FROM THE CENTRE FOR NATURAL RESOURCE STUDIES May 2018

*The Cost of Pipeline Constraints in Canada*

*by Elmira Aliakbari and Ashley Stedman*

MAIN CONCLUSIONS

- Despite the steady growth in crude oil available for export, new pipeline projects in Canada continue to face delays related to environmental and regulatory impediments as well as political opposition.
- Canada's lack of adequate pipeline capacity has imposed a number of costly constraints on the nation's energy sector including an overdependence on the US market and reliance on more costly modes of energy transportation. These and other factors have resulted in depressed prices for Canadian heavy crude (Western Canada Select) relative to US crude (West Texas Intermediate) and other international benchmarks.
- Between 2009 and 2012, the average price differential between Western Canada Select (WCS) and West Texas Intermediate (WTI) was about 13 percent of the WTI price. In 2018 (based on the first quarter data), the price differential surged to 42 percent of the WTI price.
- From 2013 to 2017, after accounting for quality differences and transportation costs, the depressed price for Canadian heavy crude oil has resulted in CA$20.7 billion in foregone revenues for the Canadian energy industry. This significant loss is equivalent to almost 1 percent of Canada's national GDP.
- In 2018, the average price differential (based on the first quarter) was US$26.30 per barrel. If the price differential remains at the current level, we estimate that Canada's pipeline constraints will reduce revenues for Canadian energy firms by roughly CA$15.8 billion in 2018, which is approximately 0.7 percent of Canada's national GDP.
- Insufficient pipeline capacity has resulted in substantial lost revenue for the energy industry and thus imposed significant costs on the economy as a whole, and will continue to do so. This reaffirms Canada's critical need for additional pipeline capacity.

fraserinstitute.org FRASER RESEARCH BULLETIN 1

**The recent decision by Kinder Morgan, one of the largest energy infrastructure companies in North America, to halt all "non-essential spending" on the Trans Mountain pipeline expansion—which would run from Alberta, through British Columbia, to the coast—made headlines across the country.**

Stories have focused on inter-provincial rivalries and trade wars. But an often ignored or misunderstood aspect of the pipeline debate is how much Canadians lose by not having sufficient pipeline capacity to deliver our oil to market. According to a recent Fraser Institute study, The Cost of Pipeline Constraints in Canada, Canadian oil producers will lose $15.8 billion in revenue this year. More on that in a moment.

Despite increased oil production in recent years, Canada has been unable to build any new major pipelines due to the cancellation of the Northern Gateway and Energy East projects, and ongoing delays in the Trans Mountain expansion, Enbridge's Line 3 replacement project, and Keystone XL.

Take the Trans Mountain pipeline expansion, for example. The government of British Columbia continues to oppose the project, despite regulatory approval, and is pursuing legal means to regulate the movement of diluted bitumen through its territory. Such political opposition raises serious concerns about whether the pipeline will actually be built.

So what are the consequences of all these delays? How is pipeline obstructionism affecting our energy industry?

Consequences include an overdependence on the US market, increased reliance on more costly modes of energy transportation, and rising oil inventories in Western Canada. Because of Canada's lack of pipeline capacity, oil producers have been shipping their crude by rail, a higher-cost mode of transportation. Higher rates for crude by rail mean that Canadian oil producers absorb higher transportation costs, leading to lower prices for Canadian crude and a wider price differential.

Moreover, rail transport is less safe than pipelines, which is bad news for people and the environment. In fact, as shown in another Fraser Institute study, Safety First: Intermodal Safety for Oil and Gas Transportation, pipe-

lines are 2.5 times safer (i.e., less likely to experience an oil spill) than rail transport.

Consider this. There's always been a price difference between Western Canada Select (WCS) and US crude (West Texas Intermediate) due to transportation costs and the difference in quality between the two products. Between 2009 and 2012, the price difference was roughly 13 percent (of the US crude price). And that difference was seen by producers as one of the costs of doing business in Canada.

*Because of Canada's lack of pipeline capacity, oil producers have been shipping their crude by rail, a higher-cost mode of transportation. Higher rates for crude by rail mean that Canadian oil producers absorb higher transportation costs, leading to lower prices for Canadian crude and a wider price differential.*

But recently, this price difference has skyrocketed. In 2018, the average price difference between Canadian oil (WCS) and US oil (WTI)—based on first quarter data—was US$26.30 per barrel, which represents a discount of 42 percent.

Consequently, Canadian heavy oil producers will lose $15.8 billion this year in revenues compared to what other producers of similar products are receiving. That's roughly 0.7 percent of our national economy lost because we can't deliver our product to international markets to secure better prices.

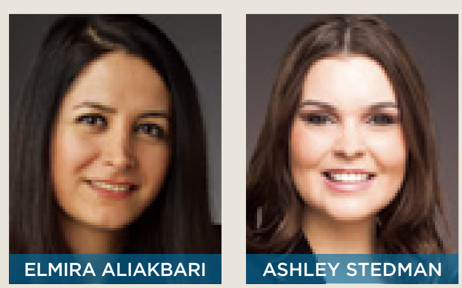
Finally, this loss of revenue has far-reaching effects. It means less investment in Canada, less job-creation for Canadian employers and workers, and less overall prosperity. Indeed, investment in Canada's energy industry, particularly foreign investment, is collapsing. The Trudeau government admitted as much by recently funding a study to find out why Canada's industry, once a global leader, is now hemorrhaging investment. The answer to that question may seem self-evident to many Canadians, as obstructionism is now a constant feature on Canada's energy scene.

Inadequate pipelines has increased the price differential between Canadian and US oil resulting in **a loss of $15.8 billion** for the energy sector this year


* Western Canadian Select (WCS) and West Texas Intermediate (WTI)

Because pipelines take time to plan and construct, these losses will continue for the foreseeable future. In other words, there's almost no way to stem these losses in the short term. Unless Canadians are willing to continue to incur large losses and less investment, policymakers must ensure pipelines get built over the next two or three years.

Simply put, pipeline obstructionism is hurting the country. Canada's need for new pipelines is critical. FI





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

# Greater Economic Freedom—The Key to Better Lives for Women in the Middle East and Beyond

**Rosemarie Fike**

**Recently, the Bill & Melinda Gates Foundation pledged $170 million to advance women's economic empowerment worldwide. This pledge, made just prior to International Women's Day, is wonderful news as new research shows that increased economic freedom—the ability of individuals to make their own decisions about what to buy, where to work, whether to start a business or engage in trade—dramatically improves women's lives around the world.**

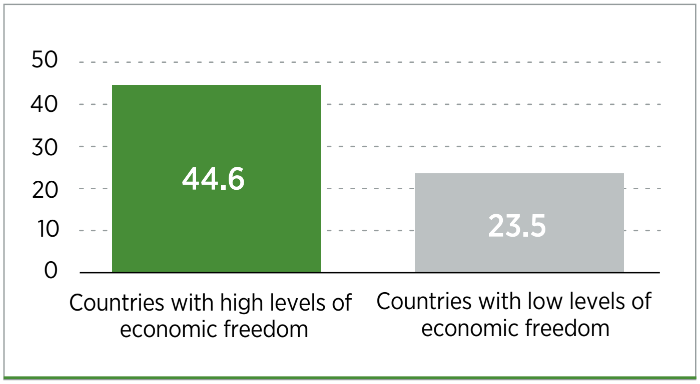

Economic freedom has been widely shown to promote more robust economies, higher levels of income, greater protection of civil liberties, reductions in poverty, and improvements in health and educational outcomes. Yet in many countries, particularly in the Middle East and Africa, the institutions that protect economic freedom are not equally shared between men and women so it's more difficult (or sometimes impossible) for women to share those benefits.

For example, millions of women are barred from moving freely within their countries or travelling abroad. They face barriers to owning and inheriting property. They can't register a business or enter into contracts the same way as men can. And they're unable to open bank accounts or obtain loans. Moreover, their testimony in court does not carry the same weight. They face restrictions on the number of hours they can work and type of profession they pursue. In 19 countries, women need the permission of their husbands to simply obtain a job.

