

Fraser Forum

January/February 2011

\$3.95

A Fraser Institute review of public policy in Canada



ALSO IN THIS ISSUE:

How generous are Canadians?

Canada's health care wait times

Ottawa's risk-based approach to investment

Fraser Forum

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Copyright © 2011 Fraser Institute
ISSN 0827-7893 (print version)
ISSN 1480-3690 (online version)
Printed and bound in Canada.

Return undeliverable Canadian addresses to:
Fraser Institute, 4th Floor, 1770 Burrard Street
Vancouver, BC V6J 3G7

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From the editor

With the holidays behind us and a new year ahead, January is often the time to sit down and evaluate the year past. At fiscal year end corporations review bottom lines, check for balanced budgets, and measure whether or not goals have been met. Similarly, in our personal lives we often examine the successes and disappointments of the previous year and seek either to expand on wise choices made, or to rectify past mistakes.

With the gift-giving season over, it is natural that one of these personal reflections would be about our own charity and generosity.

In the article "How Generous are Canadians?" Alex Gainer and Charles Lammam outline the results of the *Generosity Index 2010*, which measured private monetary generosity in Canada and the US to reveal that Canadians give less than Americans (pg. 5). As we ask ourselves why this might be the case, and we consider how we've handled our own money this past year, we must also wonder how it has been handled by others.

As Canadian citizens, we should review whether or not our yearly expectations have been met not merely in our personal lives and businesses, but in our communities as well by reflecting upon the performance of the individuals whom we have elected to represent our interests politically.

The Fraser Institute's study, *Measuring the Fiscal Performance of Canada's Premiers*, reviewed the fiscal performance of each provincial premier to determine how their decisions and policies have contributed to, or detracted from, the long-term economic security of the provinces that they lead. The results of this study, which ranks leaders according to how they restrained (or attempted to restrain) spending, ensured balanced budgets, and focused on tax relief, is the feature story of this issue of *Fraser Forum* (pg. 10). Specific attention is paid to BC's Gordon Campbell who performed the best in the study (pg. 14) and Ontario's Dalton McGuinty (pg. 16) who performed the worst.

Also in this issue of *Fraser Forum* are several articles that examine Canada's health care services, their true cost to us as citizens, and whether or not Canadians are receiving the best value for our money. These articles, along with others on proposed living wages (pg. 7), and Ottawa's foreign investment policy (pg. 29), seek to question how and where our governments choose to use the money they collect from us. This information is important for us to have, as it is our responsibility to ensure that our representatives make these decisions wisely.

Scoring our provincial leaders

CARI A. FERGUSON (fraserforum@fraserinstitute.org)



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How generous are Canadians?

ALEX GAINER AND CHARLES LAMMAM

With the holiday season having just come to an end, and as Canadians determine what their New Year's resolutions will be, interest in the charitable sector and its good work is heightened. This sector depends on many acts of generosity from ordinary citizens who donate privately to charities. The Fraser Institute's annual *Generosity Index* measures this private monetary generosity in Canada and the United States. As in previous years, the 2010 index shows that stark differences in charitable giving exist within Canada as a whole, and also between Canada and the United States (Gainer et al., 2010).¹

The *Generosity Index* measures private monetary generosity using two key indicators: the percentage of tax filers who donate to charity, which indicates the extent of generosity; and the percentage of aggregate personal income donated to charity, which indicates the depth of charitable giving.² The jurisdictions included in the index are the 13 Canadian provinces and territories, 50 American states, and the District of Columbia. The data used is from the 2008 tax year, which is the most recent year for which data is available for both Canada and the US.

Charitable giving in Canada

Among the Canadian provinces and territories, Prince Edward Island ranks the highest in terms of the percentage of tax filers who donate to charity (27.0%), followed by Manitoba (26.7%), Ontario (25.2%), Saskatchewan (24.5%), and Alberta (24.4%). The provinces with the lowest percentage of tax filers donating



to charity are Quebec (21.8%) and New Brunswick (21.1%).

Manitoba leads the provinces and territories in terms of donating the highest percentage of aggregate personal income to charity. Citizens of Manitoba gave 0.94% of aggregate income to charity, followed by Ontario (0.88%), and then the Western provinces (British Columbia, Alberta, and Saskatchewan). Quebec ranks last among the provinces, donating 0.31% of aggregate income to charity.

Comparing Canada and the United States

The most pronounced differences in private monetary generosity exist between Canada and the United States. In the US, the extent of generosity is almost four percentage points higher: 27.3% of US tax filers donate to charity compared to 23.6% of Canadians.

The gap between these two countries widens significantly when

depth of generosity is compared. In 2008, Americans gave 1.38% of their aggregate income to charity, resulting in a total of US\$170 billion in donations. This rate of giving is almost double that of Canadians, who gave 0.73% of aggregate income (CA\$9 billion in total) to charity in 2008.³ If Canadians had given, in aggregate, the same percentage of their incomes to charity as did Americans, the Canadian charitable sector would have received an additional CA\$8 billion in privately donated revenue.

The depth of the generosity gap varies significantly among subnational jurisdictions. Maryland had the highest percentage of tax filers donating to charity (41.1%), followed by New Jersey (37.2%), and Connecticut (36.7%). The only Canadian province to make it into the top 25 on this measure was Prince Edward Island where 27.0% of tax filers donated to charity.

Canadian provinces and territories perform far worse in terms of the depth of charitable giving, fall-

Table 1: Generosity Index scores (out of 10) and rankings (out of 64) for Canadian provinces and territories

	Generosity index		Indicator 1: Percentage of tax filers donating to charity			Indicator 2: Percentage of aggregate income donated to charity		
	Score (out of 10)	Rank (out of 64)	%	Score (out of 10)	Rank (out of 64)	%	Score (out of 10)	Rank (out of 64)
Manitoba	3.8	35	26.7	5.0	26	0.94	2.6	48
Ontario	3.5	41	25.2	4.5	31	0.88	2.4	49
Prince Edward Island	3.5	41	27.0	5.1	25	0.68	1.8	57
Alberta	3.3	46	24.4	4.2	37	0.84	2.3	53
Saskatchewan	3.2	47	24.5	4.3	36	0.77	2.1	56
British Columbia	2.9	52	22.4	3.6	45	0.85	2.3	51
Nova Scotia	2.7	54	22.9	3.7	43	0.68	1.8	57
Newfoundland & Labrador	2.5	56	22.1	3.5	48	0.60	1.5	60
Yukon	2.4	57	22.8	3.7	44	0.46	1.0	61
New Brunswick	2.3	59	21.1	3.1	51	0.62	1.6	59
Quebec	2.0	60	21.8	3.3	50	0.31	0.6	63
Northwest Territories	1.4	62	18.2	2.1	59	0.36	0.7	62
Nunavut	0.0	64	12.1	0.0	64	0.14	0.0	64

Source: Gainer et al., 2010

ing behind almost every American state. All of the states, with the exceptions of New Hampshire, North Dakota, Maine, and West Virginia, gave a higher percentage of aggregate income to charity than did any Canadian province. In Utah, the percentage of aggregate income donated to charity was 3.20%—the highest amongst all jurisdictions. By contrast, the percentage of aggregate income donated, by Canada's top-ranked province, Manitoba, was merely 0.94%.

Table 1 presents the results of the 2010 *Generosity Index* for the Canadian provinces and territories. Manitoba, Canada's top province, ranked 35th overall (out of 64), and scored 3.8 out of 10 on the 2010 *Generosity Index*. Quebec ranked last among Canadian provinces, placing 60th overall with a score of 2.0. The 3 territories ranked near or at the bottom of the list: 57th (Yukon), 62nd (Northwest Territories), and 64th (Nunavut).

Although not shown in Table 1, the top-ranked jurisdiction overall on the 2010 *Generosity Index* was Utah, with an overall score of 8.7. Maryland, scoring 7.6, and Connecticut, scoring 6.2, ranked 2nd and 3rd, respectively.

Conclusion

The *Generosity Index* measures private monetary generosity in Canada and the United States. By measuring both the percentage of tax filers who donate to charity and the percentage of aggregate income donated to charity in each jurisdiction, the *Generosity Index* recognizes the significance of charitable donations eligible for income tax deduction. Most notably, the index shows that private monetary generosity in Canada is considerably lower than in the United States. To close this gap and expand the potential for charities to improve the quality of life for those who need it most, Canadians may consider adding charitable donations to their list of resolutions this year.

Notes

1 All the data cited in this article are sourced from Gainer et al., 2010.

2 The complete study also provides figures on the average dollar value of charitable donations in each jurisdiction.

tion. However, this measure is not used to calculate the overall *Generosity Index* because it is a poor estimate of individual generosity, by favouring relatively wealthy provinces over relatively poor provinces.

3 These numbers likely understate American charitable donations due to differences in the Canadian and US tax systems. In the US, tax filers may file either itemized or non-itemized returns, although only those filing itemized tax returns can claim charitable donations. It is then possible for a group of US tax filers to donate to registered charities, but remain unable to claim those donations.

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Gainer, Alex, Charles Lammam, and Niels Veldhuis (2010). *Generosity In Canada And The United States: The 2010 Generosity Index*. Fraser Alert. Fraser Institute. <<http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/generosity-index-2010.pdf>> ■

The economic impact of living wage policies



Bigstock

AMELA KARABEGOVIĆ AND NIELS VELDHIJS

In April 2010, British Columbia's City of New Westminster became the first Canadian city to adopt a "living wage" policy (City of New Westminster, 2010a, 2010b, 2010c). A living wage is a minimum hourly wage typically paid to city employees, to employees of businesses that contract with the city to provide public services, and/or to employees of businesses that receive financial assistance from the city. While some Canadian jurisdictions have implemented or experimented with policies that are similar to this, New Westminster's living wage is the first and only policy in Canada that specifies an hourly wage pegged to a level of income that allows a family to "meet its basic needs" (Richards et al., 2010: 2).¹

Advocates of a living wage, argue that artificially imposing these wage levels is a powerful tool for poverty reduction because they ensure that employees earn enough income to meet the basic needs of their families. That is, living wages ensure that full-time workers do not fall below a pre-determined poverty line. However, the evidence from the United States where numerous cities implemented a living wage, similar to that of New Westminster, shows that living wages actually

reduce job opportunities for the very families they are intended to help.

Living wages can also inflate city budgets, thereby increasing property taxes and rental costs, which then disproportionately burden low-income families, lower property values, and slow further development. Finally, the costs associated with enforcing living wage policies can put additional pressure on city budgets.

Empirical evidence

The actual impact of the New Westminster living wage on labour markets has not yet been examined, as it only recently came into effect. Nonetheless, living wage impacts are well documented in the United States, where about 140 municipalities have implemented living wages over the past two decades (Neumark and Wascher, 2008).

Living wage policies put people earning lower incomes at a great disadvantage. That is because when government legislates wages above levels that would prevail in a competitive market, employers respond by reducing the number of workers they employ. Typically,

living wages, like minimum wages, lead to higher unemployment for low-skilled workers, and reduce opportunities for many new workforce entrants to gain valuable skills and experience.

Professors David Neumark of the University of California Irvine and Scott Adams of the University of Wisconsin-Milwaukee have written several studies on the impact of living wages across numerous US cities from 1996 to 2002. Neumark and Adams compare cities that implemented living wages to those that did not. While the specific results vary from study to study, their research clearly concludes that living wages cause reductions in employment among workers with the lowest level of skills.

For example, in a 2003 paper published in the *Journal of Human Resources*, Neumark and Adams found that a 10% increase in living wage reduces employment by 1.3% for those with low levels of income. Similarly, in two separate studies published in 2005 in the *Industrial Relations and Economic Development Quarterly*, the professors found that a 10% increase in the living wage reduces job

opportunities by 1.2% to 1.8% for those with low levels of income (Adams and Neumark, 2005a and 2005b).

