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Canada's 2012 budgets

A lack of leadership in tackling deficits and debt

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Worker choice laws: Indiana sets the example

Property confiscation through regulation

The causes of long waits for medical care in Canada

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From the editor

The first quarter of the year has come and gone and with it came the federal and provincial budgets. By the end of March, all budgets had been presented and Fraser Institute researchers responded promptly with their reviews and critiques.

Starting on page 9, *Fraser Forum* researchers look at the federal budget and three provincial budgets—Alberta, British Columbia, and Ontario—respectively. Each budget has its own unique flaw: the federal budget merely plans savings, not substantial cuts (pg. 9); Alberta has no credible plan for a return to a balanced budget (pg. 12); BC's plan raises taxes and increases government spending (pg. 14); and Ontario had the opportunity to make significant, and much needed, changes but chose not to (pg. 16). In each budget article, Institute researchers dive in and explain what ought to have been done to balance the books quickly and effectively.

This issue also brings attention to worker choice laws in the United States—specifically, Indiana, the latest state to implement these laws. *Follow Indiana's lead* (pg. 5) discusses how Canadian provinces are affected by worker choice laws and how their implementation would benefit the Canadian worker. In *Stealth confiscation: Property takings via regulation* (pg. 19), Mark Milke explains how regulatory changes to private property can prevent certain uses of that property, which in turn can affect property values.

You won't want to miss our health care articles: *Canada's aging medicare burden* (pg. 23) discusses how Canada's aging population might affect our health care system in the future. In *Why we wait* (pg. 27), Bacchus Barua follows up on the *Waiting your turn* study and explains some of the causes for the long wait times Canadians face for health care.

The May/June issue also brings you an article on the political history of Bob Rae, former Ontario premier and interim leader of the federal Liberal party (pg. 7), a review of Canada's supply management boards (pg. 31), an update on policy research from outside the Fraser Institute (pg. 34), and a column from Walter Williams on government regulation (pg. 36).

~ Emma Tarswell

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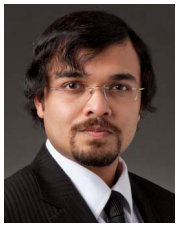

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Follow Indiana's Lead

Canadian provinces should give workers choice

Niels Veldhuis and Amela Karabegović

Despite massive protests by organized labour groups, in early February Indiana became the first state in the industrial United States Midwest to pass worker choice legislation (Government of Indiana, 2012). With the legislation having passed in the House and the Senate, Governor Mitch Daniels, who actively backed the legislation, signed the bill into law as soon as it came across his desk (Schneider and Sikich, February 1, 2012).

Indiana's worker choice law (called right-to-work laws in the United States) will allow workers to choose whether they want to join and financially support a union. The result will be a considerable power shift from unions to ordinary workers and, as a result, Indiana will instantly become a significantly more competitive jurisdiction for business investment.

Any Canadian province looking for a boost to business investment would do well to follow Indiana's lead and adopt worker choice laws.

To have an informed debate about the impact of such legislation, it is important to understand the differences between US states and Canadian provinces. In the United States, federal legislation allows all workers in any state to opt out of union dues that are not related to

representation. That is, if unions want to pursue social or political goals, workers can request that their union dues be reduced proportionately if they do not want their dues supporting such activities.

To date, 23 (including Indiana) have expanded that legislation by adopting worker choice laws. These laws allow workers in those states to fully opt out of union dues.

Here in Canada, labour law is different. Current labour relation laws in all Canadian provinces (and at the federal level) allow mandatory union membership and dues payment clauses to be included in collective agreements. This means that when workers join unionized firms, they can be forced to become union members and financially support the representative union as a condition of employment (Karabegović et al., 2009).

The economic benefits of worker choice laws come primarily through reductions in unionization. Perhaps not surprisingly, when workers are given a choice about becoming a member of a union and paying its dues, they choose unions less often.

For example, Canada's unionization rate was 31.5 percent in 2010 compared to 8.0 percent in states with worker choice laws and 15.8 percent in states without such laws (Statistics Canada, 2011; Hirsch and Macpherson, 2011). In other words, the unionization rate in states with worker choice laws was almost a quarter of that in Canada.

In a recently published Fraser Institute article, Richard Vedder, a distinguished professor of economics at Ohio University, found that there has been an enormous migration to states with worker choice laws from states without such laws. Specifically, from 2000 to 2009, approximately five million Americans moved from the 28 states without worker choice laws to the 22 states with worker choice laws. Vedder concludes that workers "flatly prefer a legal environment where the sale of their labour services is not constrained by laws requiring union dues payment" (Vedder, 2010b: 13-14).

More importantly, Professor Vedder finds that states with worker choice laws have higher rates of labour participation, lower unemployment rates, higher rates of economic growth and greater investment, even after controlling for a number of other factors such as tax burden, the level of education, the amount of land area, and population growth (Vedder, 2010a and 2010b).

His research also estimates the impact of worker choice laws on living standards and finds that implementing a worker choice law increases a jurisdiction's annual per person income by $2,800 (Vedder, 2010a and 2010b).

Several other studies buttress Professor Vedder's research. For example, Florida State University Professors Randall Holcombe and James Gwartney recently reviewed the literature on the impact of worker choice laws on economic development and concluded that "decades of empirical research in economics shows that the absence of right-to-work laws hinders economic development" (Holcombe and Gwartney, 2010: 14).

Workers in Indiana now stand to benefit from greater freedom and more business investment in their state. This should be especially concerning for Ontario which competes for business investment with bordering industrial states, including Indiana.

While the evidence on the benefits of worker choice laws is clear, there has yet to be a Canadian province willing to implement such a law. Now may be the time to change that.

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More Rae Days ahead?

Andremet

Niels Veldhuis and Milagros Palacios

At the closing of the Liberal Party's convention last January, interim leader Bob Rae chose to contrast his record as Ontario premier to that of the current Conservative Party. When comparing the spending increases in Ontario under his leadership with those of Stephen Harper, Mr. Rae boldly noted, "I was a piker compared to Jim Flaherty and Stephen Harper" (Taber, 2012).

Rather than acknowledge his mistakes and enumerate the lessons he learned, Mr. Rae defended his record as Ontario premier and the efficacy of his policies: "We made the difficult choices and the right investments and yes some of them were unpopular" (Rae, 2012).