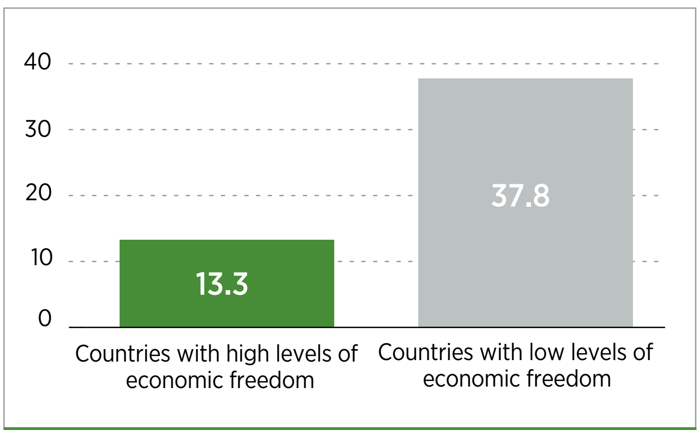
A 2016 study, *Gender Disparity in Legal Rights and Its Effect on Economic Freedom*, introduced a Gender Disparity Index, which uses several measures to capture gender disparity worldwide including freedom of movement, property rights, financial rights, freedom to work and legal status.

Which countries rank near the bottom in rights for women relative to men?

**PERCENTAGE OF WOMEN IN WORKFORCE, 2015**




**PERCENT OF FEMALES EMPLOYED IN VULNERABLE OCCUPATIONS, 2015**




Perhaps not surprisingly, low-ranking countries include Saudi Arabia, Jordan, the United Arab Emirates, Oman, and Qatar. Yet many of these countries have typically ranked high in measurements of economic freedom. For example, Saudi Arabia ranked 64th out of 180 countries in economic freedom by the Heritage Foundation in 2017.

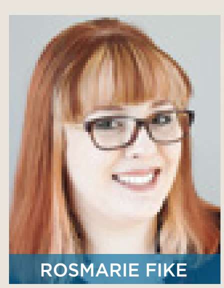
However, the Fraser Institute, which publishes the annual *Economic Freedom of the World* report, has incorporated gender disparity in its 2017 rankings. And tellingly, Saudi Arabia falls from 99th to 122nd (out of 159 countries) in economic freedom. Indeed, when women's lack of access to institutions that protect economic freedom is properly accounted for, Saudi Arabia ranks among the world's least-free countries.

And as my recent study, *Women and Progress: Impact of Economic Freedom and Women's Well-Being*, finds, women's lives markedly improve in several important ways when they are afforded higher levels of economic freedom (adjusted for gender disparities).

*In countries with higher levels of economic freedom for women, women live more than 15 years longer (on average), are nearly twice as likely to have a job, and have higher literacy rates.*

For example, in countries with higher levels of economic freedom for women, women live more than 15 years longer (on average), are nearly twice as likely to have a job, and have higher literacy rates. Crucially, in economically free countries, more than 80 percent of women have bank accounts compared to just 25 percent in countries with low levels of economic freedom. And when women are more economically independent—that is, when they are not solely reliant on men for their well-being—their life options increase significantly.

And so, in Canada and beyond, let's truly help improve the lives of women and girls everywhere by encouraging equal access to economic institutions that help protect economic freedom and allow women worldwide the ability to make their own economic decisions. Only when women are free to make these decisions will they live truly better, more prosperous, and healthier lives. FI

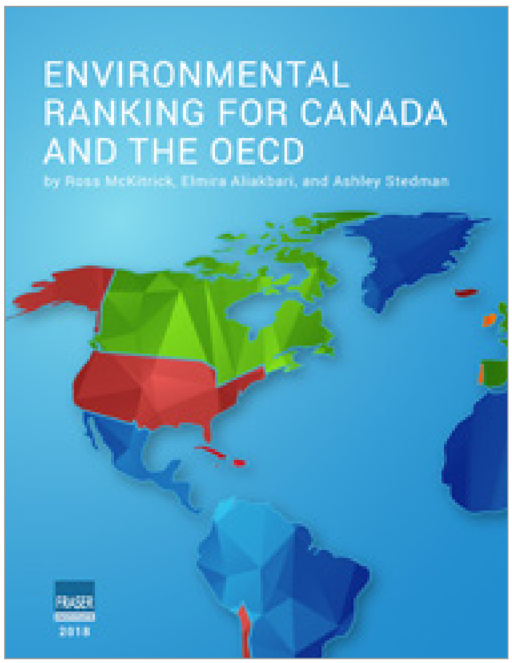



Rosemarie Fike teaches economics at Texas Christian University and is a Fraser Institute senior fellow. She is the author of *Women and Progress: Impact of Economic Freedom and Women's Well-Being*.

To learn more visit: womenandprogress.org

# Canada is an Environmental Leader, Not a Laggard

**Ross McKitrick, Elmira Aliakbari, and Ashley Stedman**




**According to a new Fraser Institute study, *Environmental Ranking for Canada and the OECD*, despite misguided claims to the contrary, Canada has an excellent environmental record when compared to most of the world's wealthiest—and cleanest—countries.**

The study compares and ranks 33 high-income countries in the Organization for Economic Co-operation and Development (OECD) on a wide range of measures including air and water quality, greenhouse gases, and biodiversity. The study provides an aggregate score (zero to 100.0) across 17 indicators to provide an easy way to understand Canada's performance compared to that of other wealthy countries.

Overall, Canada ranks 10th with a score of 68.5 (out of 100)—well above the OECD average (62.9) and only five points behind third place New Zealand. Sweden ranks first overall with a score of 78.9.

Unfortunately, previous studies by other organizations used narrow and often mistaken methods, which placed Canada near the bottom of OECD countries in terms of environmental performance, unfairly casting Canada in a negative light.

For example, many of these studies failed to connect environmental measures to things people value. For instance, a study by the Conference Board of Canada used air emissions per person to measure air quality, but ignored the fact that a few large industrial operations in some Canadian provinces (the oilsands, for example) can skew this measure, painting a distorted picture about the air quality changes in urban areas where most people live.

The Conference Board report also looked at waste generation—without accounting for disposal methods. Subsequently, the report equally ranked two countries that produced the same amount of waste, regardless of where the garbage wound up. The way waste is handled—not necessarily how much is produced—is a better measure of environmental protection.

For our study, we started from scratch, using a comprehensive and transparent methodology based on an environmental index developed by academics at Yale and

Columbia universities, allowing us to compare Canada's environmental performance with that of other OECD countries on measures that matter most to the health of people and the ecosystem.

*What would be the result if other countries had to contend with typical Canadian distances? If one adjusts for land mass, Canada's ranking would rise from 31st to 2nd place on the greenhouse gas intensity measure.*

Again, our analysis ranks Canada among the cleanest of the clean.

For example, Canada's performance on greenhouse gases is a much misunderstood topic. Using the methodology developed by academics, Canada ranks 31st out of 33 on carbon intensity, which measures $CO_2$ emissions relative to the size of the economy. Given Canada's cold climate, large natural resource sector, and long transportation distances, this result may not be surprising for many.

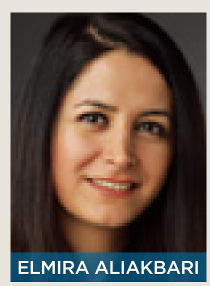
But most of the other OECD countries have milder climates and higher population densities, which result in lower daily energy needs. Clearly, the size of a country's land mass drives some of its need for energy and subsequent greenhouse gas emissions. So what would be the result if other countries had to contend with typical Canadian distances? If one adjusts for land mass, Canada's ranking would rise from 31st to 2nd place on the greenhouse gas intensity measure.

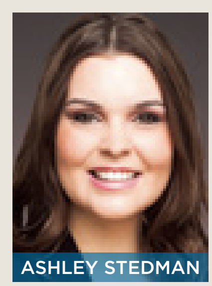
Finally, it's important to note that on a number of measures in our study, almost all OECD countries do well. So even if Canada ranks lower on any particular measure, there's often little difference between us and the top performers. For example, on reduced sulphur emission intensity, which assesses each country's progress on lowering emissions per unit of economic activity over a decade, Canada ranks 17th with a score of 82—but 7th place Italy is not much higher, with a score of 92.

Overall, the evidence is clear. Canadians enjoy high levels of environmental quality relative to other high-income countries. And in areas where Canada's ranking is low, it's sometimes unavoidable due to our geography or climate, or because we compare ourselves against a peer group where everyone is doing well.

*On a number of measures in our study, almost all OECD countries do well. So even if Canada ranks lower on any particular measure, there's often little difference between us and the top performers.*

The reality is that most wealthy developed countries have established sound environmental protection regimes, and Canada—despite what some critics claim—fares well when compared to the best performers in the world. That's something all Canadians can celebrate.