Case studies of specific cities in the United States confirm the tendency of living wage policies to cause job losses. Professor David Fairris of the University of California found that the living wage in Los Angeles reduced employment by 1.0% with every 10% increase in the living wage (Fairris, 2005). A study examining the impact of the Santa Fe's living wage found that it caused the unemployment rate to rise by 3.2 percentage points, after increasing the wage from \$5.15 (the minimum wage at the time) to \$8.50 per hour. The loss in employment opportunities in Santa Fe mainly affected workers with lower levels of education (Yelowitz, 2005).

Employers further respond by reducing non-wage benefits such as on-the-job training or changing their hiring preferences to favour more productive workers—those with higher levels of experience and education. Employers make these changes to offset some of the costs associated with a higher wage.

A recent study published in the *Southern Economic Journal* examined the impact of the Los Angeles living wage policy on firms' hiring practices. It found that workers hired after the living wage policy came into effect had more formal training than those hired prior to its adoption (Fairris and Bujanda, 2008). This suggests that living wage policies are particularly harmful to low-skilled workers, as employers respond by hiring workers who they see as more valued in the labour market (Fairris and Bujanda, 2008) to compensate for the wage increases. Studies that examined the impact of living wage policies in San Francisco and Boston found that after the living wage had been implemented employers preferred to hire workers



with higher levels of education, as well as males for certain occupations such as security workers and customer service representatives, and/or full-time workers (Reich, et al., 2005; Brenner, 2005). In other words, when governments impose living wages that exceed those that would prevail in a competitive market, employers respond by hiring more productive workers, who would likely have been paid higher wage anyways, which thus defeats the purpose of implementing living wages in the first place.

Moreover, living wages may lead to a reduction in on-the-job training, as was found in Los Angeles after the living wage was implemented (Fairris, 2005). This consequence of living wages is of particular concern; a reduction in on-the-job training inhibits upward-income mobility because on-the-job training helps workers gain new skills. A more skilled worker is usually more productive and, ultimately, better paid.

To compensate for the wage increase, employers also cut back on hours worked and/or overtime hours. Even if workers are fortunate enough to keep their jobs after a living wage is implemented, they may not be much better off if their hours worked and/or their overtime hours are reduced. For

instance, when the living wage was implemented in Santa Fe, weekly work time was cut by about 1.6 hours on average. Those with 12 years of education or less saw their work weeks drop by 3.5 hours (Yelowitz, 2005).

Living wages, city budgets, and property taxes

Living wage policies have other costs in addition to their effect on labour markets. Since higher labour costs faced by contractors are partly passed on to cities, living wages can also have a significant impact on municipal budgets. There are also the associated enforcement costs incurred by the city to ensure its contractors and other affected businesses comply with the living wage policy. Municipal budget increases typically lead to higher property taxes—affecting both property values and local development. Increased property taxes also lead to higher rental costs, which disproportionately hurt low-income families.

As the New Westminster officials have put it, “historically, the purchasing of goods and services undertaken by city staff has been based on ‘best value’ to the City”

(City of New Westminster, 2010c: 3), but with the new living wage policy, businesses that contract with the city must first prove that they pay their employees the living wage. When the wages of employees of private contractors are forced up to the wages received by unionized municipal workers, the city has less incentive to use private sector services. As a result, the city, rather than the private sector, will perform more public services. Given the benefits of outsourcing, this is unfortunate.

A comprehensive academic survey of studies on contracting out in public sectors in North America, Europe, Asia, and Oceania found that competitive tendering and contracting out of public services to the private sector usually leads to substantial cost savings, in the order of 20% (Domberger and Rimmer, 1994). Moreover, the private sector has been found to provide higher quality services than the public sector (Domberger et al., 1995).

The advocates of living wages often highlight the benefits of such policies—individuals who profit from a wage increase—while overlooking the numerous associated costs. Studies that have examined the impact of living wages have found that they cause job losses, and result in employers hiring more qualified workers at the expense of those who have fewer skills. Ultimately, living wages rob low-skilled workers, including those with low levels of education and experience, of the opportunity to participate in the labour market. Many studies, also, fail to take into account the non-job related costs associated with living wages, such as the impact on municipal budgets and enforcement costs. These costs, mainly paid for by taxpayers and renters, are significant and should be part of the calculation when evaluating the costs and benefits of any living wage proposal. The hard reality is that living wage policies

are not the answer to the hardships experienced by many poor families, and they often hurt the very people they were intended to help.

Note

1 New Westminster's living wage covers all city employees and the employees of businesses that contract with the city. It is set at over \$18 per hour for 2010, more than double British Columbia's current \$8 per hour minimum wage (City of New Westminster, 2010c; Richards et al., 2010; HRSDC, 2009). The living wage is supposed to be pegged to the level at which a household can "meet its basic needs" (Richards et al., 2010: 2). However, according to research by Chris Sarlo, professor of economics at Nipissing University, New Westminster's living wage is more than double the income necessary for a "basic needs" standard of living—the level of income needed to meet such basic needs as a nutritious diet, satisfactory housing, clothing, health care, public transportation, household insurance, telephone service, and a host of other items (Sarlo, 2008).

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continued on page 28

Fiscal performance of

AMELA KARABEGOVIĆ, CHARLES LAMMAM, AND MILAGROS PALACIOS

With runaway government spending, large budget deficits, and increased government debt in many provinces, prudent fiscal management is returning as one of the most important economic issues for Canadians. And rightly so, as sound fiscal policy is a key contributor to long-term economic growth. While it is critical that all provincial premiers show leadership by restraining spending, ensuring balanced budgets, and focusing on tax relief, some, according to a recent Fraser Institute study, *Measuring the Fiscal Performance of Canada's Premiers*, have clearly performed better than others.

The study measures the relative performance of ten Canadian premiers (six current and four former) in three key areas of fiscal policy: government spending; taxes; and debt and deficits. Specifically, it considers whether the premiers managed government spending in a relatively prudent manner; whether they maintained low and competitive corporate- and personal income tax rates; and whether they balanced the books and paid down government debt.

The study considers the fiscal performance of the premiers for the duration of their time in office up until the most recent year of available data (2009/10). Each

premier received an overall score (out of one hundred) and rank (out of ten) based on how they performed on each of the three components.

Here is a brief summary of the results for each premier, starting with the first-ranked Gordon Campbell of BC, and ending with the last-placed Dalton McGuinty of Ontario.

1st Gordon Campbell, British Columbia



Pruneau

Period evaluated: 2001/02-2009/10

Overall rank: 1 / Government Spending: 1 / Taxes: 1 / Debt and Deficits: 5

Gordon Campbell showed the most restraint of all premiers on government spending, by keeping average growth in program spending (4.4%) roughly in line with the average rate of economic growth (4.1%).

In his first budget (2001), he enacted a 25% across-the-board reduction in personal income tax rates, fol-

Fiscal performance chart:

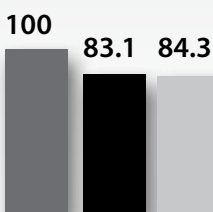
Each premier received an overall score out of 100 based on his performance on three core components

* indicates former premier.

GORDON CAMPBELL
British Columbia

89.1

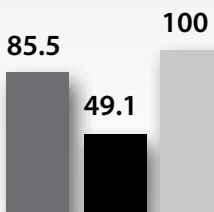
(Overall score)



GARY DOER*
Manitoba

78.2

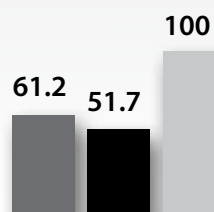
(Overall score)



DANNY WILLIAMS*
Newfoundland

71.0

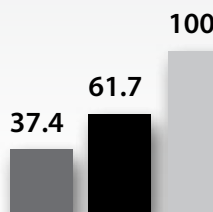
(Overall score)



ED STELMACH
Alberta

66.4

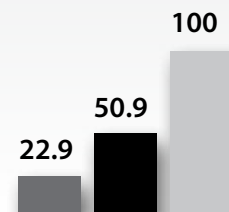
(Overall score)



BRAD WALL
Saskatchewan

57.9

(Overall score)



Source: Lammam et al. (2010).

Canada's premiers



lowed by additional cuts in 2007 and 2008. He also reduced the general corporate income tax rate from 16.5% in 2001 to 13.5% in 2002. Further reductions dropped it to 10.5% in 2010, which gave BC the second-lowest corporate income tax rate after Alberta.

Campbell averaged a surplus amounting to 0.13% of GDP during his tenure and reduced BC's net debt from 18.5% of GDP in 2001/02 to 15.7% in 2009/10.

2nd Gary Doer,* Manitoba

Period evaluated: 2000/01-2009/10
Overall rank: 2 / Government
Spending: 2 / Taxes: 6 / Debt and
Deficits: 1



Ujmiki

Gary Doer managed spending relatively prudently with average growth (5.6%) just above the average rate of economic growth (5.0%). Only Campbell showed more restraint.

He reduced personal income tax rates during his

time in office, but other premiers did so to a greater extent. Manitoba's marginal rates at three key income levels (\$50,000, \$75,000, and \$150,000) remain among the highest in the country. Doer also cut the corporate rate to 12% from 17%.

While in power, Doer maintained an average surplus of 0.5% of GDP and, as a result, was able to reduce Manitoba's net debt quite dramatically.

3rd Danny Williams*, Newfoundland and Labrador

Period evaluated: 2004/05-2009/10
Overall rank: 3 / Government Spend-
ing: 4 / Taxes: 4 / Debt and Deficits: 1



Athenchen

Danny Williams allowed program spending to grow at an average rate of 6.4% compared to an average rate of economic growth of 5.2%. While such spending growth is not an ideal example of prudence, Williams

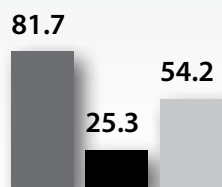
Government spending

Taxes

Debt and deficits

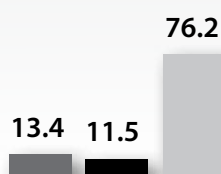
JEAN
CHAREST
Quebec

53.7
(Overall score)



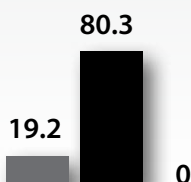
RODNEY
MacDONALD*
Nova Scotia

33.7
(Overall score)



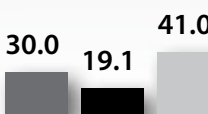
SHAWN
GRAHAM*
New Brunswick

33.2
(Overall score)



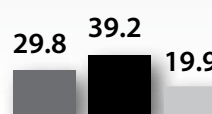
ROBERT
GHIZ
Prince Edward Is.

30.0
(Overall score)



DALTON
McGUINTY
Ontario

29.7
(Overall score)



kept spending growth more in line with economic growth than most premiers.

He reduced marginal personal income tax rates at all three income levels assessed in the report. However, he did not make progress on reducing the province's relatively high corporate income tax rate.

Williams maintained an average surplus of 0.85% of GDP and substantially reduced Newfoundland & Labrador's net debt as a share of GDP.

4th Ed Stelmach, Alberta

Period evaluated: 2007/08-2009/10
Overall rank: 4 / Government Spending: 5 / Taxes: 3 / Debt and Deficits: 1

Ed Stelmach's profligate spending increased the size of Alberta's government (total spending as a percentage of GDP) from 12.4% of GDP in 2006/07 to 15.5% of GDP in 2009/10. Average program spending growth (8.2%) far exceeded both average economic growth (1.2%), and inflation plus population growth (5.2%).

He kept Alberta's personal and corporate income tax rates, which are among the lowest in the country, unchanged.

Despite deficits in 2008/09 and 2009/10, Stelmach's relatively large surplus in 2007/08 resulted in a small average surplus of 0.01% of GDP over the three-year period.