Mr. Rae, who many believe will become the official leader of the Liberal Party, has made his Ontario record an issue. So a look back is warranted as Liberals consider Mr. Rae for helmsman of their party and Canadians, more broadly, consider him as a contender for leadership of the country.

In reviewing Mr. Rae's record, two periods deserve reflection. The first is from 1985 to 1987, when Bob Rae's New Democratic Party (NDP) was the minority partner of then Premier David Peterson's Liberal Party. The second is from 1990 to 1995, during Bob Rae's stewardship of the province.

David Peterson's three-year minority government—and particularly its 1985 budget—are instructive since all legislative initiatives required the support of either the NDP or the Tories, and it was almost always the NDP providing support.[1] The 1985 budget increased personal income taxes from 48% to 50% (at the time provincial income taxes were calculated as a percent of basic federal income tax), increased corporate income taxes from 15.0% to 15.5%, introduced a new 3% surtax on personal income taxes, and increased the land transfer tax, "sin" taxes[2], and fuel taxes (Ontario, Ministry of Treasury and Economics, 1985; Canadian Tax Foundation, 1986 and 1987).

In addition, the Peterson minority government, which stayed in power with Rae's NDP support, increased program spending by an average of nearly 10% (Canada, Department of Finance, 2006 and 2011).

As the junior partner in the minority government of 1985-87, Mr. Rae can be held only partially accountable for these policies, but his NDP held a majority from 1990 to 1995 and he therefore owns complete responsibility for provincial government policy during that period. Indeed, policy choices in this latter period are informative of Rae's political and ideological preferences.

Over the course of its five-year mandate beginning in 1990, Mr. Rae's NDP majority government increased personal income taxes from 53% to 58% of basic federal tax, and not only increased the surtax applied on top of income taxes but also introduced a tiered-system of surtaxes with rates ultimately reaching 20% and 30%. The government also introduced a new minimum tax on corporations.[3] It increased capital tax levies on financial institutions and introduced a new surtax on the sector's profits (Ontario, Ministry of Finance, 1990-1995).[4]

The NDP did, however, slightly reduce in the preferential tax rate for small businesses and for manufacturers and processors.[5] But this tax break's impact was reduced by a new surtax on small business income in excess of $200,000.

Program spending exploded in the election year of 1990, reaching $45.5 billion, an increase of almost 13% in one year (Rae assumed office half way through the year). The NDP's first budget increased program spending by another 13%, hitting $51.4 billion. The result, despite tax increases, was a $10.7 billion deficit (3.8%

of GDP), which increased the following year to $12.1 billion (4.2% of GDP). The NDP racked up $49.7 billion in new debt over the course of its five years in power, despite heavy tax increases. As a result, the province's total net debt reached nearly $100 billion (29.5% of GDP).[6]

As the debt grew, interest on the debt, which creates a wedge between the revenues collected and the money spent on actual programs and services, increased substantially. The increase resulted from rising debt, higher than expected interest rates, and growing concern about the government's ability to manage its finances. Interest costs increased from $5.5 billion in 1990-91 to $9.6 billion in 1995-96, an increase of almost 75%. More telling, interest costs on the debt as a percentage of revenues increased from 11.3% in 1990-91 to 17.5% in 1995-96 (Statistics Canada, 2009; calculations by authors). By the end of the NDP's reign, more than one of every six dollars of revenues was being absorbed by interest costs.

A more edifying example of the NDP's approach to policy is welfare. Rather than recognize the failures of their Liberal predecessors, which saw dependency increase as benefits were hiked and eligibility expanded, Mr. Rae's NDP extended those policies.[7] Benefit rates were increased again, eligibility was further expanded, and controls on the program were eased. The result was an explosion of welfare use in the province. Welfare rolls, including dependents, increased from 675,700 in 1990 to 1.3 million in 1995, which meant an additional 668,900 Ontarians were on welfare (Schafer et al., 2001: 45). The portion of the population on welfare went from a relatively sustainable 6.6%, to a disastrous 12.3%; essentially one in eight Ontarians was on welfare (Schafer et al., 2001: 47).

This is not to say that the NDP didn't recognize some failures and try to backtrack. Largely as a result of capital markets imposing discipline on the Ontario government, the Rae government implemented a program spending cut in 1993-94 (albeit minor after the more than 30% increase in the early 1990s), a sign that the government was trying to get its fiscal affairs in order (Statistics Canada, 2009; calculations by authors).

The fact, however, that Mr. Rae is now defending his record rather than acknowledging the mistakes and lessons learned is troubling. That should worry Liberals, and Canadian more generally given that Mr. Rae might very well become prime minister or participate in a minority government.

Notes

1 For a composition of the legislature in 1985, see **http://results.elections.on.ca/results/history/composition/1977.jsp?flag=E&layout=G**.

2 "Sin" taxes refer to those levied on tobacco and alcohol.

3 In 1993, the government created a Corporate Minimum Tax with a minimum rate of 4%.

4 Capital tax assessed on financial institutions was raised from 0.8% in 1991 to 1.12% in 1992. Effective January 1, 1991, Ontario introduced a new surtax of 3.7% applied to small business income in excess of $200,000. This rate was increased to 4% in 1992.

5 The tax rate for manufacturing, processing, mining, farming, logging, and fishing was reduced from 14.5% to 13.5% in 1992. The same year, the tax rate for small business was reduced from 10.0% to 9.5% (Ontario, Ministry of Finance, 1990-1995).

6 Figures provided in this paragraph come from Statistics Canada, 2009 and 2010.

7 For a detailed analysis of welfare reforms in Ontario, see Gabel et al. (2004).

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The no-cut federal budget

Bigstock

Niels Veldhuis, Charles Lammam, and Milagros Palacios

There it was on the front page of the *Globe and Mail*: "$5.2 billion [in] total spending cuts" (2012a). The *Toronto Star* screamed, "Tories slash spending in fiscal overhaul" (2012), while CTV.ca proclaimed, "Budget to cut spending nearly $6 billion" (2012).

Perhaps these headlines were based on a different budget than the one we found on the Department of Finance's website. The Conservatives' budget actually stated: "The results of the Government's review of departmental spending amount to roughly $5.2 billion in ongoing savings" (Canada, Department of Finance, 2012: 211).

That's savings, folks, not cuts. And what will the Conservatives do with the "savings"? Spend them.