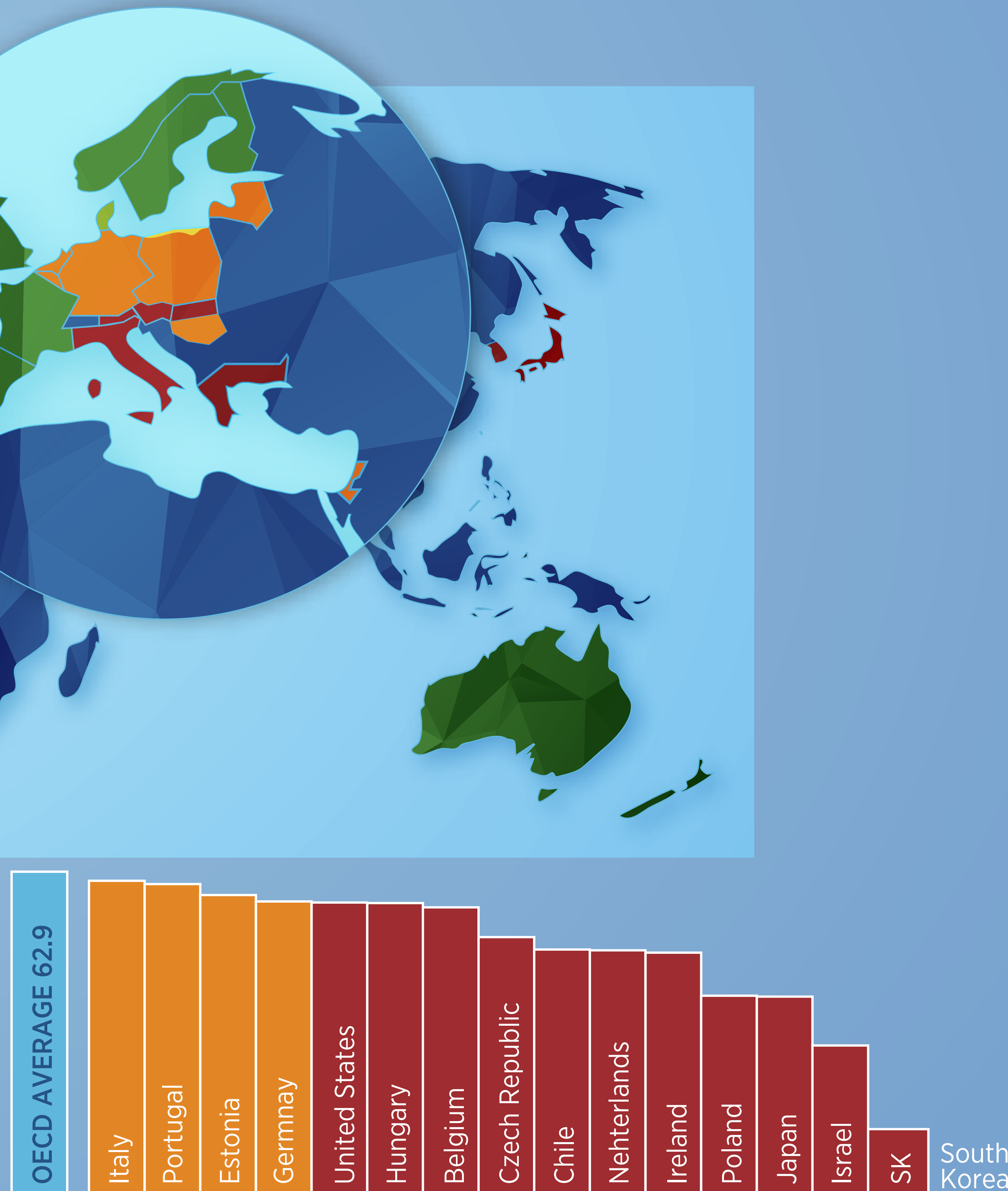





Ross McKitrick is a senior fellow, Elmira Aliakbari is associate director, Natural Resource Studies, and Ashley Stedman is a senior policy analyst at the Fraser Institute. They are co-authors of *Environmental Ranking for Canada and the OECD.*

# Feature Infographic

## Canada is in the top 10 among high-income countries for overall environmental performance


OECD AVERAGE 62.9
Italy
Portugal
Estonia
Germnay
United States
Hungary
Belgium
Czech Republic
Chile
Nehterlands
Ireland
Poland
Japan
Israel
SK
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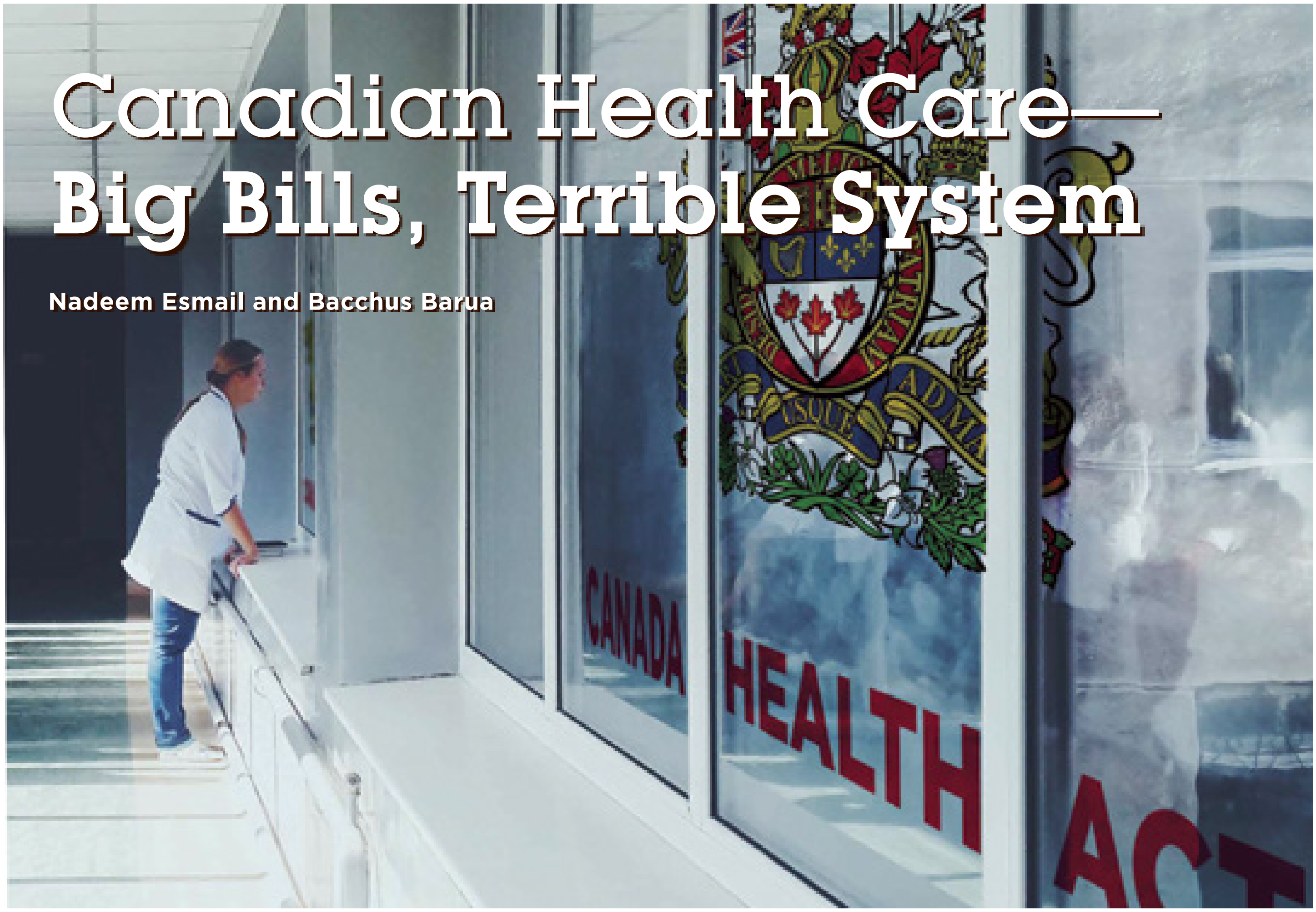



# Canadian Health Care—Big Bills, Terrible System

Nadeem Esmail and Bacchus Barua

**Canadians are getting a raw deal when it comes to health care. Compared to other countries that share the noble goal of access to care regardless of ability to pay, we have significantly fewer physicians, acute care beds, and important medical technologies such as MRIs and CT scanners.**

And of course, our long wait times—the defining feature of Canadian health care—represent the most spectacular failure of our system.