5th Brad Wall, Saskatchewan

Period evaluated: 2008/09-2009/10
Overall rank: 5 / Government Spending: 8 / Taxes: 5 / Debt and Deficits: 1

Brad Wall increased program spending at an average rate (10.1%) that was greater than average economic growth (6.2%) and average inflation-plus-population growth (3.6%). His spending increases expanded the size of Saskatchewan's government from 16.9% of GDP in 2007/08 to 18.2% in 2009/10.

He allowed a previously planned corporate income tax rate cut, from 13% in 2007 to 12% in 2008, to go through.



Duffy 2032



Daniel Paquet

6th Jean Charest, Quebec

Period evaluated: 2003/04-2009/10
Overall rank: 6 / Government Spending: 3 / Taxes: 8 / Debt and Deficits: 7

Jean Charest showed more spending restraint than most premiers, but his record is not to be considered prudent. While in office, average growth in program spending (5.0%) exceeded average GDP growth (3.2%) and average inflation-and-population growth (2.5%).

He was one of only two premiers to increase the corporate income tax rate while in power and failed to reduce Quebec's personal income tax rates, which are among the highest in the country.

Charest was also among the five premiers to run a deficit (0.41% of GDP) during his tenure.



7th Rodney MacDonald,* Nova Scotia

Period evaluated: 2006/07-2009/10
Overall rank: 7 / Government Spending: 10 / Taxes: 10 / Debt and Deficits: 6

Rodney MacDonald's average increase in program spending (7.8%) was nearly four times greater than average growth in GDP (2.1%) and almost five times greater than inflation-plus-population growth (1.7%).

He left relatively high tax rates on both corporate and personal income unchanged.

MacDonald averaged a small deficit of 0.04% of GDP and slightly increased Nova Scotia's net debt as a share of GDP, on average.



Public

8th Shawn Graham,*

New Brunswick

Period evaluated: 2007/08-2009/10
Overall rank: 8 / Government Spending: 9 / Taxes: 2 / Debt and Deficits: 10

Shawn Graham presided over average growth in program spending (7.4%) that was over three times greater than average economic growth (2.2%), and almost five times greater than inflation-plus-population growth (1.5%).

In a milestone budget in 2009, he announced plans to replace New Brunswick's four tax brackets with just two rates, and reduce the top marginal personal income tax rate from one of the highest in Canada to the second lowest, behind only Alberta. On the business side, he announced a cut to the corporate income tax rate from 13.0% in 2009 to 8.0% by 2012, which would give New Brunswick the lowest rate in Canada.

Graham not only averaged the largest deficit of all the premiers (1.02% of GDP), but he also increased net debt as a share of GDP by the largest percentage.



jeangagnon

9th Robert Ghiz, Prince Edward Island

Period evaluated: 2007/08-2009/10
Overall rank: 9 / Government Spending: 6 / Taxes: 9 / Debt and Deficits: 8

Robert Ghiz's average growth in program spending (7.8%) significantly exceeded average GDP growth (3.1%) and average inflation-plus-population growth (2.4%).

He did not make Prince Edward Island's very high tax rates on both corporate and personal income more competitive.

Ghiz maintained an average deficit of 0.8% of GDP between 2007/08 and 2009/10.



Pr Log

10th Dalton McGuinty,

Ontario

Period evaluated: 2004/05-2009/10
Overall rank: 10 / Government Spending: 7 / Taxes: 7 / Debt and Deficits: 9

Dalton McGuinty demonstrated a spendthrift approach to managing provincial finances. Average program spending growth (7.7%) was over three times greater than the average rate of economic growth (2.4%) and significantly greater than average population-and-inflation growth (2.8%).

He broke a 2003 election campaign promise not to raise taxes. Shortly after entering office, he increased personal income taxes through introduction of the *Ontario Health Premium*, cancelled the planned elimination of the personal income surtax, and increased business taxes by raising the general corporate income tax rate from 12.5% to 14.0%. Fortunately, he realized the destructive impact of those tax policies and reversed his position on tax policy in his 2009 budget. A key budget announcement was a phased-in reduction to the corporate income tax rate from 14% in 2009 to 10% by 2013.

McGuinty resorted not only to tax hikes, but also budget deficits to finance large increases in government spending. This inevitably resulted in increased government debt. During his tenure, McGuinty ran an average budget deficit of 0.8% of GDP and increased Ontario's net debt from 28.2% of GDP in 2003/04 to 34.1% in 2009/10.



Joshua Sherurcij

Reference

Lammam, Charles, Milagros Palacios, Amela Karabegović, and Niels Veldhuis (2010). *Measuring the Fiscal Performance of Canada's Premiers*. Studies in Budget & Tax Policy. Fraser Institute. <<http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/measuring-fiscal-performance-of-Canadas-premiers.pdf>>, as of November 20, 2010. ■

BC's next premier should follow Gordon Campbell's lead on fiscal policy



Pruneau

CHARLES LAMMAM, NIELS VELDHUIS, AND AMELA KARABEGOVIC

As the leadership race for the Liberal party of British Columbia accelerates, now is good time for British Columbians to think about the fiscal policies advocated by leadership candidates, one of whom will ultimately become BC's next premier. If a strong, prosperous economy with growing income and opportunities is the goal, then the province would benefit greatly from a leader who follows Gordon Campbell's lead—at least on fiscal policy.

Despite not being popular among voters after introducing the HST (full disclosure: the authors of this article are in favour of the HST), out-going Premier Gordon Campbell did a relatively good job of managing provincial fiscal policy during his time in office. More importantly, his fiscal policies helped reverse BC's dismal economic performance in the 1990s (Veldhuis et al., 2009). BC's next premier should not halt the progress made to date; instead, he or she must continue with the pro-growth fiscal record that Campbell introduced since 2001.

Our study, *Measuring the Fiscal Performance of Canada's Premiers*, highlights Campbell's successful management of the province's finances (Lammam et al., 2010). The study measures the relative performance of Canadian premiers at managing key aspects of fiscal policy during their time in office. Among 10 Canadian premiers, Campbell performed the best with a score of 89.1 out of a possible 100.¹



BC Premier Gordon Campbell was ranked #1 in the Fraser Institute study, *Measuring the Fiscal Performance of Canada's Premiers*.

Campbell ranked first overall by managing the growth in government spending in a relatively sustainable manner, and by showing more restraint than all other premiers. A premier's spending record is best illustrated by comparing average spending increases to economic growth. During Campbell's tenure, he kept average growth in program spending (4.4%) roughly in line with of economic growth (4.1%) (Lammam et al., 2010). No other provincial premier had a more prudent spending record.

With moderate increases in government spending, Campbell was able to enact significant tax relief. In fact, one of his greatest fiscal achievements while in office was a complete revamp of BC's tax system. Shortly after coming to power in June 2001, Campbell implemented

major tax cuts on both personal and corporate income, and scheduled additional cuts thereafter. Specifically, in his first budget (2001), Campbell enacted a 25%-across-the-board reduction in personal income tax rates, followed by more cuts in 2007 and 2008.

His 2001 budget also reduced the general corporate income tax rate to 13.5% in 2002 from 16.5% in 2001; later reductions dropped the rate further to 10.5% in 2010.² Thanks to these and other business tax cuts (i.e., elimination of the corporate capital tax) BC now has a much more competitive business tax regime.

The result of Campbell's tax cuts has been a marked improvement in the incentives for hard work, saving, investment, and entrepreneurship in the province. Ultimately, they have had, and will continue to have, a significant positive impact on the wellbeing of British Columbians (Dahlby and Ferde, 2008).

Controlling government spending also allowed Campbell to better manage government debt. From 2001/02 to 2009/10, Campbell's government generally balanced the books, and on average recorded a small surplus (0.13% of GDP). Over the same period, it reduced BC's net debt to 15.7% of GDP in 2009/10 from 18.5% of GDP in 2001/02 (Lammam et al., 2010).³

Tangible evidence of Campbell's strong fiscal performance can be found in the dramatic economic turnaround that has occurred in this province since the 1990s (Veldhuis et al., 2009). While BC has come a long way since its "lost decade," past success should not breed future complacency.

Going forward, it will be more difficult to restrain the growth in provincial government spending with a looming sea change in age demographics, and with health-care spending eating up a larger portion of government resources.

Campbell's successor must stay focused on implementing sound economic policies, especially those that increase the productivity of BC workers. Increased productivity may not seem that exciting for the average person, but the results lead to higher personal incomes and higher living standards.

To increase productivity, BC's next premier should make tax rates on middle- and upper-income earners more competitive. This will help retain and attract high-skilled workers to the province. Removing the tax barrier to the growth of small businesses is another needed reform. Small BC firms now face a significant tax penalty as they grow (Clemens and Veldhuis, 2005). This penalizes business expansion, an important contributor to job creation and increased productivity.

Despite the public backlash from the HST, Gordon Campbell pursued better fiscal policies than other provincial leaders. His successor should follow his lead.

Notes

1 For the complete ranking and scores of all ten premiers, please see Figure 1 in the article, "Wanted: A New Fiscal Direction for Ontario," on pg. 16.

2 The rate will fall again to 10%, effective January 2011.

3 It is important to note that in recent years Premier Campbell has increased British Columbia's net debt as a share of GDP. For instance, he increased net debt to 15.7% of GDP in 2009/10 from a low of 11.6% in 2007/08. The increase is the result of annual deficits over recent years and increased capital spending financed by government debt.

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Wanted: A new fiscal direction for Ontario



NIELS VELDHIJS, CHARLES LAMMAM, AND MILAGROS PALACIOS

If recent polls are any indication, Ontario Premier Dalton McGuinty and his Liberal government face a steep, up-hill battle as they ready themselves for an October 2011 election. Currently, three out of four Ontarians feel that it is time for Premier McGuinty to go (Benzie, 2010).

Since being elected in 2003, McGuinty has proven inadequate at managing Ontario's finances, and at pursuing sound, long-term economic policies. Thanks in large part to McGuinty's policies, Ontarians have suffered through seven years of dismal economic performance.

Regardless of what actually happens in next year's Ontario election, one thing is certain: the status quo in Ontario is simply not sustainable. Ontarians need a serious plan to return fiscal sanity to the province.

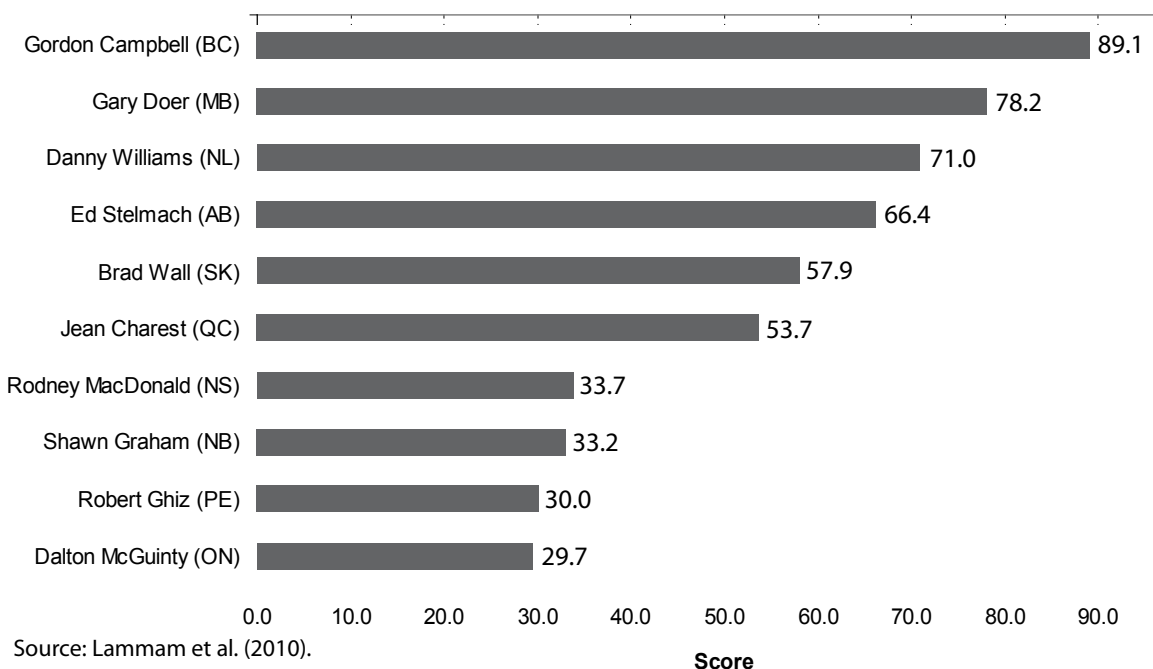
Our study, *Measuring the Fiscal Performance of Canada's Premiers*, highlights just how poorly McGuinty

has performed fiscally (Lammam et al., 2010). The study measures key aspects of fiscal policy for the duration of each premier's time in office. As Figure 1 illustrates, McGuinty performed the worst among all premiers, with a score of 29.7 out of a possible 100.