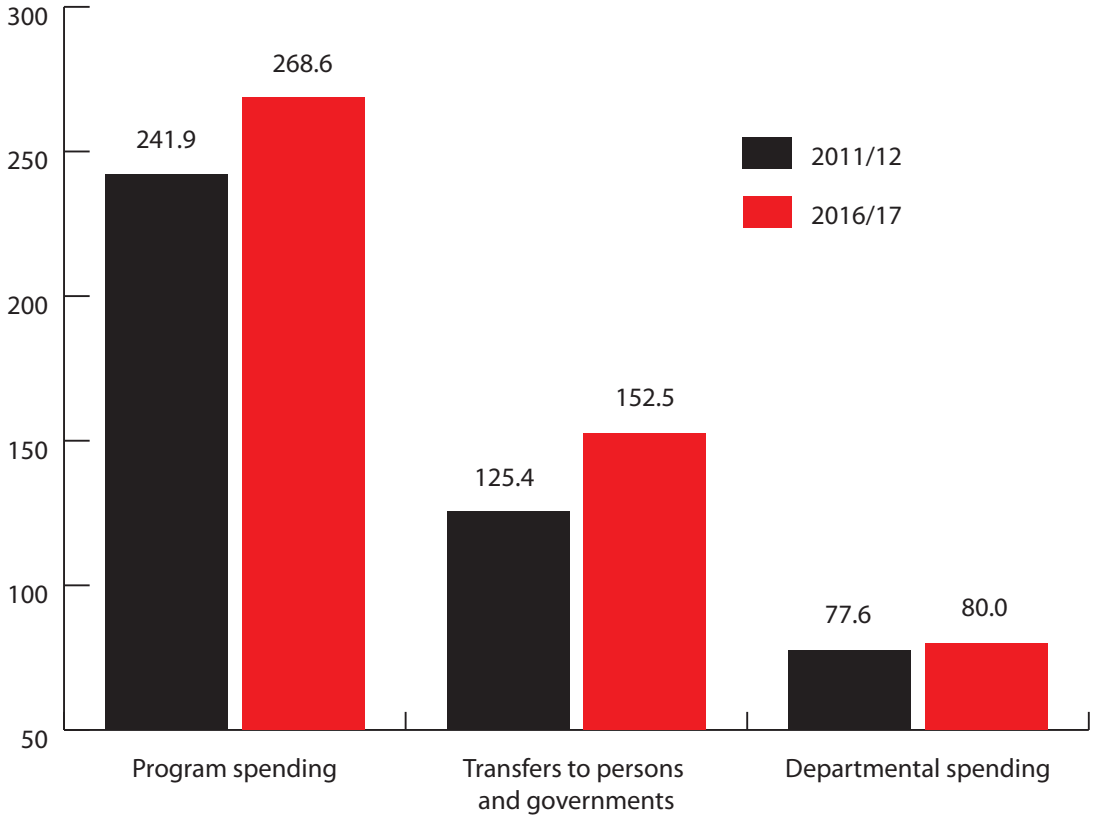
In the coming fiscal year (2012/13), the Conservative government plans to spend $245 billion (excluding interest charges on the debt).[1] From there, program spending will increase each year over the budget's five-year plan. By 2016/17, program spending will be some $27 billion higher than it is today.

So how then is a $27 billion increase in spending interpreted as a $5.2 billion cut? It's simple really. When the Conservatives slow the growth of spending increases, media and other pundits consider that a cut. When they find savings in one area of their $245 billion budget and spend it in another area, they're cutting. When they reduce planned spending some four years into the future (2015/16) from $266 billion to $262 billion, they're cutting—even though planned spending is still increasing from 2014/15 to 2015/16.

The bottom line is that whether the Conservatives decrease, increase, or keep spending constant, they are seen to be slashing it.

The $5.2 billion in "savings" comes from departmental spending, which accounts for only about 31% of

Figure 1: Where's the $5.2 billion cut? Federal spending in 2011/12 and 2016/17



Source: Canada, Department of Finance (2012); calculations by authors.

the total amount that the federal government spends on programs each year.[2] And even departmental spending will not be cut by the headline figure of $5.2 billion. Rather, the $5.2 billion in savings won't be achieved until 2015/16 and will be a decrease in planned spending not actual year-over-year spending. As figure 1 shows, departmental spending will increase by $2.4 billion over the next five years. Larger increases are planned for federal spending on transfers to individual Canadians and other levels of government.

Unfortunately, Canadians are not getting an open and honest discussion about our government's finances, the potential risks it faces, and what really needs to be done.

Consider that the *Globe and Mail*'s editorial board thought it was "a prudent, conservative budget" (2012b) and the *National Post*'s editorial board said the "budget puts Canada on the right fiscal track" (2012).

But that fiscal track is one that relies on the hope that revenues will eventually catch up to spending in order to balance the books by 2015/16. Over the next four years, the government is assuming revenue growth averaging 4.9% annually.

Even as the Canadian economy was humming along from 2002 to 2007—and outperforming most other countries economically—federal budgets never forecast revenue growth of that magnitude. For instance, Budget 2003 forecast average revenue growth of 4.0%; Budget 2004, 3.3%; Budget 2005, 4.2%; Budget 2006, 3.6%; and Budget 2007, 3.5% (Canada, Department of Finance, 2003-2007).

A plan that relies on overly optimistic, perhaps even unrealistic, revenue projections to grow out of deficit contains significant downside risk and almost no upside potential. If revenues don't increase as expected, the country will be left with larger deficits for a much longer time and significantly more government debt.

Should some adverse event occur the government will likely be unable to meet its 2015/16 balanced budget target, which is already one year later than promised in last year's election. Even the government's own estimates show that if economic growth stalls by a percentage point, the deficit will grow by about $4 billion (Canada, Department of Finance, 2012: 251).

Instead of relying on a risky plan to balance the budget, the Conservatives should have used their majority to enact a bold and aggressive plan to balance the budget more quickly through actual reductions in spending. Doing so would have reduced the tremendous debt burden

One slight bump in the road ahead and the government will likely be unable to meet its 2015/16 balanced budget target...

that is being passed on to the next generation of taxpayers and would have helped set the foundation for future economic growth.