None of this is due to a lack of funding. In fact, the Canadian system is world class in one aspect—the amount of money Canadians spend on it.

And yet, our health care system lacks many of the things that a high level of spending should provide. Why? Because of restrictive provincial policies, which contrast sharply with countries that do a better job than we do of providing universal health care.

In a recent Fraser Institute study, *Is the Canada Health Act a Barrier to Reform?* we looked at health care in Australia, France, Germany, the Netherlands, New Zealand, Sweden, Switzerland, and the United Kingdom. All of these countries maintain universal access health care systems that cost about the same as—or less than—ours (per capita, or as a share of the economy). And all of these countries generally outperform Canada in access to health care, health care outcomes, or both.

Crucially, none of these countries—not one—follows the Canadian model for health care.

For starters, they all rely to a far greater extent on the private sector for the delivery of hospital and surgical care. For example, private for-profit hospitals comprise 39 percent of hospitals in Australia and 43 percent in Germany. In Canada they account for just one percent—the private sector is essentially shut out of delivering medically necessary services in this country.

## HEALTH CARE INSURANCE IN CANADA AND EIGHT OTHER OECD COUNTRIES

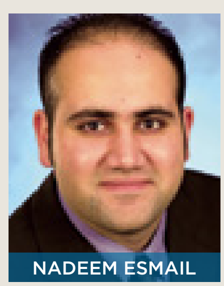
| | Primary Insurance System | Primary Private Insurance | Secondary Private Insurance | | | | |
|---|---|---|---|---|---|---|---|
| | | | Can cover core services | Expanded coverage (non-medical) | Expanded choice of provider | Quicker access | Choice of doctor |
| Australia | Tax-Funded National Health System | ✗ | ✔ | ✔ | ✔ | ✔ | ✔ |
| **Canada** | **Tax-Funded National Health System** | ✗ | ✗ | – | – | – | – |
| France | Tax-Funded National Health System | ✗ | ✔ | ✔ | ✗ | ✗ | ✔ |
| Germany | Multiple insurers, with choice of insurer | ✔ | – | ✔ | ✔ | ✔ | ✔ |
| Netherlands | Multiple insurers, with choice of insurer | ✔ | – | – | – | – | – |
| New Zealand | Tax-Funded National Health System | ✗ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Sweden | Tax-Funded National Health System | ✗ | ✔ | – | ✔ | ✔ | – |
| Switzerland | Multiple insurers, with choice of insurer | ✔ | – | ✔ | ✔ | ✔ | ✔ |
| United Kingdom | Tax-Funded National Health System | ✗ | ✔ | ✔ | – | ✔ | – |

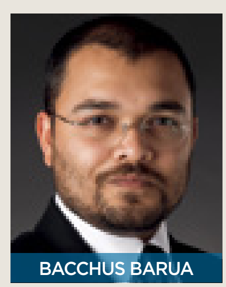
Canada is also alone in forbidding private financing for medically necessary services. In the other countries we studied, patients may seek care on their own terms, with their own resources, or choose to receive care from the universal health care system. In fact, every developed country with universal health care, save one, offers this option. Only in Canada is the government system the only option for patients.

Cost-sharing by patients in the form of user fees or deductibles (with reasonable exemptions for those with lower incomes and the very ill) are also commonly found in higher-performing health care systems. Only in Canada and the UK do patients not share directly in the costs of treatment. The cost-sharing concept is simple: people use their own money more wisely than when they use someone else's, and cost-sharing encourages people to make more informed decisions about when and where to use the health care system.

Finally, Canada relies almost exclusively on prospective global budgets (a big bag of cash, annually) to fund hospitals. This funding method encourages hospitals to view patients as a "cost," eating into their pre-determined budgets. Other countries are increasingly moving towards payment based on some measure of activity (by procedure or on a per-case basis), which encourages hospitals to treat more patients. According to research and experience, activity-based payment results in more efficient hospital care and a higher volume of services for the dollar.

Clearly, Canada's unique approach to health care is not working for Canadians. It's not a question of whether Canada should have universal health care, but rather how Canada can have the best universal system in the world. Other countries with universal health care have found ways to improve their systems for the benefit of patients and taxpayers. Canadian policymakers should learn from their progress. FI

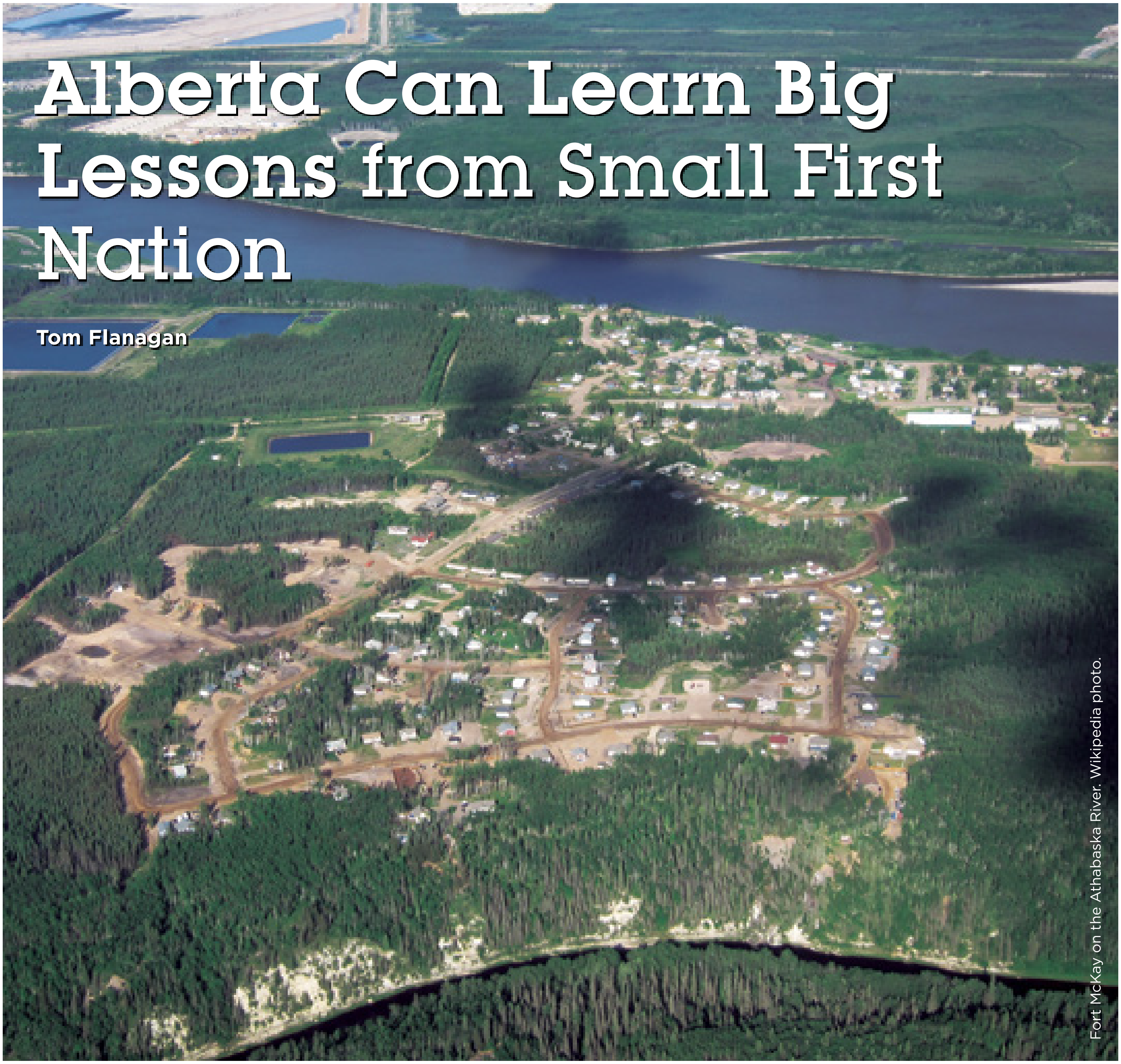



Nadeem Esmail is a Fraser Institute senior fellow and Bacchus Barua is associate director of the Institute's Centre for Health Policy Studies. They are co-authors of the study *Is the Canada Health Act a Barrier to Reform?*

# Alberta Can Learn Big Lessons from Small First Nation

Tom Flanagan



Fort McKay on the Athabaska River. Wikipedia photo.