McGuinty was unable to control government spending. During his first term, he increased program spending from \$70 billion in 2003/04 to \$94 billion in 2007/08—a 34% increase. Since then, spending has increased another 16% to \$109 billion in 2009/10. All told, spending is up an incredible 55% since 2003/04.¹

McGuinty's spendthrift approach is best illustrated by comparing average spending increases with economic growth. Since 2003/04, McGuinty has increased spending by more than three times the rate of economic growth. Specifically, program spending increased by an annual average of 7.7%, compared with average economic growth

Figure 1: Overall performance of Canada's premiers
(score out of 100)





Joshua Sherurcij

Ontario Premier Dalton McGuinty was ranked #10 in the Fraser Institute study, *Measuring the Fiscal Performance of Canada's Premiers*.

of 2.4% (Lammam et al., 2010). As a result, the size of Ontario's government (provincial government spending as a percentage of the economy) increased to 20.8% of GDP in 2009/10 from 16.2% in 2003/04 (Lammam et al., 2010).

Other more prudent premiers, such as BC's Gordon Campbell (ranked best for fiscal management), and former Manitoba Premier Gary Doer (ranked second), both kept spending increases roughly in line with economic growth (Lammam et al., 2010).

Since government spending ultimately drives taxation, it is no surprise that McGuinty has relied on a combination of tax increases and deficits (future taxes) to finance his reckless ways. From 2003/04 to 2009/10, McGuinty accumulated nearly \$32 billion in deficits, with plenty more to come. While McGuinty and his colleagues are quick to blame a weak economy, in reality, Ontario's current deficit woes primarily result from the Liberal government's wild spending spree during its first term in office.

Ontarians can expect another \$77 billion in deficits over the next 5 years (Ontario, Ministry of Finance, 2010). Under the current fiscal plan, the accumulated deficit will reach \$187 billion by 2012/13, up \$63 billion since McGuinty became premier in 2003/04 (Ontario, Ministry of Finance, 2009, 2010; calculations by authors).

McGuinty also implemented a number of damaging tax increases to help pay for his spending (i.e., the then-new Ontario Health Premium, cancellation of the planned elimination of the personal income surtax, and corporate income tax increases).² In contrast, while Ontario increased personal and corporate income taxes, governments of all ideological stripes in Western Canada were busy improving the incentives for hard work, savings, investment, and entrepreneurship by pursuing pro-growth personal and corporate-income-tax reductions.

For example, Conservative-led Alberta decreased its corporate income tax rate (12.5% to 10%), as did the Liberal-led British Columbia (16.5% to 10.5%)³ and NDP-led Saskatchewan and Manitoba (17% to 12%). In other words, while McGuinty significantly increased the cost of investing in Ontario, governments in the West were moving in the opposite direction.

Fortunately for Ontarians, McGuinty partially realized his errors and changed course, announcing a phased-in plan to reduce the general corporate income tax rate from 14% to 10% by 2013 (see Lammam and Veldhuis, 2009). McGuinty also reduced Ontario's bottom personal income tax rate from 6.05% to 5.05% on January 1st, 2010. However, he left the middle and top personal income tax rates unchanged—Ontario's personal income tax rates on skilled, educated workers remain among the highest in Canada.

In a world of increasing competitiveness, sound fiscal policy is a critical determinant of long-term economic success, provincial premiers must show leadership by restraining spending growth, balancing budgets, and improving incentives for individuals and businesses to engage in productive economic activity. Unfortunately for Ontarians, Mr. McGuinty has been a failure on this front.

Notes

1 The spending data cited in this paragraph are sourced from Ontario, Ministry of Finance (2009 and 2010) and authors' calculations. All data elsewhere are sourced from Lammam et al. (2010), unless noted otherwise.

2 For more discussion on Premier McGuinty's tax increases, see Lammam and Veldhuis (2009).

3 BC's corporate income tax rate will drop to 10% in 2011.

continued on page 20



Wait times for access to health care in Canada remain unacceptably long

BACCHUS BARUA AND MARK ROVERE

Despite the growing awareness of provincial wait times in Canada, new research shows that the issue has yet to be addressed, as Canadians are still waiting too long for access to health care.

The most recent waiting list survey conducted by the Fraser Institute finds that the median waiting time between referral from a general practitioner to the receipt of elective treatment across the provinces is 18.2¹ weeks in 2010 (Figure 1), up from 16.1 weeks in 2009 (Esmail, 2009b). In order to put things into perspective, the median waiting time in 1993 was 9.3 weeks (Miyake and Walker, 1993).

A peculiarity of the strategy employed by provincial governments to tackle this problem is the apparent lack of attention to the wait times patients face between the time they receive referrals from a general practitioner and when they have their first consultation with a specialist. In fact, most provincial websites do not even report this number. Given that this is an estimated 8.9-week wait (Figure 1), such an oversight is inexplicable. Even physicians feel that

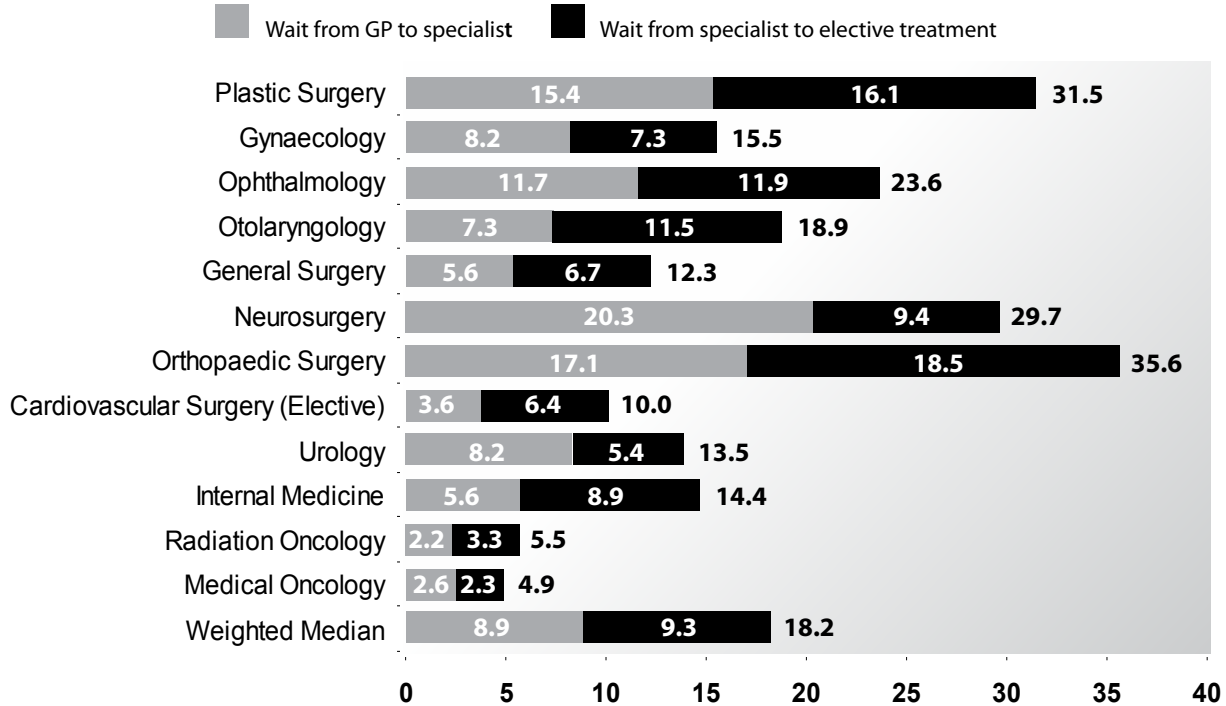
wait times in Canada often exceed what they consider to be clinically reasonable. While the study finds that physicians believe a 6.4-week wait is reasonable for elective treatment after an appointment with a specialist, Canadians actually wait for 9.3 weeks (Figure 2). The survey shows that, averaged across specialties, only 9% of patients are on waiting lists because they specifically requested a delay or postponement of their treatment (Barua, Rovere, and Skinner, 2010). To clarify further the disparity that exists between the expectations and realities of the system, physicians also contend that on average, 49% of their patients would have their surgeries within a week if an operating room were available.²

These waiting times are undesirable for patients specifically, and for the economy more generally. Economists Eric Stokes and Robin Somerville found that the cumulative total of lost economic output in Canada (representing the cost of waiting for treatment for joint-replacement surgery, cataract surgery, coronary-artery-bypass-graft

surgery, and magnetic resonance imaging (MRI) scans collectively) in 2007 was an estimated \$14.8 billion (Stokes and Somerville, 2008). More recently, Nadeem Esmail used average weekly wages to estimate that the cost of waiting per patient in Canada to be approximately \$859 in 2009 if only hours during the normal working week were considered “lost,”³ and as much as \$2,628 if all hours of the week (minus 8 hours per night sleeping) were considered lost. Clearly, then, in addition to patient suffering, wait times also come with a significant economic cost.⁴

One of the primary reasons (though there are many) for such long waits for treatment might be attributed to access (or lack thereof) to medical technology—something which is in dire need of attention. Canadians face a reported 4.2-week wait for computed tomography (CT) scans, a 9.8-week wait for MRI scans, and a 4.5-week wait for ultrasounds (Barua, Rovere, and Skinner, 2010). While it is rational to have a waiting list system that places urgent cases ahead of elective ones, patients

Figure 1: Median wait by specialty in 2010: weeks waited from referral by GP to treatment



should not have to wait an inordinately long time to access the technology that is used to diagnose the severity of their condition in the first place. The Organisation for Economic Co-operation and Development (OECD) data indicate that, relative to the majority of developed countries, Canada scores poorly in terms of the availability of medical technologies. For instance, in 2007, Canada ranked 17th for both the number of CT scanners per million population (out of 26 countries), and for the number of MRI units per

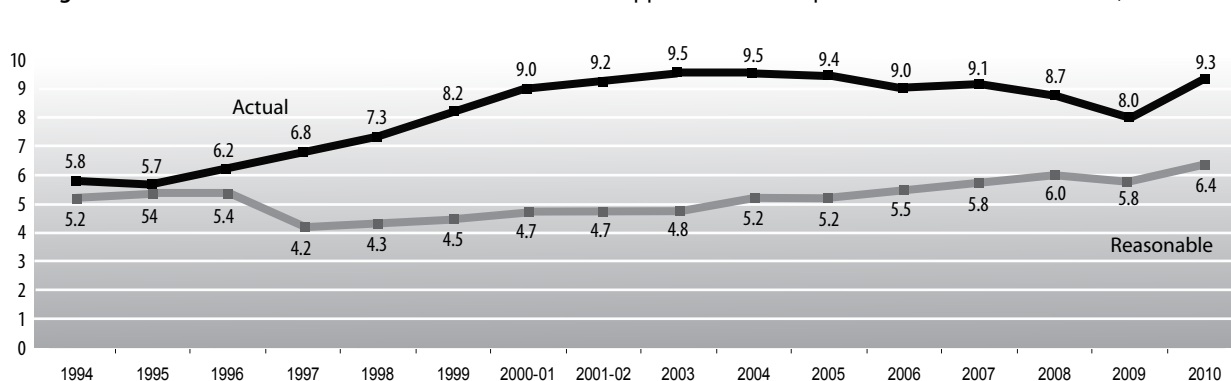
million population (out of 25 countries) (OECD, 2010).⁵ It should come as no surprise then that wait times in Canada are longer than what is being reported in other countries.