A shorter timeline to a balanced budget would have also mitigated the risks associated with future economic shocks, leaving the Conservatives with the potential for enacting pro-growth economic policies. That is, if revenues rebound robustly, the government would have the fiscal room to implement a much-needed multi-year plan to reduce marginal tax rates on personal income.

While many in the media apparently think that the government delivered an austere, conservative budget, the converse is true. The 2012 balanced budget plan was almost identical to that delivered under a minority Conservative government back in 2011. We noted then that Flaherty's plan was on "shaky ground." We'll stick by that assessment now.

Notes

1 Unless otherwise noted, all data contained in this article is sourced from Canada, Department of Finance (2012).

2 Departmental spending is calculated by adding the direct program expenses line items "other operating expenses" and "operating expenses subject to freeze."

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Nothing "conservative" about Alberta's budget

Bigstock

Niels Veldhuis, Nadeem Esmail, and Milagros Palacios

As Albertans pondered Premier Alison Redford's first budget on February 9, they would have been wise to ignore Finance Minister Ron Liepert's assurance that Albertans can "[take] comfort in our fiscal situation" (Liepert, 2012). A closer look at the budget reveals a dearth of prudence and no credible plan to return Alberta to a balanced budget position.

Redford's Progressive Conservative government claims it will balance the budget by 2013-14. However, the budget numbers tell a different story. In 2013-14, the government plans to have enough revenue to pay for operating expenses but not capital expenditures (Alberta Finance, 2012: 8). As a result, it will extract a further $1.3 billion from the Sustainability Fund[1] (after extracting some $3.7 billion this year) (Alberta Finance, 2012: 109). Claiming the budget is balanced while depleting the province's reserve account misleads Albertans.

The reality is that the budget won't be balanced until 2014-15. And unfortunately the plan to balance the budget relies on unrealistic spending and revenue projections.

On the revenue side of the ledger, the government is hoping for a robust average growth rate of 8.4 percent over the next three years (Alberta Finance, 2012: 109; calculations by authors). This is based in part on optimistic forecasts of future revenue and economic growth. For example, the budget assumes average oil prices of $105 per barrel over the next three years (Alberta Finance, 2012: 89). While that price might be realized, a slight decrease in price of, say, $4 per barrel would result in nearly a $1 billion drop in revenues for 2012 alone.[2]

Additionally, the government's forecast for personal income growth is 37 percent higher than that of private sector forecasting agencies (including the major banks), and the government's economic growth forecasts are 10 percent higher than those of the same agencies (Alberta Finance, 2012: 92-93; calculations by authors).[3]

The government is also including as revenue the additional $1 billion in federal transfer money it will receive in the third year of the fiscal plan as a result of the new transfer formula (Alberta Finance, 2012: 58, 110). However, the billion dollars is money that has annually been taken from the pockets of Albertans to pay for spending in other provinces. The transfer shouldn't be part of the government's spendthrift plan. Rather, it should be returned to Alberta's taxpayers.

On the spending side, the government proposes to hold program spending growth to an average rate of 3.3 percent for the coming year (Alberta Finance, 2012: 109; calculations by authors). The government assures us that it "will be disciplined enough to spend no more" (Liepert, 2012). Forgive us for being skeptical about this promise. In last year's budget

the government said it would hold spending growth to 1.9 percent in 2011/12 but then nearly doubled the growth in spending to 3.6 percent (Alberta Finance, 2011 and 2012).

If revenues don't increase markedly as expected, or the government is not able to deliver on its spending plan, the province will be left with large deficits for a much longer time period; threatening to *undo* what Liepert called "the advantages Albertans have worked so hard to achieve" (2012).

The government's claim that its budget provides "comfort" is shocking.

Of course, to actually comfort Albertans, Liepert repeatedly emphasized in his speech that there are no tax increases in this budget—indeed, he mentioned it five times. That claim, however, came with the unusual proviso that the government wants to have a "discussion on taxes" in the future (likely after the election).

Liepert also mentioned the need for Alberta to move away from relying on volatile resource revenues towards a more stable footing for the future. While the province is right to want to decrease its reliance on natural resource revenues, increasing other taxes or adding new ones is not the way forward.[4] To reduce reliance on resource revenues, the real discussion Alberta needs to have is about how to reduce and control spending.

Courtesy, Government of Alberta

The odds are stacked against Premier Redford's plan to balance the budget

For proof one need look no further than this: by the end of the budget plan (2014/15), revenues will have increased by 38 percent over the decade (from 2005/06 to 2014/15) while total spending will have increased by 63 percent (Alberta Finance, 2012; Canada, Department of Finance, 2011; calculations by authors).

Premier Redford's plan to balance the budget is optimistic by most measures and the odds (and history) are stacked against it. There's simply nothing "conservative" about this budget.

Notes

1 The Sustainability Fund was created in 2003 to protect the budget from possible future shortfalls. For more details about this fund, see **http://www.qp.alberta.ca/574.cfm?page=F15P1.cfm&leg_type=Acts&isbncln=9780779742295&display=html**.

2 The Alberta government forecast in the budget that a decrease of $1 per barrel of oil would have an impact of $223 million in revenues (Alberta Finance, 2012: 88).

3 The government forecasts an average real economic growth (GDP) of 3.4 percent from 2012 to 2015. Meanwhile, private sector forecasting agencies predict an average real GDP growth of 3.1 percent over the same period. The average personal income growth predicted by the government is 6.2 percent, compared to 4.5 percent predicted by private sector agencies from 2012 to 2015 (Alberta Finance, 2012).

4 Increasing taxes and creating new ones create strong disincentives for people and businesses to work hard, save, invest, and engage in entrepreneurial activities. For a detailed literature review of the evidence of the impact of taxes on economic growth, labour supply, investment, and entrepreneurship and risk-taking, see Palacios and Harischandra, 2008.

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BC's 2012 budget: A firm foundation for the future?

Charles Lammam and Niels Veldhuis

With economic uncertainty as the backdrop, the BC government had to put forth a prudent budget on February 21. Finance minister Kevin Falcon acknowledged as much by reassuring British Columbians that the budget was "built on fiscal discipline" and lays a "firm foundation for the future" (Falcon, 2012). Falcon even warned of the perils of additional government taxes, spending, and borrowing in the current economic environment, calling such measures "potentially catastrophic" (Falcon, 2012).