**One of the greatest First Nation success stories is the Fort McKay First Nation, situated in the heart of the oilsands. It has never produced a drop of oil or earned a dollar in royalties, but it has achieved a standard of living comparable to other Canadian communities by selling services to oilsands companies—janitorial care, earth-moving, trucking, and workforce lodging, to name a few. Now, only about five percent of its income comes from government transfers—the other 95 percent is derived from business ventures.**

Like the rest of Alberta, Fort McKay was rocked by the oil price drop—from a high of US$109.89 per barrel (West Texas Intermediate) in June 2014 to US$29.67 in January 2016. After years of running a healthy surplus, Fort McKay's revenue plunged by 37

percent in one year, and the budget went into the red. But the deficit lasted only one year. Fort McKay reduced discretionary spending, liquidated unprofitable investments, and reoriented its business strategy toward income stability. Soon it was back in the black.

*Politicians from all parties in Alberta should take a trip to Fort McKay to learn the simple but profound lessons of good fiscal management.*

Compare this to what has happened in Alberta.

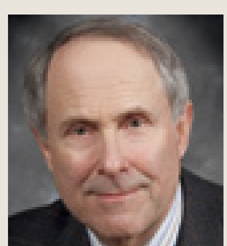
Under the Progressive Conservative governments of Ed Stelmach and Alison Redford, the province ran large deficits since 2008, even though oil prices averaged about US$90 a barrel in that period. Alberta was by far the wealthiest and most prosperous province in Canada, yet the government could not live within its means. It used up the "rainy day" fund established in Ralph Klein's administration, squandering the surplus that might have cushioned the province against the fiscal shock of 2015.

Then, instead of adjusting to the new and less favourable environment, the Notley NDP government drove spending even higher while continuing to borrow more than $10 billion a year. Alberta's government is now deeply in debt with no realistic plan for getting back to budget balance.

Instead of sitting in Edmonton, politicians from all parties in Alberta should take a trip to Fort McKay to learn the simple but profound lessons of good fiscal management. Run a surplus when times are good. Don't build up spending commitments that are unsustainable in less prosperous times. React quickly when things do go badly (as they always do, sooner or later). Cut discretionary spending to restore a balanced budget within a reasonable time span. Above all, don't start borrowing to fund ongoing operating expenses; it only postpones the day of reckoning and makes it more painful when it comes.

Simply put, a huge dose of humility is in order for Alberta's politicians. For the last 10 years, their fiscal management has been outclassed by a small, remote First Nation whose people a generation ago were hunters and trappers in the wilderness. And it's not just the politicians—the people of Alberta should learn these lessons. Late former premier Jim Prentice was right when he said that if you want to understand Alberta's fiscal problems, "look in the mirror." That he lost the 2015 election only shows how right he was. (Mr. Prentice was, by the way, a great friend of Fort McKay.)

Like Alberta, Fort McKay has an elected government. Its leaders have exercised prudent management only because its voters have supported fiscal discipline. Where were Alberta's voters when the provincial government was—and still is—recklessly piling up debt? Why have they voted for parties who tried to escape from fiscal challenges by borrowing money? Look in the mirror to see what went wrong. And look at Fort McKay to see how to set things right. FI


TOM FLANAGAN

Tom Flanagan is professor emeritus of political science at the University of Calgary, senior fellow at the Fraser Institute, and author of the Fraser Institute study *The Community Capitalism of the Fort McKay First Nation: A Case Study.*

# BC Government Sending all the Wrong Signals to Investors

**Charles Lammam, Hugh MacIntyre, and Ashley Stedman**


**Consumer spending and a hot real estate market have helped buoy British Columbia's economy in recent years. But they have also helped mask deep-rooted economic problems including BC's dismal level of business investment.**

Unfortunately, an onslaught of recent policies from Premier John Horgan's government has weakened BC's investment climate, sending all the wrong signals to investors. If the housing boom cools, BC could be in for a rude economic awakening.

Business investment is critical for sustaining long-term economic well-being. When businesses invest in the latest technologies and production techniques, and expand their operations, it spurs economic growth and raises living standards for workers because it makes them more productive, which allows them to command higher incomes.

Yet BC struggles to attract such investment. Consider that from 2014 to 2016 (the latest year of available data), the level of non-residential business investment declined by nearly a fifth (after accounting for inflation). Moreover, the level of investment per worker in BC is 19 percent below the national average, meaning BC workers have significantly less capital (machines, equipment, and technology) available to do their job than their counterparts in other provinces.

One reason for the dearth of investment is BC's uncompetitive business tax regime. While the province's statutory corporate income tax rate, when combined with the federal rate, is middling when compared to other jurisdictions, corporate taxes are not the only taxes that affect investment. When all the taxes are accounted for—including sales taxes on business inputs—BC's overall business tax regime ranks poorly compared to competing jurisdictions across the country and worldwide.

*When businesses invest in the latest technologies and production techniques, and expand their operations, it spurs economic growth and raises living standards for workers because it makes them more productive, which allows them to command higher incomes.*

For example, according to the latest estimates from University of Calgary economists, BC's overall tax rate on new investment is 27.7 percent—the highest rate in Canada and one of the highest among industrialized countries. Moreover, sweeping tax reform in the United States will only magnify BC's competitiveness problem, as the national average tax rate on new investment in the US now sits at 18.8 percent.

Rather than improve the province's investment climate, the Horgan government has signalled to investors and entrepreneurs that BC is not hospitable to investment. For instance, shortly after assuming office, his government made BC's tax regime less competitive by raising the general corporate income tax rate, creating a new top personal income tax rate, and increasing the carbon tax.

Making matters worse, last month's provincial budget contained new tax policies that reinforce an anti-investment sentiment, ranging from higher taxes on high-value homes and cars, to a new employer-based payroll tax to replace the MSP. Troublingly, the government's own taskforce warned against replacing the MSP with a payroll tax. In its interim report, the taskforce put it succinctly:

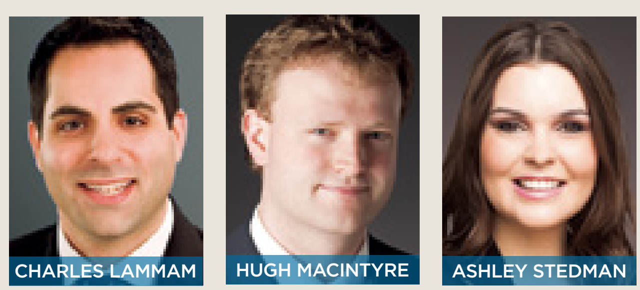
> A payroll tax would reduce the competiveness of BC businesses at a time when they are facing several competiveness challenges including expected increases to the minimum wage, CPP [tax] increases, and recent tax reform in the US which improve the competitive position of many US businesses.

But this warning fell on deaf ears.

And it's not just tax changes that are harming investment prospects in the province. The government's anti-development rhetoric and commitment to block pipelines signal that BC is unwelcoming to resource development.

In fact, a survey of upstream oil and gas executives rank BC dead last among Canadian provinces for investment attractiveness. The province in 2017 also saw its global ranking in the survey drop from the top half of jurisdictions to the bottom quarter. Finally, the government's cold stance on resource development comes at a time when disputed land claims are hurting BC's resource sector—especially mining.

If the Horgan government wants to foster sustained long-term economic growth, it's time to put away the closed-for-business sign and start sending positive signals to investors and entrepreneurs. FI




Charles Lammam is director of Fiscal Studies, and Hugh MacIntyre and Ashley Stedman are senior policy analysts with the Fraser Institute.