In fact, an international comparison, conducted by the Commonwealth Fund, using survey data from 2007–2009, indicates that wait times are longer in Canada than in many developed countries. Compared to Australia, Germany, New Zealand, the Netherlands, the United Kingdom, and the United States, “Canada ranks last, or

next-to-last on almost all measures of timeliness of care” (Davis, Schoen, and Stremikis, 2010: 11). At the same time, only two of the countries compared (the US and Germany) spent more than Canada on health spending as a percentage of their GDP in 2007 (OECD, 2010).

One of the often-noted “qualities” of the Canadian health care system is its apparent emphasis on “equality”: the notion that all Canadians, regardless of their ability to pay, must *wait their turn*. However,

Figure 2: Canada—actual versus reasonable waits between appointment with specialist and elective treatment, 1994 - 2010



Source for Figures 1 and 2: Barua, Rovere, and Skinner (2010).

this year's survey of specialists found that an estimated 1.0% of patients (44,680 Canadians) received treatment in another country during 2009/10—an indication that Canadians who can afford it, might not only be “jumping the queue,” but doing so in a *different* country.

It is clear that no matter how one looks at it—from an international perspective, in comparison to what specialists consider clinically reasonable, or simply in absolute terms—wait times in Canada remain unacceptably long.

Notes

- 1 *Waiting Your Turn* (2010) reports a weighted average of within-province specialty medians.
- 2 Unpublished data, authors' calculations.
- 3 Time rendered unproductive due to “a combination of mental anguish and the pain and suffering that accompany any wait for treatment” (Esmail, 2009a).
- 4 There is also an increasing amount of medical literature identifying adverse consequences from prolonged waiting. For a brief overview see Esmail, 2009b.
- 5 For a further analysis, see Mark Rovere's article, “Accessing Value for Money from Canadian Health Insurance,” on pg. 26.

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Tax policy

McKenzie, Kenneth J., and Natalia Sershun (2010). Taxation And R&D: An Investigation Of The Push And Pull Effects. *Canadian Public Policy*. 36, 3: 307-324.

This study analyzes the impact of the tax system on research and development (R&D) activities in nine highly developed countries (including Canada) from 1979 to 1997. Canada, like many other countries, offers tax subsidies for firms that conduct R&D in order to encourage innovation. Canada's R&D tax subsidies are among the most generous, yet the country performs lower levels of R&D by international standards. Why? Innovation is not only influenced by subsidies, but also by the rewards that firms and entrepreneurs receive after accounting for a country's overall production tax regime (eg., taxes on labour and capital investment). Unfortunately, Canada's production taxes are quite punitive. This study confirms that while more generous tax subsidies for R&D do encourage more of it, more costly production taxes also discourage it. The effects of both subsidies and production taxes are significant, and similar in magnitude (but in the opposite direction), suggesting that tax policy to encourage R&D should account for both effects. Failing to do so results in "governments giving with one hand and taking away with the other—encouraging R&D by offering generous tax subsidies that lower the cost of undertaking research, but discouraging R&D by imposing high production taxes on the fruits of the R&D" (316).

—Charles Lammam

Fiscal policy

Ilzetzki, Ethan, Enrique G. Mendoza, and Carlos A. Végh (2010). *How Big (Small?) Are Fiscal Multipliers?* NBER Working Paper No. 16479. National Bureau of Economic Research.

This study examines government spending data on a quarterly basis from forty-four countries spanning 1960 to 2007. It shows that the economic impact of an increase in government spending driven by fiscal stimulus initiatives depends crucially on a country's characteristics. The study has five main findings. First, fiscal stimulus does not increase economic growth in developing countries in the long run (eg., over five years).

Third, in countries like Canada with a flexible exchange rate system (i.e., where the value of currency is determined by foreign exchange on the world market), fiscal stimulus does not increase economic growth. Third, fiscal stimulus decreases economic output in open countries like Canada, which depend heavily on international trade.

Fourth, fiscal stimulus in highly indebted countries (countries with gross public debt exceeding 60% of GDP) results in a decline in economic growth. According to data from the latest OECD Economic Outlook (May 2010), Canada's gross public debt was 82.5% of GDP in 2009. In developing countries, government investment has a larger impact than government spending on economic growth.

The study also finds that fiscal stimulus might work in countries with certain, although rare, characteristics: countries with fixed exchange rate regimes; countries that are relatively closed to international trade; countries with gross public debt below 60% of GDP; and developing countries in which stimulus spending goes to infrastructure, rather than on general government spending.

—Alex Gainer

Mian, Atif, and Amir Sufi (2010). *The Effects of Fiscal Stimulus: Evidence from the 2009 'Cash for Clunkers' Program*. NBER Working Paper No. 16351. National Bureau of Economic Research.

This study adds to the debate about whether fiscal stimulus actually works. Specifically, it examines the impact of the Cars Allowance Rebate System (CARS), otherwise known as the "Cash for Clunkers" program, enacted by the US government to stimulate the economy. The \$2.85 billion program, effective from July 24, 2009 to August 24, 2009, consisted of "government payments to car dealers of \$3,500 to \$4,500 for every older, less fuel-efficient vehicle traded in by consumers that purchased a newer, more fuel-efficient vehicle" (1). Using data on auto sales at the city level, the study finds that CARS induced a large increase in auto purchases (roughly 360,000) in high exposure cities (cities with a high number of "clunkers").

The study adds to the debate about whether fiscal stimulus actually works

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However, the purchases induced by CARS “were borrowed from purchases that would have otherwise occurred in the very near future” (3). In fact, the impact on purchases was almost completely reversed within seven months after the program ended. In addition, the study finds that cities with high CARS exposure showed no noticeable effect on economic outcomes such as house prices, household defaults, and employment.

—Charles Lammam

Kumar, Manmohan S., and Jaejoon Woo (2010). *Public Debt and Growth*. IMF Working Paper WP/10/174. International Monetary Fund. <<http://www.imf.org/external/pubs/ft/wp/2010/wp10174.pdf>>

This study examines the impact of public debt on long-run economic growth for a group of 38 advanced and emerging countries (including Canada) from 1970 to 2007. It finds that higher initial debt is associated with reduced subsequent growth: on average, a 10 percentage point increase in the initial debt-to-GDP ratio is associated with a slowdown in real, per capita GDP growth of 0.2% per year, with the impact greater in emerging countries (0.3% to 0.4%). The negative impact on economic growth is generally more pronounced with higher debt levels. For instance, a 10% increase in a country's debt-to-GDP ratio that is above 90% is associated with decreased growth of 0.2% per year, while an identical increase for a country with a debt ratio between 30–60% is associated with decreased growth of 0.1%. The negative effect of initial debt on growth largely reflects slower labour productivity growth due to reduced capital investment. A 10 percentage point increase in initial debt is associated with decreased investment of about 0.4 percentage points of GDP in advanced countries; the negative impact is larger in emerging countries (0.8).

—Milagros Palacios

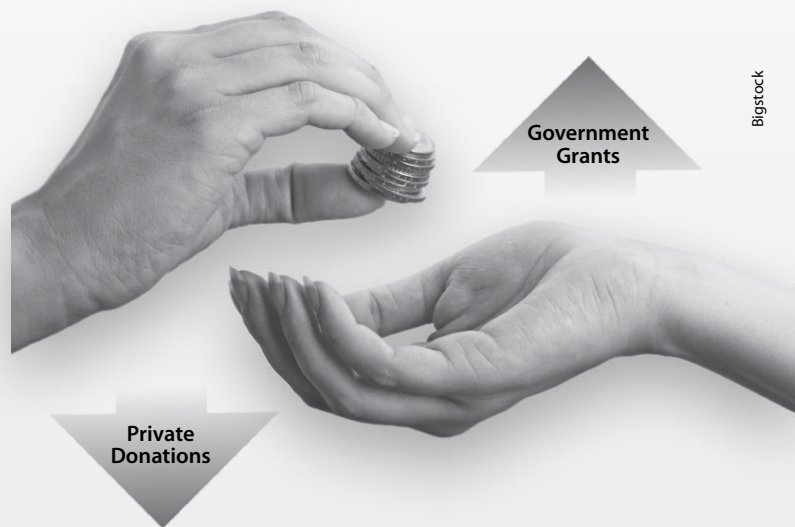
Happiness

Sacks, Daniel W., Betsey Stevenson, and Justin Wolfers (2010). *Subjective Well-Being, Income, Economic Development And Growth*. NBER Working Paper No. 16441. National Bureau of Economic Research.

Does money buy happiness? The authors of this study explore the relationship between income and life satisfaction

with data covering up to 140 countries around the world. Four surveys—Gallup World Poll, World Values Survey, Pew Global Attitudes Survey, and Eurobarometer—measure life satisfaction. While each survey measures life satisfaction in a slightly different manner, the authors standardize the results to ensure comparability and find that individuals with higher levels of income have higher levels of life satisfaction within a given country. This relationship holds in comparisons across countries. That is, nations with higher income levels have higher life satisfaction. The magnitude of the impact of income on life satisfaction is remarkably consistent regardless of the survey used, or the type of analysis performed (i.e., within or across a country). The authors also find that nations with higher rates of economic growth experience higher increases in life satisfaction. Plainly, this study confirms that absolute levels of income “play a central role in determining subjective well-being” (30).

—Amela Karabegović



Charitable giving

Andreoni, James, and A. Abigail Payne (2010). *Is Crowding Out Due Entirely To Fundraising? Evidence From A Panel Of Charities*. NBER Working Paper No. 16372. National Bureau Of Economic Research.

The authors highlight two ways that government grants to charities can lead to reduced private donations. First, private donors who count their contributions through taxation as part of their total contribution may reduce

New studies, new ideas

their voluntary contributions to offset the grant (*classic crowd out*). Second, charities may simply cut back fundraising efforts after receiving a grant (*fundraising crowd out*). Using data on more than 8,000 charitable organizations in the United States from 1985 to 2002, the authors measure the extent and causes of crowding out. They estimate an average total crowding-out effect of around 73%, which means that a \$1,000 government grant reduces private donations by \$727. They also find that reduced fundraising efforts causes most of the crowding. Depending on the type of charitable organization, classic crowd out is responsible for up to 30% of the total crowd-out effect, while fundraising crowd out is responsible for up to 100%.
—Milagros Palacios

Immigration

Kerr, William R., and William F. Lincoln (2010). *The Supply Side of Innovation: H-1B Visa Reforms and U.S. Ethnic Invention.* *Journal of Labor Economics*, 28, 3: 473-508.

The study explores whether immigrants “steal jobs” from natives by examining the impact of changes in H-1B visa admission levels on employment in science and engineering (S&E), as well as patent rates by inventors with ethnic names between 1995 to 2008. The H-1B visa program governs the admissions of temporary immigrants to the United States for employment mainly in S&E and computer-related occupations. About 50% of all H-1B recipients in recent years have come from India and China. The study finds that growth in H-1B admission levels increases both immigrant employment and overall employment in S&E. Growth in H-1B admission levels also increases the rate of Indian and Chinese patenting in cities and firms that rely more heavily on the program compared to those that do not. In addition, the increases in the rate of Indian and Chinese patenting do not crowd out (displace) native patenting.