We couldn't agree more. Unfortunately, instead of acting on the minister's rhetoric, BC's 2012 budget increases government spending, hikes taxes on British Columbians, and significantly ramps up government debt—exactly what the finance minister says the government ought not to do.

After four consecutive years of budget deficits totaling $5.6 billion, the Liberals are finally planning to return to a surplus position in 2013/14 (British Columbia, Ministry of Finance, 2012). But that's where the good news ends.

To balance the books, the government is relying on a host of new tax increases including a reduction to the amount of income British Columbians can earn tax free, increased Medical Services Plan (MSP) premiums, reneging on an earlier promise to eliminate the small business tax rate, higher tobacco taxes, and a "provisional" one percentage point increase to the general corporate income tax rate in 2014/15.

The potential of higher business taxes will prove especially damaging to BC's economy. They will create policy uncertainty during already uncertain economic times and further degrade BC's investment climate when improvements are desperately needed to counteract the blow from restoring the PST next year (Veldhuis et al., 2011).

The tax increases in the budget are partly to help pay for several new boutique tax credits targeted at particular individuals and businesses.[1] These tax credits, which are basically new spending measures, will keep other tax rates higher than they would be otherwise to compensate for lost revenues. Rather than further distort the tax system and provide disproportionate goodies to some groups, a more effective approach would have been to reduce tax rates more broadly to benefit all British Columbians.

The government could have balanced the budget (and even sooner) without increasing taxes had the Liberals restrained the growth of government spending more aggressively than the 1.8% annual growth planned for the next three years. While some might balk at the idea of further restraint,

The government could have balanced the budget without increasing taxes

Fotolia

the key for success is to couple spending restraint with program reform.

Consider health care, the provincial government's largest expense and one that has consumed ever more government resources. In just a decade, health care has grown from 37% of government program spending in 2001/02 to 43% today (British Columbia, Ministry of Finance, 2012). The trend of skyrocketing health care costs will continue as the population ages and demands for services grow; costs are projected to reach 45% by 2014/15.

By reforming how the health care system operates, the government could have further restrained or even reduced spending while improving the quality of services; for examples of such reform we need only look to policies that are common in universal health care systems around the world (Esmail and Walker, 2008).

Rather than engage in meaningful and fundamental program reform, the government chose to simply increase health care spending, albeit at a reduced rate and despite previous increases that have done little to improve quality. The lack of significant health care reform was indeed a lost opportunity to more effectively control long-term spending growth.

The most troubling aspect of the budget, however, is the alarming increase in government debt. Mainly as a result of increased capital expenditures, the BC government's debt will expand by $15 billion (or 30%) to $66 billion over the next three years (British Columbia, Ministry of Finance, 2012). As a percentage of the province's economy (GDP), the provincial debt will increase from a low of 18% in 2007/08 to 28% by 2014/15 (British Columbia, Ministry of Finance, 2012)—approximately the same debt level the Liberals inherited from the previous NDP government back in 2001.

Because of this dramatic increase in debt, a larger portion of provincial revenues will be devoted to interest payments instead of funding important public programs or improving the competitiveness of BC's tax regime. Not to mention that the added debt will be a drag on BC's economy and an unfair burden on the next generation of BC families who will be responsible for its repayment.

With increased spending, higher taxes, and expanding debt, Minister Falcon has failed to provide a budget that lays a "firm foundation for the future." More controlled spending through program reform, tax relief, and reduced government debt are policies that would truly build the province's future.

Notes

1 For individuals, the BC government will introduce the BC First Time New Home Buyers' Bonus, the BC Seniors' Home Renovation Tax Credit, and the Children's Fitness Credit and the Children's Arts Credit. For businesses, the Liberals will eliminate the provincial jet fuel tax for international flights, extend property tax exemptions for ports, add $3 million for the Small Business Venture Capital Program, and extend the Training Tax Credit program.

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Ontario budget 2012: A missed opportunity

Niels Veldhuis, Charles Lammam, and Milagros Palacios

In March, Ontario Finance Minister Dwight Duncan had one of those rare opportunities of which politicians can only dream. With his province heading towards a fiscal crisis caused by out-of-control spending and mounting debt, an opposition sympathetic to the need to deal with the problem, a public that expects his government to tackle the deficit (Angus Reid Public Opinion, 2012), and a media that understands the need for significant fiscal restraint, the stars were perfectly aligned for Duncan.

Call it his "Paul Martin" opportunity. Unfortunately, unlike Martin, his friend and mentor, Duncan didn't seize the opportunity.

Flashback to 1994 when then-Federal Finance Minister Paul Martin and his Liberal government faced mounting pressure to enact significant fiscal reforms: The Canadian media had shunned the Liberals' first attempt to deal with the federal deficit, a plan that proposed to slow spending growth while hoping that revenues would revive.[1] The media's reaction was largely representative of broader public opinion (Crowley et al., 2010).