# In Florida, They're Snowbirds—in BC, They're "Speculators"

Josef Filipowicz and Steve Lafleur

**Florida remains a popular destination for Canadian retirees and vacationers. Not surprisingly, many people from colder northern states and Canada either rent or own property in Florida to escape harsh winters. In fact, temporary residents in Florida (also known as snowbirds) number more than one million by some estimates, making significant contributions to local businesses, not to mention property and sales tax revenues. Simply put, in Florida, outside money is welcome.**

By contrast, in Canada's hottest housing markets—Vancouver and Toronto—outsiders buying property are typically called less endearing names, including "non-resident speculators." They are often portrayed as a major cause of rapid housing price growth, spurring impassioned political rhetoric accompanied by targeted taxes on their properties. A recent example is British Columbia's "speculation tax," which despite recent exemptions still targets many vacation homeowners.

Here's the reality. In Florida, BC, and (to a lesser extent) Ontario, some non-locals want to purchase or lease

property without staying in that property year-round. Again, Florida appears to welcome this inflow of investment while BC and Ontario appear eager to chase it away. Why the different attitudes?

*Between 1995 and 2016, on average, local governments in Florida issued building permits for the construction of roughly 15 percent more housing units (per capita) annually than BC municipalities, and a staggering 37 percent more than Ontario's.*

Consider this. Between 1995 and 2016, on average, local governments in Florida issued building permits for the construction of roughly 15 percent more housing units (per capita) annually than BC municipalities, and a staggering 37 percent more than Ontario's. As a result, would-be buyers have far more options in Florida, with homes staying on the market for 45 days, on average. Prices are also far lower in Florida, at a median listing price of US$285,000, according to the real estate website Zillow. Florida is a buyer's market.

By comparison, Vancouver and Toronto are seller's markets—homes spend only 15 to 17 days on the market (on average), and are far more expensive. Clearly, a lot more people are looking to buy than there are places to buy in Canada's most in-demand cities.

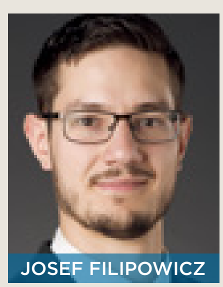
As such, heavy-handed policies such as BC's so-called "speculation" tax target symptoms (high demand for housing) rather than causes (a lagging housing supply), and create unnecessary divisions among Canadians.

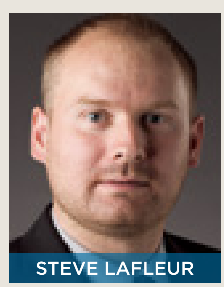
For example, retirees or vacationers with summer homes, cabins, or short-term rental units in parts of BC's Okanagan Valley or Vancouver Island are still implicitly portrayed by these policies as "speculators," despite intentions of long-term ownership (rather than speculative activity such as pre-construction flipping) and despite their contribution to BC's economy in many varied ways. Ironically, rather than increasing affordability, taxing such properties may disqualify many (except those wealthy enough to pay these punitive taxes) from buying in the province's most desirable locations.

At the same time, housing affordability remains a major concern for many Canadians, and they want governments to act. But rather than penalizing vacationers, snowbirds, or temporary residents (a consequence that the recent exemptions will ease, but not erase), provincial and (especially) municipal governments should help correct the balance between demand and supply—by encouraging more supply.

To start, governments can streamline the approval process for the construction of new homes. According to Fraser Institute research published in 2016 and 2017, it takes between one-and-a-half and two years, on average, for homebuilders to obtain building permits in Toronto and Vancouver. Homebuilders also face tens of thousands of dollars in regulatory compliance costs and fees, increasing home prices or limiting the number of homes built including much-needed rental units.

Enabling a more flexible, responsive housing supply is probably not as politically expedient as singling out groups of people for scapegoating. But if policymakers want to actually address the root causes of unaffordability, they should focus on the core problems with the housing market. And a good place to start would be the construction of more homes.




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

# Grits and Tories Both Wrong on Ontario Minimum Wage Policy

Charles Lammam and Hugh MacIntyre


**The Ontario Liberals and Ontario PCs both recently announced how they intend to help the working poor if they win the next election. Unfortunately, neither party has the right policy for targeting those who need help the most.**

First consider the Liberal approach under Premier Kathleen Wynne, who (along with the NDP) proposes to raise the minimum wage from $14 to $15—on top of the recent increase from $11.60.

According to CBC News, the one dollar per hour hike would result in a full-time minimum wage earner gaining $1,553 in after-tax income each year (or $970 for a 25-hour work week). But the CBC overstates the benefits of the minimum wage hike by ignoring the policy's important unintended consequences. In short,

the consensus of Canadian academic research is that a higher minimum wage reduces employment for less skilled workers.

When employers are forced by government to pay higher wages to young workers with little work experience and skills (who comprise the bulk of minimum wage earners), they tend to cut back on the number of people they employ, their work hours, and other forms of compensation such as job training and/or fringe benefits. In some cases, the higher labour costs of the minimum wage are passed on to customers in the form of higher prices, which, perversely, has a disproportionate impact on the poor.

*A work-based subsidy...would more effectively target the people we want to help without producing the economic drawbacks associated with mandating higher pay for less skilled workers.*

While those minimum wage workers who remain employed, without seeing their hours cut, may benefit, other young and low-skilled workers who lose their jobs get hurt. And those lucky enough to keep their jobs—but see their hours cut—may actually end up earning less money if the higher wage rate is not enough to offset the reduction in hours. According to a study by University of Washington researchers, this is precisely what happened in response to recent minimum wage increases in Seattle.

So again, by ignoring the adverse employment effects, CBC News and Ontario's Liberals overstate the financial gain of a $15 minimum wage for many minimum wage earners.

The Doug Ford Ontario PC proposal—to keep the minimum wage at $14 (increasing it in later years to keep pace with inflation), and to exempt minimum wage earners from provincial income taxes—has its own problems. For starters, most minimum wage earners (59 percent) in Ontario work part time and pay little income tax due to existing tax deductions and credits. So many would likely not benefit from the PC income tax exemption plan.

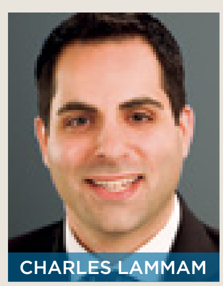
More broadly, both proposals share a fundamental shortcoming: they rely on the minimum wage to help the working poor despite the reality that this policy ineffectively targets workers most in need.

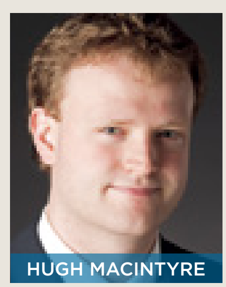
In Ontario, the vast majority of minimum wage earners (85 percent) do not live in low-income families as defined by Statistics Canada's low-income cut-off. While this may sound counterintuitive, most minimum wage earners aren't the sole or primary earners in their households. Typically, they are teenagers or young people living at home with their parents or have an employed spouse who earns more than the minimum wage.

So, if minimum wage hikes aren't the answer, what is?

One approach is a work-based subsidy, which would provide a cash transfer to working Ontarians with family incomes below a certain level (similar to the federal government's Canada Workers Benefit). This policy more effectively targets the people we want to help without producing the economic drawbacks associated with mandating higher pay for less skilled workers.

While helping the working poor should remain a fundamental goal of any government, both major parties in Ontario are going about it the wrong way. FI