—Amela Karabegović

Gianmarco I.P. Ottaviano, Giovanni Peri, and Greg C. Wright (2010). *Immigration, Offshoring and American Jobs.* NBER Working Paper No. 16439. National Bureau of Economic Research.

The authors ask: “How many ‘American jobs’ are taken away from US-born workers due to immigration and

offshoring?” (1) They examine employment data from 58 manufacturing industries in the United States from 2000 to 2007. They find that an increase in offshoring—the relocation of a firm’s production process to another country—within an industry has no effect on the employment of natives in that industry. However, they do find that an increase in immigrant employment within an industry has a positive effect on the employment of natives in that industry. The authors explain that the results are due to the “productivity effect”: lower employment costs associated with offshoring and immigration increase both productivity and profits in an industry, which then increase overall demand for labour in that industry as well. The study also finds that an increase in offshoring results in more natives employed in jobs with higher cognitive and non-routine tasks and leads to more immigrant employment in jobs with manual and routine tasks. Together, the results suggest that immigrants compete for jobs more with offshore workers than with native workers.

—Alex Gainer

Environmental policy

Levinson, Arik (2010). *Offshoring Pollution: Is The United States Increasingly Importing Polluting Goods?* *Review of Environmental Economics and Policy*, 4, 1: 63-83.

Legislators and policy makers in the United States often argue that stricter environmental regulations and freer trade result in pollution-intensive goods relocating “off-shore.” Levinson examines US data between 1972 and 2001, and presents evidence that debunks this myth. He finds that, over the period, the composition of manufactured imports has shifted away from pollution-intensive goods toward cleaner goods (a 54% decrease in pollution intensity, defined as pollution per dollar of output). Meanwhile, the shift in the composition of the US manufacturing sector toward cleaner goods is less pronounced (a 27% decrease in pollution intensity). Levinson concludes that the US is not off-shoring pollution. In fact, the opposite is the case. Manufactured imports are more rapidly becoming composed of cleaner goods than are products manufactured domestically.

—Joel Wood ■

Global energy demand and supply

JOCK FINLAYSON

The latest world energy outlook released by the International Energy Agency in November 2010 is a timely reminder of the enduring place of fossil fuels in the global energy system (IEA, 2010). Energy demand and supply patterns change only slowly, and moving away from existing carbon-intensive energy systems will take generations, not years. Despite worries about climate change, there is little evidence that the world-wide energy picture is about to be transformed any time soon.

According to the IEA, even if governments around the globe deliver on the commitments they made at the 2009 Copenhagen climate change talks, and the September 2009 G20 leaders' summit, which met to reduce greenhouse gas emissions and phase out fossil fuel subsidies,—a very big “if—global energy demand is still projected to rise by 36% between 2008 and 2035, spurred by economic and population growth in emerging markets. Of interest, fossil fuels account for more than half of the increase in energy use, with oil remaining by far the dominant source of energy (albeit its share diminishes over time). Global oil demand increases by 15 million barrels to reach 99 million barrels per day by 2035, with virtually all of the incremental demand coming from emerging markets (IEA, 2010). Among the advanced economies that make up the Organization for Economic Co-operation and Development (OECD), demand for oil actually drops by 6 million barrels per day by 2035. Falling oil consumption in the OECD reflects slow-to-negative population growth in many developed nations, steady improvements in energy efficiency, and the implementation of government policies to encourage fuel-switching and stimulate the development of renewable energy.

According to the IEA's latest projections, coal-fired electricity generation continues to expand on a global basis, even as reliance on coal decreases in Europe, the United States, Canada, and other developed economies

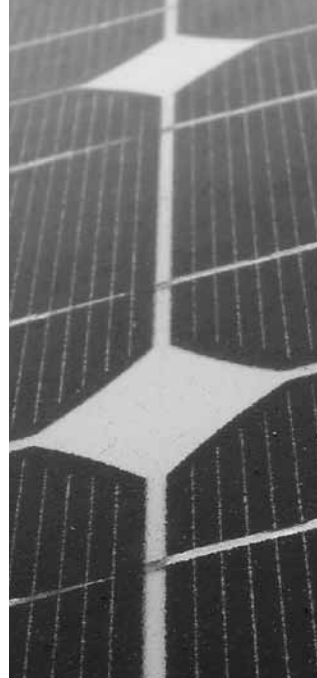
The reason is sustained growth in coal-fired generation in emerging markets, above all China and India. Indeed, the IEA estimates that the amount of new coal-fired generation capacity built in China alone between 2008 and 2035 will exceed the current installed capacity in the United States, the EU, and Japan collectively (IEA, 2010). Coal is neither dead nor dying as an energy source, despite frequent pronouncements to the contrary by some environmental groups and politicians.

This year's IEA report shines a spotlight on the growing importance of natural gas in the broader energy equation. While consumption actually fell in 2009 as the global economic downturn took its toll on demand, use of natural gas is expected to climb by 44% by 2035, outpacing the growth in demand for all other fossil fuels (IEA, 2010). This speaks to the abundance of natural gas available around the world, as well as to its attractive economic, environmental and practical attributes. Natural gas is a low-cost energy source, it is the least carbon-intensive fossil fuel, and gas-fired power plants can be built in close proximity to population centres. Consumption of natural gas is projected by the IEA to grow the fastest in China, but the fuel is also becoming more popular in many other markets.

What about the various renewable, carbon-free energy sources touted by environmentalists and supported by many governments? Assuming that countries meet their stated targets to reduce greenhouse gas emissions and phase out subsidies for fossil fuels (which the IEA refers to as the “new policies” scenario), renewables are expected to supply one-third of the world's electricity by 2035, up from about one-fifth today (IEA, 2010). Hydropower and wind are the main drivers of this increase, although solar, geothermal, and bio-mass will also provide more electricity in the future.

But there is less scope to adopt renewables outside of the power sector, certainly over the short- to medium-term. In the case of transportation, for example, the IEA





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believes renewables might meet 8% of global road transport fuel demand by 2035, compared to 3% now. In heat production for industry and buildings, the IEA's "new policies" scenario looks to renewables to provide 16% of world demand a quarter-century from now, compared to 10% today (IEA, 2010).

All of this underscores the immense challenges involved in shifting energy systems away from existing fuel sources and infrastructure, a point long emphasized by Canadian scholar Vaclav Smil. As Smil observed in a recent article on US energy policy:

The process of accelerating innovation, habitually illustrated with Moore's famous graph of an ever-denser packing of transistors on a microchip, is an entirely invalid model for innovations in producing large amounts of commercial energies, bringing them reliably to diverse markets, and converting them in convenient and efficient ways. The principal reason for this difference is the highly inertial nature of energy infrastructure...US energy production, processing, transportation, and distribution—coal and uranium mines; oil and gas fields; pipelines; refineries; fossil-fuel fired, nuclear, and hydro-electric power plants; tanker terminals; uranium enrichment facilities; and transmission and distribution lines—constitute the country's (and the world's) most massive, most indispensable, most expensive and most inertial infrastructure, with...features that change on a time scale measured in decades, not years (Smil, 2009:47).

Even with extensive subsidies and government-imposed rules mandating higher fuel efficiency and progressively greater use of renewables, it is unlikely that renewable energy can be expanded on the scale necessary to make a significant difference to the overall global energy supply mix in the next decade. The world's energy system in 2020 will almost certainly look a lot like the one that exists today.

Note

1 See IEA, 2010, Chapter 5, for a detailed examination of the supply/demand outlook for natural gas.

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Smil, Vaclav (2009). *US Energy Policy: The Need for Radical Departures. Issues in Science and Technology*. ■

Some highlights of the IEA's "new policies" scenario

World primary energy demand rises by 36% by 2035.

Fossil fuels account for more than half of the increase.

Non-OECD countries drive 93% of the projected growth in energy demand; China alone is responsible for 36% of the increase.

World consumption of oil climbs from 84 million barrels per day (bpd) to 99 million bpd by 2035. All of this increase occurs in non-OECD economies.

Renewable energy provides 32% of global electricity by 2035, up from 19% today.

Source: IEA, 2010.



Assessing value for money from Canadian health insurance

MARK ROVERE

Are Canadians getting good value for money from their health insurance? In November 2010, the Fraser Institute investigated this critical question in a study titled *Value for Money from Health Insurance Systems in Canada and the OECD* (Skinner and Rovere, 2010). The value for money produced by a country's health insurance system is defined relative to the economic performance of the health insurance systems of its international peers. The study compares the cost of health insurance systems against the availability of medical goods and services because

they define the cost of health insurance. Population health outcomes are not used in this analysis to measure the performance of health insurance systems; it is important to measure only the resources purchased by the system used to finance health care instead of the health outcomes produced by medical treatment.¹

To measure value for money from health insurance, the study compares 18 indicators of the *availability* of medical resources (goods) and the *level* of medical output (services) relative to total health spending as a percentage of GDP for 28 OECD countries for which data were available.

Table 1: Total health spending, % of GDP, 2007		
1	United States	15.7
2	France	11.0
3	Switzerland	10.6
4	Germany	10.4
5	Austria	10.3
6	Canada	10.1
7	Belgium	10.0
8	Portugal	9.9
9	Denmark	9.7
10	Greece	9.7
11	Netherlands	9.7
12	Iceland	9.1
13	New Zealand	9.1
14	Sweden	9.1
15	Norway	8.9
16	Italy	8.7
17	Australia	8.5
18	Spain	8.4
19	United Kingdom	8.4
20	Finland	8.2
21	Israel	7.8
22	Slovenia	7.8
23	Ireland	7.5
24	Hungary	7.4
25	Luxembourg	7.2
26	Czech Republic	6.8
27	Poland	6.4
28	Korea	6.3

Source: OECD, 2010

Using 2007 data (most recently available), the study finds that Canada's health insurance system was the 6th most expensive among 28 OECD nations used for comparison (Table 1). In 2007, total health expenditures in Canada accounted for 10.1% of its GDP, compared to 15.7% in the United States (ranked as the most expensive health insurance system) and 6.3% in Korea (ranked as the least expensive health insurance system).

Spending a lot on health insurance is not necessarily a bad thing, as long as individuals are getting their money's worth. However, the data show that Canada failed to match the majority of OECD countries in terms of providing

medical goods and services to its citizens. As shown in Table 2, despite being ranked as the 6th most expensive health insurance system in 2007, Canada ranked below the majority of the other OECD countries on most of the indicators of availability of medical goods, and output of medical services for which comparable data were available. More specifically, Canada fell below the OECD average in 12 of 18 indicators (Skinner and Rovere, 2010). This analysis suggests that, relative to the majority of OECD countries, Canada's health insurance system does not produce good value for money. While Canadians spend a lot on health insurance, it seems that we get little in return.

Canada's unique funding arrangement

In addition to investigating whether Canadians are getting good value for

money from our health insurance relative to other developed countries, the study also compares how health insurance is funded across the OECD, and finds that Canada is unique in the way in which health insurance is financed. Specifically, Canada is only 1 of 4 among 28 OECD countries that does not require patient cost sharing for medically necessary services.² This includes services performed in publicly funded hospitals, by general physicians or specialists (Skinner and Rovere, 2010).

Canada is also the only country in the industrialized world with a government-run monopoly on medical insurance. Furthermore, we are the only country that effectively prohibits its citizens from purchasing comprehensive private insurance for all medically necessary services.

The primary reason for many of these distinctive features is the stipulations set out in the *Canada Health Act* (CHA). According to

the CHA, provincial governments risk losing federal funding from the *Canada Health Transfer* if they permit private payment for medical goods and services covered under provincial public insurance plans (CHA, 1985). More specifically, the CHA bans extra billing and user fees for medically necessary services. This means provinces face a real barrier to experimenting with alternative methods of financing health care services—methods commonly practiced in most of the developed world.