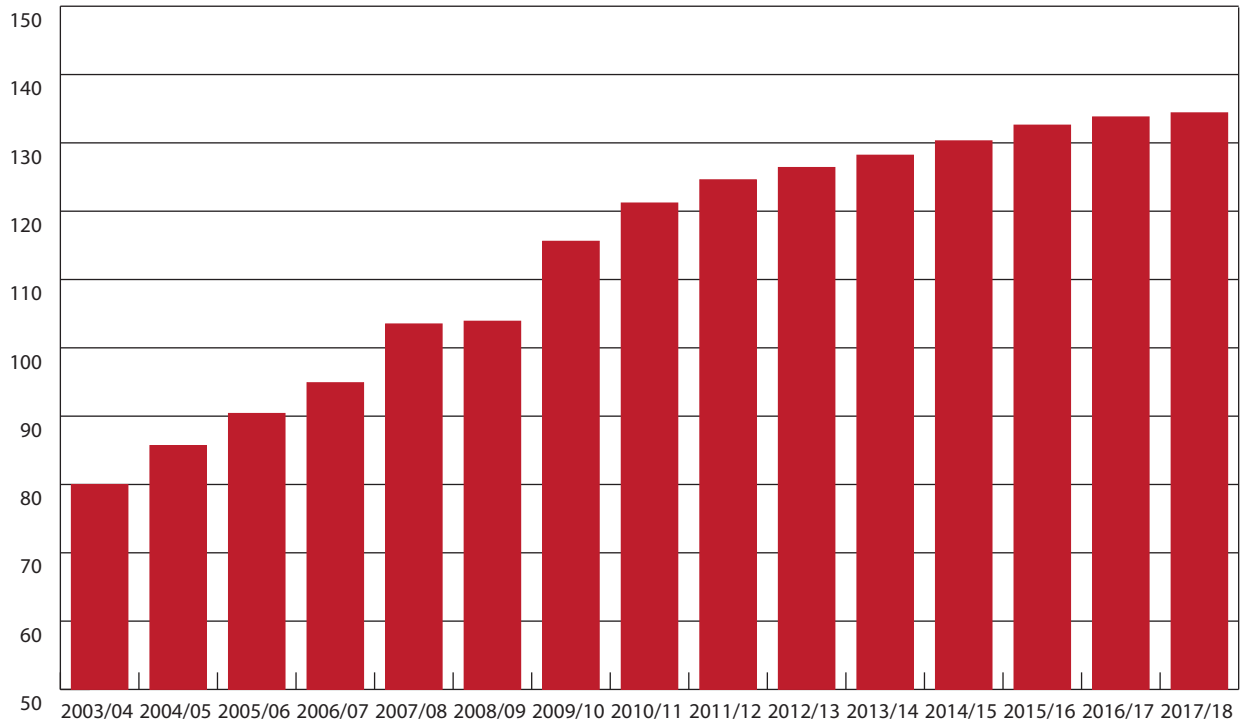
Wikimedia Commons

Ontario Finance Minister Dwight Duncan

In addition, the official opposition at the time (the Reform Party) called strongly for an end to federal deficits through spending reductions, thereby providing a political environment that welcomed reform. Further encouragement came from the *Wall Street Journal*'s mocking of the federal government's serious debt problem.

In 1995, Martin seized his opportunity and delivered a budget that proposed to cut, not just slow

Figure 1: Where's the cut?
Ontario's government spending (in $billions)



Source: Ontario, Ministry of Finance (2012)

the growth of, program spending. The planned cuts, which totalled 9% over two years, were substantial: spending on transportation was to decrease by 51% from 1994-95 to 1997-98; natural resource sector spending by 31%; industrial, regional, and technological support programs by 38%; and heritage and cultural programs by 23% (Veldhuis et al., 2011). In the end, the Liberals surpassed their goal and reduced program spending by 9.7% and balanced the budget in just two years (Veldhuis et al., 2011).

Ontario needed similarly bold action from Dwight Duncan. While Minister Duncan labelled his government's fiscal plan *Strong Action for Ontario*, it was anything but.

Instead, Duncan stuck with his original plan to run deficits for another five years (until 2017/18). This will cause Ontario's debt to increase from $238 billion to more than $315 billion—the debt has already increased by over 70% since the McGuinty government took office in 2003 (Ontario, Ministry of Finance, 2012; calculations by the authors).

The added debt will stifle economic growth, unfairly saddle young Ontarians with the heavy burden of debt repayment, and increase the risk of future economic slowdowns negatively affecting the government's finances.[2]

Despite all the talk of deep spending reductions, Duncan's plan doesn't actually cut overall spending (see figure 1). Rather than strike at the root of the problem to close the budget gap, Duncan chose to tinker with the growth rate in spending—that is, he will still increase spending, but at a slower rate.

To balance the budget by 2017/18, his government is pinning hopes on optimistic revenue growth forecasts (averaging 3.7% annually). On the spending side, Duncan proposes to hold program spending growth to an average rate of 0.7%, less than that proposed by his government's own commission and without enacting anywhere close to the level of reforms the commission proposed.[3]

In some of the government's big ticket areas, spending will increase significantly over the next three years (from 2011/12 to 2014/15). Specifically, the budget forecasts spending growth in health care of 6.3%, in K-12 education of 5.2%, and in social services of 8.0% (Ontario, Ministry of Finance, 2012; calculations by the authors).

But Ontarians should be skeptical of the government's ability to hold the line on overall program

spending. Consider that in last year's budget it promised to hold program spending growth to 0.4% for 2011/12 but then increased it over six times to 2.5% (Ontario, Ministry of Finance, 2011, 2012; calculations by the authors). The government also increased program spending at 6.3% annually from 2003/04 to 2011/12—nearly double the annual rate of economic growth. (Lammam and Veldhuis, 2012).

Had Duncan actually seized the opportunity to balance Ontario's books, he could have done so in just two years—the same time horizon as the federal Liberals in the 1990s. In fact, if Duncan had emulated Paul Martin and cut program spending by 9.7% over two years, planned program spending for 2013/14 would have decreased from $117 billion to $103 billion and the planned $13 billion deficit would have been erased.

Doing so, however, would have required bold reforms that asked tough questions like whether government involvement in specific areas is necessary. If Ontario's Liberal government was bold enough, Duncan would have eliminated or significantly reduced business subsidies that cost Ontario taxpayers and successful businesses approximately $2.7 billion per year (Milke, 2012). He would have cut Ontario's costly electricity subsidies, which add an estimated $1.1 billion a year to the taxpayers' burden (Wood, 2012).

Rather than freeze wages for a narrow group of public sector workers, executives, and teachers (for just two years), he would have committed to aligning overly generous public sector pay with wages paid in the private sector saving Ontario taxpayers $3.8 billion annually (Karabegović and Palacios, 2012).

He would have changed hospital funding to encourage competition and considered implementing other health policies that are common in nations with universal access health care (Esmail, 2012).

Unfortunately, he did nothing of the sort.

Ontario needs to take sweeping action if it is to avoid crisis. With $10 billion in increased spending, five more years of deficits, and at least $77 billion in added debt, Duncan needs to find the same resolve Paul Martin did in 1995.

Notes

1 For details on the factors that drove the federal Liberals to reform, see Veldhuis et al. (2011).

2 See Lammam and Veldhuis (2012).

3 For details on the commission's plan, see Drummond et al. (2012).

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Stealth confiscation:

Property takings via regulation

"We do not exclude the possibility that in an exceptional case the nature or extent of restrictions imposed on land use might be so significant that a de facto taking of the property has occurred."

— The Court of Appeal of Alberta in Alberta v. Nilsson (2002 par. 62)

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Mark Milke

In Canada, the principle of compensation for the expropriation of property is well-established. Tradition, common law principles, laws (including provincial legislation that requires compensation), and court rulings that reinforce these laws are available to property owners who face a threat of expropriation and thus unusable property.