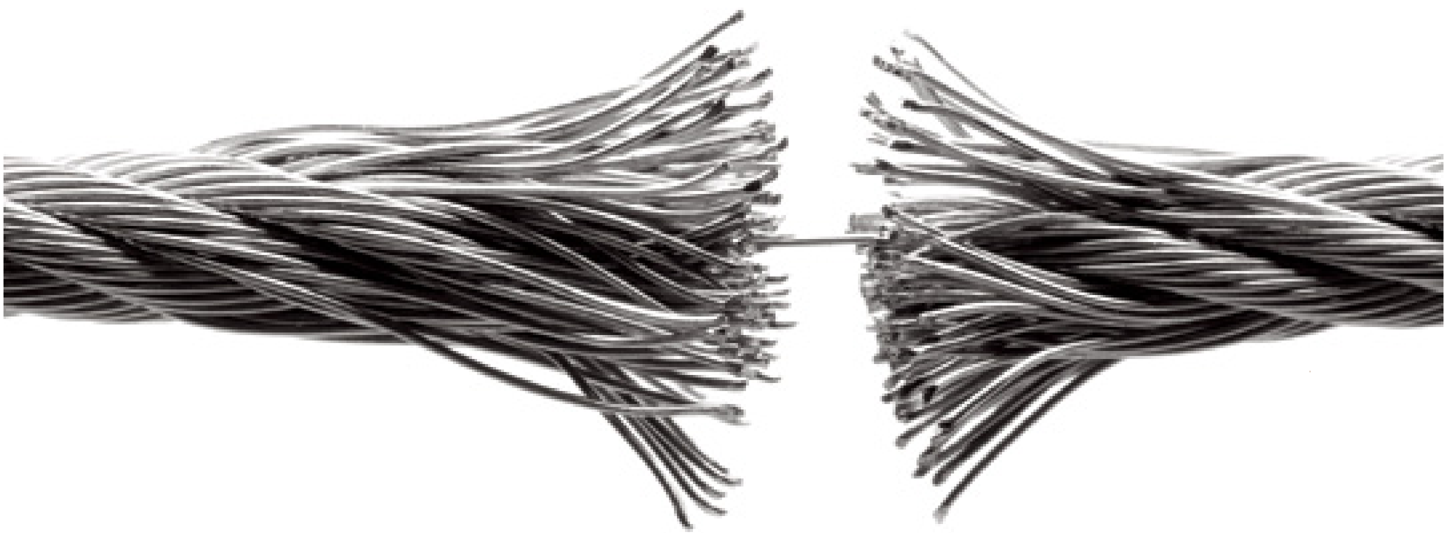



Charles Lammam is director of fiscal studies and Hugh MacIntyre is a senior policy analyst at the Fraser Institute. They are the co-authors, along with Robert Murphy, of *Raising the Minimum Wage: Misguided Policy, Unintended Consequences.*

# The Last Straw for Entrepreneurs and Businesses in Canada?

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



**The idiom "the straw that broke the camel's back" describes a minor or routine action that causes a large and sudden reaction because of the cumulative effects of many small actions over time. This might well describe the state of business investment and entrepreneurship in Canada.**

After years of mounting tax and increased regulation, coupled with a decidedly anti-business rhetoric from many capitals across the country, it seems the back of business investment and entrepreneurship in Canada has been broken. The question is whether governments in Canada are interested in repairing it.

The list of policy changes that have made Canada a less attractive place to do business is significant. In recent years, the federal and many provincial governments increased already uncompetitive personal income tax rates to the point where the top combined rate now exceeds 50 percent in seven provinces with the remaining provinces just below 50 percent. And because Canada's capital gains tax is linked to personal income taxes, these rate changes have also increased our capital gains taxes.

The federal and several provincial governments—including British Columbia's new government—have also added more complex and burdensome regulations

on labour, energy, infrastructure projects, environment, health and safety, and finance, to name just a few.

In addition, Ottawa continues to push forward with national carbon-pricing despite the United States and other competitors such as Australia reversing course. Even advocates for carbon pricing have criticized Canada for an overly complex approach.

*Canada's business taxes are no longer competitive with those in the US. Specifically, US reforms will lower the effective tax rates on new investments from 34.6 percent to 18.8 percent. Canada's comparable rate on new investments is 21.2 percent...*

Importantly, most of these policy changes were enacted before the recent sweeping tax reforms in the United States, which for the first time in over two decades mean Canada's business taxes are no longer competitive with those in the US. Specifically, US reforms will lower the effective tax rates on new investments from 34.6 percent to 18.8 percent. Canada's comparable rate on new investments is 21.2 percent, and both the prime minister and the minister of finance have flatly stated that Canada will not respond until there's clear evidence of the need to do so.

Given Canada's dismal business investment and entrepreneurship performance, it's not clear what additional information this government requires.

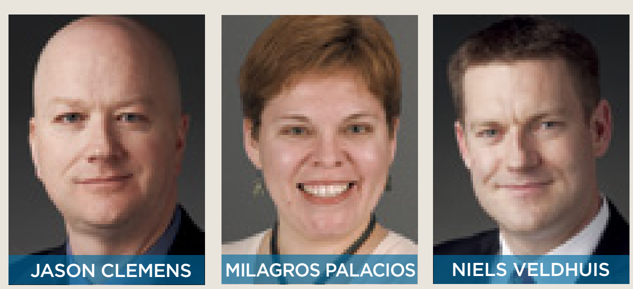
Since peaking at the end of 2014, total business investment—excluding residential housing and adjusted for inflation—is down almost 17 percent. Private sector investment in factories and other structures is down 23.3 percent and investment in machinery and equipment is down 6.6 percent.

Moreover, a 2017 study, *Business Investment in Canada Falls Far Behind Other Industrialized Countries*, by Philip Cross, former chief analyst at Statistics Canada, ranked Canada 16th of 17 countries for business investment between 2015 and 2017 compared to 8th place for the 2009 to 2014 period.

And finally, investment in Canada by foreigners has collapsed. Foreign direct investment (FDI) in Canada in 2017 was $31.5 billion, just 56.0 percent of 2013 levels when FDI totalled $71.5 billion.

This is all bad news for Canada's growth prospects. Private sector investment is the lifeblood of both new and existing companies as it provides the resources for new equipment, innovation, new products, and ultimately sustainable and prosperous employment for Canadians. The decline in private sector investment is surely one of the reasons that economic growth is expected to slow markedly over the coming years.

It seems clear that tax and regulatory increases, coupled with policy changes in the US (including uncertainty over NAFTA), have impaired the willingness of businesses and entrepreneurs to invest in Canada. Even more worrying is that most of the country's political leaders seem oblivious to this clear and present danger to Canadian prosperity. It's high time we start repairing our business and investment environment by removing some of the policies that have broken the back of business and entrepreneurs in Canada. FI




Jason Clemens is executive vice-president, Milagros Palacios is associate director, Addington Centre for Measurement, and Niels Veldhuis is president of the Fraser Institute. They are co-authors, with Matthew Lau, of the book *End of the Chretien Consensus?*

# Alberta's NDP Buys Another Ticket for the Resource Revenue Roller-Coaster

Ben Eisen and Steve Lafleur

**Before forming government, Rachel Notley and Alberta's NDP vowed to get the province "off of the resource revenue roller-coaster."**

It's ironic that now-Premier Notley's third budget promises to take the province on yet another ride, as her government's vague and risky "path to budget balance" relies on future growth in natural resource revenue to eliminate—it hopes—Alberta's deficit many years from now.

In 2014, when oil prices collapsed, Notley, then leader of the opposition NDP, had little sympathy for premier Jim Prentice's predicament. "The PCs claim it's a crisis every time the price of oil drops," she stated while criticizing the government for "riding this revenue roller-coaster for years."

The term "revenue roller-coaster" refers to Alberta's reliance on resource revenues to fund programs. When resource prices are high, money pours in and governments spend freely. When resource revenues fall, big deficits tend to emerge.

In some respects, Notley's 2014 statement was bang on. In the decade prior to the oil price collapse, successive PC governments spent as though good times would never end. When bad times arrived and revenue fell, the government predictably faced a significant shortfall. Clearly, if previous PC governments exercised greater spending discipline, the deficits of recent years would have been much smaller.

Now, as Alberta recovers from the recession, Rachel Notley is premier and calls the shots about how to deal with the deficit. And in her third budget, she has offered

a simple plan: buy another ticket on the revenue roller-coaster she once decried and hope for royalty revenue growth to take care of the problem.

The numbers tell the story. The budget projects that Alberta's operating deficit this year will be $8.8 billion. Thanks to recent spending increases, this is only slightly down from the peak of $10.8 billion in 2016-17.

*In the decade prior to the oil price collapse, successive PC governments spent as though good times would never end. When bad times arrived and revenue fell, the government predictably faced a significant shortfall.*

The government's complacency about the province's large deficits going forward is remarkable, as the budget includes almost no progress in its three-year detailed fiscal plan. In 2020/21, the deficit will still be almost $7.0 billion.

After 2020/21, the detailed fiscal plan ends and what's left is a vague "path to balance" showing that at that point, the deficit starts to shrink much more quickly before disappearing completely in 2023/24.

So how exactly does the government think it will be able to make so much progress on the deficit later given it is making so little progress today? The answer, unfortunately, is that the government is simply hoping for natural resource revenues to grow quickly in its "path to balance" and take care of the deficit for them.

Consider that between 2018/19 and 2023/24, the government projects that resource revenues will increase by $6.6 billion—this accounts for three quarters of the $8.8 billion deficit the government has to eliminate. In other words, the government's "plan" is essentially to cross its fingers and hope for more resource royalties.