Time for change

As the OECD data indicate, Canadians are not getting good value for money from their public health insurance. On the bright side, there is currently a window of opportunity for federal and provincial governments to examine how other countries are currently financing health

Table 2: Canada's rank on spending compared to its rank on available medical resources and output indicators among OECD countries, 2007

Canada ranks 6th in overall spending among 28 OECD countries	9th (out of 27 countries) for the number of coronary bypass procedures per 100,000 population
tied for 20th (out of 22 countries) for the number of practising physicians per 1,000 population	19th (out of 25 countries) for the number of appendectomy procedures per 100,000 population
17th (out of 26 countries) for the number of CT scanners per 1,000,000 population	7th (out of 23 countries) for the number of cholecystectomy procedures per 100,000 population
17th (out of 25 countries) for the number of MRI units per 1,000,000 population	5th (out of 21 countries) for the number of laparoscopic cholecystectomy procedures per 100,000 population
11th (out of 22 countries) for the number of mammographs per 1,000,000 population	13th (out of 25) for the number of hysterectomy (vaginal) procedures per 100,000 population
tied for 18th (out of 21 countries) for the number of lithotriptors per 1,000,000 population	9th (out of 27 countries) for the number of caesarean section procedures per 100,000 population
tied for 19th (out of 26 countries) for the number of curative care beds per 1,000 population	21st (out of 27 countries) for the number of hip replacement procedures per 100,000 population
4th (out of 27 countries) for the number of cataract surgeries performed per 100,000 population	9th (out of 23 countries) for the number of knee replacement procedures per 100,000 population
17th (out of 25 countries) for the number of tonsillectomy procedures per 100,000 population	14th (out of 26 countries) for the number of mastectomy procedures per 100,000 population
21st (out of 26 countries) for the number of percutaneous coronary interventions (PTCA and stenting) procedures per 100 population	

Source: OECD, 2010

care services. In September 2004, the federal government significantly increased its federal health transfers under the “10-Year Plan to Strengthen Health Care” (Health Canada, 2004). As mentioned above, these transfers are distributed on the condition that the provinces abide by the stipulations of the CHA. Notably, the “10-Year Plan” is set to expire in 2014, which means that governments will have to re-negotiate the current federal funding agreement. If provinces had more flexibility for determining the financing of provincial health, significant improvements could be realized.

A simple assessment of similar jurisdictions throughout Europe shows that alternative financing schemes could lead to better value for money. Therefore, in order to determine empirically whether Canada’s health insurance system would improve if policies similar to those in the rest of the world were implemented, the federal government should immediately suspend enforcement of the CHA temporarily.³ A five-year moratorium would give provinces the freedom to experiment with alternative financing schemes. Taking a “time out” from the CHA would allow provincial governments to try out several health policies that are currently prohibited in Canada, but which are common in the majority of industrialized countries. Given

that government health spending is financially unsustainable across most provinces (Skinner and Rovere, 2009), and the fact that Canadians are continuing to experience longer waits due to government rationing (Barua et al., 2010), it is clear that the status quo is not working. Thus, there is no harm in trying out policies that work elsewhere.

Notes

1 Broad population health statistics like life expectancy are more significantly affected by factors universal to many individuals, and are usually unrelated to the type of health insurance policy used by a country. For example, clean water, nutrition, the treatment of sanitary sewage and waste, environmental pollution, auto accident rates, rates of violent crime rates, poverty, control of infectious diseases, mass vaccination programs, and so on, have the most statistically significant impact on population-wide health statistics.

2 The other three countries that do not require patient cost-sharing for hospitals, GPs, and specialists are Denmark, Spain, and the United Kingdom.

3 The federal government could continue to provide the *Canada Health Transfer*, but should suspend enforcement of the *Canada Health Act* (CHA) so that provinces are not penalized for

experimenting policies that the CHA currently prohibits.

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Living wages

continued from page 9

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Ottawa's risk-based approach to investment

MARK MILKE

The federal government's pre-Christmas decision to disallow the proposed takeover of Potash Corp. of Saskatchewan by the Australian-based mining company BHP Billiton Ltd. (McCarthy et al., 2010) was only the latest in a series of anti-investment moves by a plethora of Canadian governments that undermines investment, be it by private investors or by companies that are publicly held.

The case for the positive outcomes from foreign investment will be reviewed shortly, but first, a partial list of recent anti-investment moves includes the following: one day before killing BHP Billiton's proposed takeover, Ottawa blocked a proposed \$815-million gold mine in central British Columbia, even despite the BC government's endorsement of the project (Hallbauer, 2010).

In 2008, the federal government decided to block a purchase of MacDonald Dettwiler and Associates Ltd. by US-based Alliant Technology. Ottawa said the Canadian company's unique radar imaging satellite was too important to the national interest to allow a foreign takeover (Whittington 2008). However, Alliant was not a company controlled by a government that posed a legitimate security concern—selling a nuclear company to the Iranian government would constitute a legitimate security concern, for example—that would have justified fears about its purchase of a Canadian company. Instead, Alliant, a privately-owned corporation, is located in the United States—a Canadian ally.

Similarly, BHP Billiton is based in Australia, which is another Canada-friendly power. As for the argument

that potash is a strategic resource—one bandied about regularly during the debate—that is also unreasonable. As with oil and gas, potash is owned by the provincial governments; thus, this was never about ownership of the resource itself, rather it was about the company extracting it.

In addition to federal blocks to foreign investment on spurious grounds, investors have also faced opportunistic provincial attacks on their holdings. Several Newfoundland premiers have demanded that a mining company (Inco) process iron ore in Newfoundland, despite existing processing facilities in Ontario and Manitoba (Stradiotto, 2005). More recently, former Premier Danny Williams demanded "equity" shares in energy companies that were trying to extract offshore oil, companies such as Chevron, ExxonMobil Corp., Petro-Canada, and Norsk Hydro, this was the government's price of allowing development (Guttsman, 2007). Both were threats to existing shareholders—either through extra expenses to be incurred, and/or through the additional dilution in shares.

More recently, in 2008, there was the Newfoundland expropriation of AbitibiBowater Inc.'s land and water rights with zero compensation. Because that was illegal under NAFTA rules, Ottawa agreed to compensate AbitibiBowater with \$130 million rather than let a \$500-million lawsuit proceed (Marotte, 2010).

It would be helpful to recall why foreign investment matters. First, on a do-
unto-others-as-you'd-have-
them-do-onto-you principle, it is useful

to ensure Canadian-based companies are subject to non-arbitrary policies in other countries, and that principle is helped if practiced at home. This is especially critical as



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Canadian-based companies in fact invest more abroad than “foreigners” invest here. At the end of 2009, Canadian-direct investment abroad amounted to \$593 billion according to Statistics Canada. That compares to foreign-direct investment in Canada of \$549 billion (Statistics Canada, 2010). On a think-ahead basis, it is not in anyone’s best interest to advocate restrictions at home that, if implemented more widely abroad, would harm the Canadian foreign investment position.

As for the fear that Canadian head offices are “hollowed out” in foreign takeovers, a 2006 study from Statistics Canada looked specifically at the claim that head offices were disappearing in Canada due to such takeovers. This claim is false. Between 1999 and 2005, “domestic firms taken over by foreign firms created about as many new head offices as they closed,” noted the federal statistical agency (Statistics Canada, 2006, 4). In fact, on jobs, foreign companies created more head-office jobs than did domestic firms in the period surveyed. Foreign-held companies added 21.2% more head-office jobs between 1999 and 2005, compared with only a 5.8% increase for domestically controlled firms. Another Statistics Canada study conducted the previous year, but over a longer period (1973 to 1999), revealed a similar trend: foreign-owned head offices “had about 25% more head-office workers than domestic firms” (Statistics Canada, 2005, 5).

Foreign investment is of tremendous benefit to countries that welcome it. In a paper released last year, economists Nathapornpan Piyaaarekul Uttama and Nicolas Peridy argue that foreign investment in East Asia led to significant productivity growth there. Similarly, in a 2009 paper published by the Federal Reserve Bank of St. Louis, Silvio Contessi and Ariel Weinberger argue that economic growth in American states was actually helped more by foreign investment than by domestic investment (the only caveat in the paper was that the workforce needed to be sufficiently skilled).

In addition, the Fraser Institute found that greater foreign investment in Canada increases productivity, competition, innovation, and access to new technologies (Clemens et al., 2007). The spin-off benefits for consumers include lower prices, higher wages, greater choice, and better quality goods and services.

Saskatchewan Premier Brad Wall and Prime Minister Stephen Harper erred in not taking the lead on pointing out that foreign investment matters to Canada; they erred in not standing up for investment of Canadian companies abroad, and “foreign” companies in Canada; and lastly, they erred in not reminding everyone that, ultimately, such decisions should be a matter for those who risk their capital,

not for political actors upon spurious grounds. If enough Potash shareholders thought BHP’s offer high enough, that should have been up to them—not Ottawa—to decide, especially when national security was not at stake.

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“Feed-in” tariffs in Ontario: UnFIT energy policy



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JOEL WOOD

With the 2009 passing of the *Green Energy and Green Economy Act*¹, intended to build a “green” economy, the Government of Ontario began the implementation of a feed-in tariff (FIT) program (OPA, 2010a) to subsidize the generation of electricity from renewable sources, such as wind, hydro, etc. Ontario Premier Dalton McGuinty has justified the FIT program as a way to stimulate the lagging Ontario economy through the creation of green jobs (McGuinty, 2010). The Ontario Ministry of Energy and Infrastructure (OMEI) claims that the subsidy program “will help Ontario to phase out coal-fired electricity by the end of 2014—the single largest climate change initiative in North America” (OMEI, 2010a). Environmental groups have also argued that subsidized investment in renewable energy generation will reduce local air pollution (Environmental Defence, 2010). However, evidence suggests that these justifications are flawed, and that the FIT program will result in increased government debt in order to avoid a political backlash from citizens burdened with large increases to their electricity bills.

A feed-in tariff is a guarantee from the government that any power generated from a government-approved, renewable-energy project will be purchased by local utilities at a fixed price that is above market value over a set time interval. FIT programs have been implemented

by several European nations since the 1990s (Couture et al., 2010). A feed-in tariff encourages investment by private firms in renewable energy projects by providing a subsidized price above market value for electricity, and by shifting the risk associated with price uncertainty away from investors. The FIT price offered by the Ontario government varies depending on the source of renewable energy and a detailed breakdown is provided by the Ontario Power Authority (OPA, 2010b). In the context of FIT, the government pays a price to FIT project owners calculated through each kilowatt hour (kWh) of electricity produced. The lowest FIT prices for each renewable source are \$0.135/kWh for wind, \$0.122/kWh for hydro, \$0.443/kWh for solar, and \$0.147/kWh for bioenergy projects less than 10 mW.² By the second quarter of 2010, the Ontario Power Authority had approved “598 Feed-in Tariff contracts with a combined capacity of approximately 1,994 mW” (OPA, 2010c: 2). For perspective, the approved FIT projects would account for approximately just 5% of current generating capacity—the maximum combined output of all generation facilities—in Ontario.³ The addition of the FIT projects to current capacity would increase renewable generation (including hydro) to around 30% of total capacity (the remaining capacity would be 31% nuclear, 26% natural gas, and 12% coal) (IESO, 2010; author’s

Table 1: Costs of greenhouse gas (GHG) reductions

Energy source	GHG intensity (g CO ₂ e/kWh)	Cost (\$/t CO ₂ e)
Wind	10	91.20
Hydroelectric	10	86.91
Biogas	11	160.95
Solar PV	32	819.66
Natural gas with carbon offsets	0	27.00

Sources: EIA, 2010; OPA, 2010b, Navigant Consulting, 2007; Sovacool, 2010; calculations by author.

calculations). Over 50% of the approved FIT capacity is from wind, over 25% from solar, 10% from hydro, and only 1% from bioenergy. The approval of FIT projects is ongoing, thus renewable energy is expected to account for an even greater percentage of total generating capacity.