However, unlike expropriation, regulatory changes that restrict the use of property (and which can and do affect property values) rarely result in compensation and are in contrast to compensation practices in other developed countries.[1]

There are three types of regulatory takings: major takings, direct partial takings, and indirect partial takings.

Major takings or "major injuries" are defined as a situation where regulation extinguishes all or nearly all of a property's value.

Direct partial takings are caused by regulatory decisions that apply to the same plot of land that suffers the depreciation.

Indirect partial takings refer to injuries that may be caused by regulatory decisions that apply to other plots of land in the vicinity (the precise geographic definition varies by country) (Alterman, 2012: 23-24).

A 2010 survey of 13 nations,[2] found that Canada and Australia were the most restrictive for compensating regulatory takings, setting them apart from other major Western countries. As Rachelle Alterman writes, "Among the 13 countries, Canada fares poorly in all three categories and ranks as offering the lowest degree of compensation rights" (2010: 28), for any major takings, direct partial takings, and indirect partial takings.

On major takings alone, under Canadian law, "a landowner generally must show that there has been a removal of all reasonable uses of the property; case law has not recognized anything less," writes Alterman (2010: 37). A claimant must also prove that there has been an acquisition of a beneficial interest in the property to claim a regulatory taking has occurred that is akin to expropriation (Canadian Pacific Railway Co. v. Vancouver (City), [2006]: par. 30 and 31). For example, in CPR v. Vancouver, the city prevented the railway company from developing its old railway corridor, and instead turned it into a pedestrian and bicycle path—

without compensating CPR—the Supreme Court of Canada agreed with the City of Vancouver that because the city did not "profit" from the regulating CPR land into non-use, no claim of regulatory taking akin to expropriation could stand. In practice then, this has been an almost impossible hurdle to jump over, as that case demonstrates and which is analysed in more detail in my forthcoming book on property rights, *Stealth Confiscation: Property takings via regulation*.

Some examples of regulatory takings include two which I'll briefly detail here:

A three-decade regulatory freeze in Alberta

In 1974, an Alberta farmer, Bill Nilsson, planned to build a mobile home park on part of his 160-acre property. In response to his application, the Government of Alberta refused permission and instead designated the proposed mobile park as a Restricted Development Area (RDA) for use as a greenbelt or parkland at some future date (an example of a direct partial taking). The province offered Nilsson just $2,500 an acre, compared to a government purchase price of $10,000 per acre for land on either side of his property.

Nilsson refused and negotiations continued until the early 1980s recession when he agreed to sell at the initial offered price on the condition that he retained the right to appeal to the Land Compensation Board, whose role was to be an independent, quasi-judicial body to settle such disputes (Land Compensation Board, 2009: 3). That same Board later awarded Nilsson $15,000 per acre. The provincial government refused to pay and Nilsson went to court where he was awarded $9.1 million in principal and compound interest, as well as costs. He won again at the Court of Appeal. However, the government continued to appeal the case to the Supreme Court of Canada. In 2003 that court refused to hear the province's appeal, thus allowing the lower court rulings and monetary compensation to stand (Alberta Minister of Infrastructure v. Nilsson, 2002).

In court proceedings, it was discovered that the original justification (a greenbelt) for denying Nilsson his proposed trailer park development was false. Instead, the province wanted Nilsson's land for an eventual ring road and utility corridor, facts that did not surface until the court battles. The Alberta government lied about the reason for the regulation of Nilsson's land for a simple reason: assigning his land as a future highway and utility corridor would have triggered expropriation statutes which required much higher compensation (Alberta Minister of Infrastructure v. Nilsson, 2002: 105).

In this case, it is useful to note that had the province of Alberta wanted Nilsson's land for its stated purpose—a greenbelt or parkland—Nilsson would not have been able to obtain full compensation for the government-imposed regulatory loss.

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Ontario's wetlands designations and subsequent loss of value

In Ontario, the province can designate marshes, bogs, swamps, and fens (wetlands that accumulate peat) as Provincially Significant Wetlands. Designations are based on a points system which includes a biological, social, hydrological, and "special features" components (Ontario 2008, 1-4). Under the Conservation Authorities Act, the designation requires local municipalities to comply. Even "basic wetland" (not initially considered provincially significant as they do not score enough points under the system noted above) can later be affected through a regulations permit process called "complexing." "Complexing" allows basic wetland to be designated "Provincially Significant" if it is within 750 metres of an existing Provincially Significant Wetland (Ontario, 2008: 4).

In an example from Ottawa, Tony Walker, head of the Goulbourn Landowners Group, described the effect of provincial wetlands designation combined with subsequent city zoning on the local property owners—"affected landowners were not informed that they are in the buffer zone, or of the restrictions on their property"—and that in the end, "the City stated that it does not intend to compensate landowners for the devaluation of their properties. The effect of these designations is to devalue and freeze private property" (Walker, undated).

Areas in Ontario can be designated as Provincially Significant Wetlands without the property owner's knowledge and without compensation

The problem in a nutshell and the case for compensation

Even where governments are found to be in the legal right, such rulings do not remove the real-world effect of freezing private land and using it for public purposes without compensation. Ironically, this is unlike private disputes, where homeowners possess some recourse rights if another private party interferes in a homeowner's use of their property (the tort of nuisance).[3] The same state which prevents such private interference via a legal framework should apply the same standard to itself—and beyond just existing expropriation provisions—to include public regulatory takings.

There are three reasons in particular for compensating for regulatory takings. The first is when there is an obvious loss of use and value. For example, in a 2008 Suzuki Foundation report on BC's Agricultural Land Reserve (ALR), there was no mention of the need to compensate property owners for land frozen for agricultural uses only, even though the Foundation itself—a supporter of the ALR—made clear that such regulations resulted in a loss of the full range of possible uses of property and thus a loss of value (Campbell, 2006: 11-12). The obvious should be noted: The implicit acknowledgment of such a loss of use and value should be explicitly recognized and compensated.

The second reason comes from the way in which foreign companies are treated in Canada. The University of Alberta's Russell Brown has noted that under Article 1110 of NAFTA, investors from the United States or Mexico with holdings in Canada may initiate a claim to determine whether Canada has imposed a "measure" that is "tantamount to... expropriation, thereby triggering a right in the investor to compensation" (Brown, 2007: 335-36).