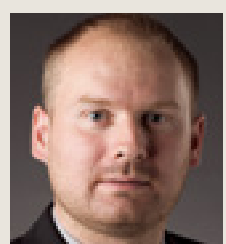
Let's look at it another way. The budget forecasts natural resource revenues in 2023/24 will represent 16 percent of all provincial revenues. This compares to 18 percent in 2014/15, the year before the effects of falling oil prices were fully felt. So the government's plan to balance the budget explicitly requires riding the once-derided revenue roller-coaster back to nearly the same height as before the recent fall.

This means if resource revenues don't increase quickly, big deficits will persist. The reason for this is that after three years in power, the Notley government has shown no appetite to address the root cause of Alberta's troubles—government spending.

Despite dire fiscal circumstances, total spending has grown under the Notley government by 14.5 percent between 2015/16 and 2018/19. The government projects slower spending growth in the years ahead, but this budget makes no serious effort to reform spending or roll back recent increases. Instead, the plan is to merely slow down the rate of growth and, again, hope for resource royalties to do the heavy lifting.

Rachel Notley blasted her predecessors for riding the "resource roller-coaster." Her government, however, has failed to put the province on a safer fiscal trajectory. This latest budget confirms the Notley government's deficit-reduction strategy is simple—buy another ticket and hang on for the ride.

BEN EISEN



STEVE LAFLEUR

Ben Eisen is the director of Provincial Prosperity Studies and Steve Lafleur is a senior policy analyst with the Fraser Institute's Alberta Prosperity Initiative. They are co-authors of the study, *Why Is Alberta's Deficit Still So Big?*

**The Centre for Education Programs has had a very active spring in which we executed five seminars for high school students, five teacher workshops, and a post-secondary seminar in Calgary with a record breaking attendance of nearly 200 university and college students.**

### HIGH SCHOOL SEMINARS

In April, over 600 students participated in five student seminars held in Vancouver, Victoria, and Kelowna. Our exceptional instructors kept audiences of 75 to 190 teenagers on the edge of their seats for a full-day of learning about how economics is relevant to their lives—they did it through the use of short lectures interspersed with videos clips, activities, and lots of incentives!

A student participates in a simulation where students learn to weigh marginal costs and marginal benefits.

Our program tailored for junior high school pupils (grades 7-9) is called *Economics is Everywhere! Applying Basic Concepts to Everyday Life*. The seminar uses appealing activities to demonstrate economic concepts. For instance, students eat chocolate bars to learn about marginal decision making and they fish for Goldfish crackers to learn about incentives. At the end of the program, students have learned to think critically about decisions they make today, the future consequences of those decisions, and how their behaviour influences the world around them.

Here's a letter from student who attended the Junior High program:

> *The first thing that I enjoyed about the conference was the topic of economics and finance. I think that it's really important for us to know about economics because it will be a big part of our future when we grow older. I feel like we should gather information at an early age so when we grow older when needed we can recall back and use the info we learned.*
>
> *Another thing that I enjoyed was that the speaker was very engaging. He created many mini activities like eating Coffee Crisps and drawing as many check marks as we can. He already knew that if he just talked, we would eventually get bored and start to zone out. He created these mini-games so we would be attentive and we would have fun as well.*
>
> *The final thing that I liked about the conference was the activities. The two activities, exchanging fish for money and trading products, was a visual learning experience for economics and trading. Since I am a visual learner, seeing and learning with my eyes through these exercises really helped me gain a better understanding of what we were discussing in the conference. Also, the activities were very engaging and interesting to do. We discussed questions and comments, we played games; it was all very fun to participate in.*

In small groups, high school students learn about the characteristics of different economic systems through a hat-making activity.

*Why Do People Behave the Way They Do?* An Introduction to Economic Reasoning is our seminar for high school students (grades 10-12). Students apply economic thinking to common situations and scenarios. From hitting the “snooze” button on an alarm clock, to balancing a budget or saving for university, students learn how every decision they make stems from an economic choice.

## TEACHER WORKSHOPS

Over the last quarter we offered five teacher workshops in BC, Saskatchewan, and Ontario. Over 110 high school teachers were able to experience two new curricula. *The Beyond the Basics: Teaching Advanced Economic Topics* workshop focuses on topics such as inflation and exchange rates, labour markets, elasticity, and game theory and oligopoly. Teachers in Langley and Saskatoon participated in various activities that showed them how to teach complex topics in a simple and fun way. In May, educators in Mississauga and Vancouver participated in our recently updated *Economic Freedom of the World* workshop.

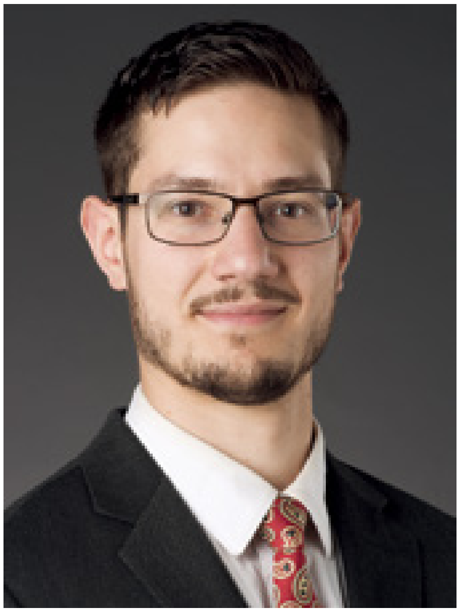
In Mississauga, teachers participate in a game where they have to identify whether policies will move a country toward or away from economic freedom.

> *“These Fraser Institute workshops... directly impact the success of Economics 12 in my school. In June 2006, we had 0 kids in Economics. Since 2008, we’ve had 110 spread over 4 classes. I use Fraser Institute material* ***all the time****.”*
>
> A TEACHER AT OUR LANGLEY PROGRAM

Through the Peter Munk Centre of Free Enterprise Education we hosted our first teacher workshop in Ottawa, where we presented our *Economic Principles* curriculum. Every teacher who attends our workshops receives a binder of lesson plans and activities, online materials, and a PowerPoint presentation, all of which enable them to walk into their classrooms the day after the workshop and put what they’ve learned into action. The Ottawa teachers were delighted with the materials they received, and we are excited to go back next academic year with a new topic.

## POST-SECONDARY SEMINARS

Students attending the Calgary post-secondary seminar in March enjoyed a Saturday filled with engaging presentations and discussions about policy issues relevant to students in Canada. The seminar offered over 180 students (including a bus load of students from Edmonton) the opportunity to hear about the rise of the sharing economy and how regulations affect this market, the contrast between theory and practice in relation to carbon taxes, legal marijuana as a source of revenue for the Canadian economy, and the moral case for the buying and selling human organs. FI



# Josef Filipowicz

**What's your role at the Institute?**

I am a senior policy analyst with the Institute's Centre for Municipal Studies. For all the scrutiny that provincial and federal governments receive, the same can't always be said about Canada's municipalities—and this despite being the level of government closest to Canadians. The Fraser Institute has a long tradition of studying local issues including housing affordability, property taxation, and local service delivery such as policing, but only over the past three years has a dedicated, stand-alone centre been created for on-going work on these issues. This is where I fit in: researching how decisions at city hall—from zoning and land-use regulations to property tax rates—can affect Canadians and their families.

**How did you arrive at the Institute?**

Soon after completing my M.A. at Wilfrid Laurier University, I joined the Fraser Institute as an intern to assist in developing a nationwide survey of homebuilders through which we could measure the stringency of local land-use regulations (the first measurement of its kind in Canada). My mixed academic background—combining urban planning and public policy—lent itself well to this project and others, making the Institute an ideal fit.

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

Ideas can take a long time to develop and communicate. As such, I am continuing my work measuring and comparing residential land-use regulations across Canadian municipalities, as well as their impacts on housing markets. I am also working on identifying solutions to the housing shortages that can result from red tape on homebuilding. Beyond housing, I look forward to working with my colleagues to research the state of local government finances in some of Canada's largest metropolitan regions.

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

I love to travel. On par with the exchange and study of ideas in my research is the ability to see them in action in communities near and far. For example, it's always interesting to witness first-hand how different cities grow, either by spreading outward or by growing upward through densification. In some cities, policies discourage proximity, while in others they encourage it. In other cities, such policies simply don't exist. In all cases, the results are eye-opening for me as a researcher.


WOMEN AND PROGRESS