The current structure of the Ontario electricity system suggests households and small businesses will bear the cost of the FIT program if the current pricing system remains intact. In Ontario, households and small businesses purchase electricity from local utilities at fixed prices set by a branch of the Ontario government, the Ontario Energy Board (OEB),⁴ whereas large businesses participate in the wholesale energy market in which market prices equal to, or greater than, the lowest FIT prices occur less than 3% of the time (Navigant Consulting, 2010). Therefore, the owners of FIT projects will rarely choose to sell electricity in the wholesale market if they can sell to the local utilities at the prescribed FIT prices. The cost of the electricity purchased by the local utilities is essentially averaged across energy sources to calculate the fixed prices set by the OEB. Thus, the OEB fixed prices will also include the cost of the FIT program. Furthermore, the FIT subsidy will be paid for by households and small businesses who will experience increased fixed prices, as the current OEB fixed prices are much lower than the FIT prices. Forecasts in *Ontario's Long Term Energy Plan* predict that the fixed prices will increase about 46% over the next 5 years, with 56% of that increase attributable to investment in renewable energy (OMEI, 2010b:59). However, in November 2010, the Ontario government announced its intention to intervene to prevent these large increases in household electricity bills (Howlett and Radwanski, 2010). The government proposed the *Ontario Clean Energy Benefit*, which is a 10% rebate on household electricity bills (Duncan, 2010). The problem

is that the proposed rebate will be funded by further government borrowing that will then put the Ontario government in the perverse position of subsidizing both the consumption, and the production, of electricity.

The possibly well-intentioned, yet misguided, justifications for implementing the FIT program have been to stimulate the economy by creating jobs, reduce local air pollution, and reduce greenhouse gas (GHG) emissions. To address the first, stimulating the economy through government spending and government-funded investment (e.g., the *Infrastructure Stimulus Fund*)⁵ has been ineffective in Canada (Karabegović et al., 2010) and elsewhere. For example, a study entitled *Study of the Effects on Employment of Public Aid to Renewable Energy Sources* estimates that 2.2 jobs are displaced in the Spanish economy by every renewable energy job created through public subsidies (Alvarez et al., 2009). The evidence suggests that government-subsidized investments in renewable energy infrastructure will actually not be good for employment and/or economic growth in Ontario.

As to reducing air pollution, Ontario already regulates the emission of air pollutants by large emitters—such as electricity generation plants—through various regulatory mechanisms that account for local air quality. Furthermore, ambient concentrations of major air pollutants have decreased substantially in Ontario over the past 35 years (McKittrick, 2008). Electricity generation in Ontario accounts for 24% of sulfur dioxide emissions and only 10% of nitrogen oxide emissions (OME, 2010), but according to the Environmental Protection Agency, natural gas-fired electricity generation produces negligible sulfur dioxide and mercury emissions, and less than a third of the nitrogen oxide emissions of coal-fired generation (EPA, 2010). Therefore, replacing coal-fired generators with natural gas-fired generators, instead of renewable energy projects, would still result

in the reduction of sulfur dioxide and mercury emissions from electricity generation to almost zero. It would also cause large reductions in nitrogen oxide emissions. The improvements to air quality attributed to the FIT program come not from renewable energy itself, but actually from the planned closure of coal-fired generators. Similar improvements could be achieved through investment in natural gas or nuclear energy, instead of costly renewable energy.

Finally, then, the one valid justification for the FIT program is the claim that renewable energy has extremely low emissions of GHG in comparison to all other electricity sources (Sovacool, 2008). However, it is important to evaluate the cost of these GHG reductions compared to an alternative source of electricity, such as electricity generated by using natural gas. Electricity production cost estimates⁶ for natural gas generation are between \$0.11/kWh when producing 20% of the time and \$0.08/kWh when producing 80% of the time (OPA, 2007). Unlike the FIT prices, the costs of gas-fired generation are very low. Electricity generation using natural gas also avoids the intermittency problems associated with wind and solar energy (e.g., the inconsistency of wind patterns and cloud cover), and can run much more regularly if needed—up to 87% of the time versus 34.4% for solar energy and 21.7% for wind energy (EIA, 2010). Table 1 presents estimates of GHG emissions per kWh and the cost of GHG reductions (relative to natural gas electricity generation). The cost of GHG reductions can be estimated using the FIT prices, the cost of gas fired generation, and lifecycle emission estimates. Of the renewable energy sources, hydro generation has the lowest cost of reducing GHG emissions at \$86.91 per tonne of GHG avoided, whereas reducing GHG emissions through wind power costs \$91.20 per tonne of GHG avoided, and Biogas costs \$160.95 per tonne of GHG avoided. Reductions through solar energy are substantially more expensive than the other technologies at an astounding \$819.66 per tonne of GHG avoided. For perspective, the average price to offset a tonne of GHG through eight major Canadian carbon offset companies is around \$27 per tonne of GHG. Thus, it would be much



cheaper to rely on electricity from natural gas and achieve GHG reductions through purchasing carbon offsets (Table 1). If we include the cost of the carbon offsets, the generation costs for electricity generated from natural gas would be \$0.09/kWh, which is much lower than any of the guaranteed FIT prices. If the only achievable purpose of the FIT program is to reduce GHG emissions, it is an extremely expensive way of doing so.

Overall, the FIT program is not the least costly way to meet the economic and environmental goals of the Ontario government, nor is it good public policy for Ontario. Other Canadian provinces contemplating implementing feed-in tariff programs should seriously reconsider their policy options.

Notes

1 The *Green Energy and Green Economy Act*, also known as Bill150, repealed the *Energy Conservation Leadership Act* and the *Energy Efficiency Act*. Among many other things, the *Green Energy Act* will allow the province to require vendors of real estate to provide energy efficiency information and possibly an energy audit.

2 mW = megawatt, kW = kilowatt, and 1mW = 1000kW.

3 Based on current generating capacity of 35,781 mW (IESO, 2010).

4 See OEB, 2009 and 2010 for detailed information on OEB pricing. The former is a simple overview, and the latter is more technical. For a thorough discussion of various inefficiencies caused by OEB pricing, see Dewees, 2010.

5 The *Infrastructure Stimulus Fund* provides funding to provincial, territorial and municipal construction-ready infrastructure rehabilitation projects. Funding is available for two years for projects that begin during the 2009 and 2010 construction seasons. For more details, see <http://www.actionplan.gc.ca/initiatives/eng/index.asp?mode=2&initiativeID=116>

6 Electricity cost estimates are of the levelized cost of electricity (LCOE) and represent the present value average price per kWh required over a project's operational life to cover all project costs (construction, operating, maintenance, fuel, etc.). LCOE is used by analysts to compare costs of electricity generation between energy different sources.

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How much do we really pay?

The price of public health care insurance

MILAGROS PALACIOS AND NADEEM ESMAIL

Canadians often misunderstand the true cost of our public health care system. This is partly because health care consumption is free¹ at the point of use, which leads many to underestimate grossly the actual cost of the care delivered. Furthermore, health care is financed through general government revenues rather than through a dedicated tax, which blurs further the true dollar cost of the service. In addition, health spending numbers are often presented in aggregate, which results in a number so large that it becomes almost meaningless to the average Canadian.

For instance, consider that approximately \$125 billion of our tax

dollars was spent on publicly funded health care in 2010 (CIHI, 2010). If Canadians understood the true cost of our publicly funded health care system, we would be able to better assess whether we are receiving value for our money. A more informative measure of the cost of our health care system is health spending on a per capita basis. The \$125 billion spent on health care in 2010 is approximately \$3,663 per Canadian (CIHI, 2010). This would be the cost of the public health care insurance plan if every Canadian resident paid an equal share. However, some

Canadians are children and dependents, and thus are not taxpayers, and Canadians certainly do not pay equal amounts in taxes each year. Given the nature of our tax system, higher-income earners bear a greater proportion of the tax burden than lower-income earners, and thus contribute proportionally more to our public health care system.



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Table 1: Average income and average total tax bill of representative families, 2010*

Family type	Average cash income	Average total tax bill	Tax rate	Health care insurance
Unattached individuals	\$36,427	\$14,040	38.5%	\$3,594
2 Parents, 0 Children	\$90,034	\$41,073	45.6%	\$10,514
2 Parents, 1 Child	\$106,102	\$41,374	39.0%	\$10,591
2 Parents, 2 Children	\$108,428	\$42,455	39.2%	\$10,867
1 Parent, 1 Child	\$41,553	\$12,099	29.1%	\$3,097
1 Parent, 2 Children	\$44,702	\$12,086	27.0%	\$3,094

*Preliminary estimates

Source: The Fraser Institute's *Canadian Tax Simulator*, 2010.

Table 2: Average income and total tax bill in each decile, 2010*

Decile**	Average cash income	Average total tax bill	Tax rate	Health care insurance
1	\$11,763	\$1,911	16.2%	\$489
2	\$25,252	\$4,769	18.9%	\$1,221
3	\$34,180	\$9,089	26.6%	\$2,327
4	\$43,152	\$14,508	33.6%	\$3,714
5	\$52,897	\$20,243	38.3%	\$5,182
6	\$65,308	\$26,400	40.4%	\$6,758
7	\$79,259	\$33,843	42.7%	\$8,663
8	\$97,486	\$41,459	42.5%	\$10,612
9	\$123,452	\$53,989	43.7%	\$13,820
10	\$234,129	\$125,232	53.5%	\$32,056

*Preliminary estimates

**Deciles group families from lowest to highest incomes with each group containing 10% of all families. The first decile, for example, represents the 10% of families with the lowest incomes.

In order to more precisely estimate the cost of public health care insurance for the average Canadian family in 2010, we must determine how much tax an average family pays to all three levels of government. The percentage of the family's total tax bill² that pays for public health insurance is then assumed to match the share of total government tax revenues (income) spent on health care—25.6% in 2009/10 (Statistics Canada, 2010; CIHI, 2010; authors' calculations). Table 1 shows six Canadian family types, the estimated average income³ for those family types in 2010, and their estimated dollar contribution to health care. In 2010, the average unattached (single) individual, who earned a little more than \$36,400, paid approximately \$3,594 for public health care insurance. An average Canadian family consisting of two adults and two children (earning a little more than \$108,400) paid about \$10,867 for public health care insurance.

Table 2 divides the Canadian population into ten income groups (deciles) to show what families from various income brackets paid for public health care insurance in 2010.

According to this calculation, the 10% of Canadian families with the lowest incomes paid an average of about \$489 for public health care insurance. The 10% of Canadian families who fall into the 5th decile (who earn an average income of \$52,897) paid an average of \$5,182 for public health insurance. The families among the top 10% of income earners in Canada paid \$32,056.

The costs of public health care insurance presented in Tables 1 and 2 are a significant departure from the per capita figure of \$3,663 given earlier. Our hope is that these figures will provide Canadians with a clearer picture of just how much they pay for public health care insurance. With a more precise estimate of what they really pay, Canadians will be in a better position to decide whether they are getting a good return on the money they spend on health care.

Notes

1 In dollar terms. There are costs associated with health care use in Canada that are not monetized, such as wait times for access to medical services.

2 The total tax bill includes income taxes (personal and business); property taxes; sales taxes; profit taxes; health, social security, and employment taxes; import duties; license fees; taxes on the consumption of alcohol and tobacco; natural resource fees; fuel taxes; hospital taxes, and a host of other levies.

3 The definition of income used throughout this piece is cash income. Cash income includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit).

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