The same argument applies to all offshore investors from counterpart states under the dozens of free trade agreements and Foreign Investment Promotion and Protection agreements (FIPAs) into which Canada has entered (Foreign Affairs and International Trade, 2012). In both the case of NAFTA and FIPA, the companies (and by extension their shareholders whether foreign or domestic) would be eligible for compensation and have greater protection in Canada than Canadian companies (and, by extension, their shareholders).

Third, as noted above, Canada fares poorly in international compensation comparisons.

Poland, Germany, Sweden, Israel, and the Netherlands all provide the broadest compensation rights as it concerns major regulatory takings.

In the case of land designated for public use but not taken (expropriated with compensation) within a reasonable time, Poland has a special remedy that allows a landowner to force the government to expropriate—far

preferable to waiting for regulatory compensation. Similarly, in Germany and Sweden, property owners can initiate a "transfer-of-title" claim—where a government is forced to buy the property in the same manner it would if it was involved in outright expropriation—if regulatory actions are delayed (Alterman, 2010: 44-45).

Indeed, Canada fares poorly in the protection of all sorts of property rights

In Israel and the Netherlands, the respective governments often designate plots of land for public purposes in advance of expropriation, which can, and does, trigger a two-part process for compensation: compensation due to the restricted use and accompanying loss of value of land and compensation for the remaining value once expropriated. Critically, for property owners, this means that regulation cannot be used to deny any and all compensation; the regulatory action itself triggers compensation (Alterman, 2010: 44-46).

Beyond the individual examples, Canadians might be interested to know that compared with Canada, the European Union has strong protection of property rights included in the property protection clause of its Convention (Council of Europe, 2001: 5). It is why Alterman comments that "had Canada been in Europe, some aspects of its law on major takings may not have survived ECHR [European Commission on Human Rights] scrutiny" (2010: 37).

Indeed, Canada fares poorly in the protection of all sorts of property rights protection including, and especially in, the case of regulatory takings.

(Readers interested in remedies to Canada's weak protection of property rights should consult Mark Milke's upcoming book: S*tealth Confiscation: Property takings via regulation*, to be released in May).

Notes

1 Beyond some examples of compensation practices in several European countries and in Israel noted at the end of this article, I will not discuss legislative or constitutional remedies here but readers are encouraged to read that section of my forthcoming book, *Stealth Confiscation: Property takings via regulation*.

2 Canada, Australia, United Kingdom, France, Greece, Finland, Austria, the United States, Poland, Germany, Sweden, Israel, and the Netherlands.

3 The tort of nuisance is "a protection against being unlawfully annoyed, prejudiced, or disturbed in the enjoyment of land" (Salmond, Law of Torts, 17th ed., by R.F.V. Heuston, Sweet & Maxwell, 1977: 50).

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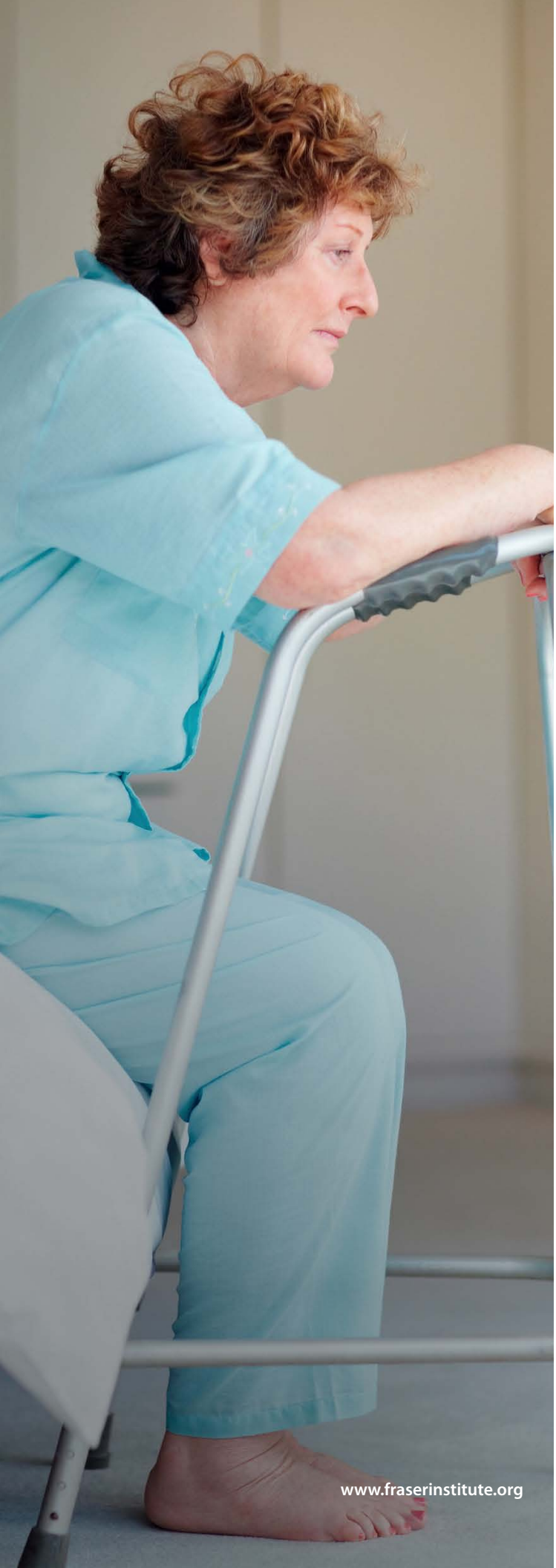

Canada's aging Medicare burden

Bacchus Barua and Mark Rovere

The scores of baby boomers soon to become seniors have recently received much attention from health care researchers and policy analysts. While some studies have concluded that there is reason to be concerned about the coming "silver tsunami," others expect a more modest glacial impact.[1]

Clearly, the Canadian population is aging. In 2010, the median age in Canada was 39.7 years—almost 14 years older than in 1971 when it was 26.2 years (Statistics Canada, 2010a). Statistics Canada projections estimate that by 2036 the median age will be approximately 43.6 (2010b), with seniors aged 65 and over accounting for almost one-fourth of the population (calculations by authors).

With the expected demographic changes, policy makers should also expect a shrinking workforce as the baby boomer generation heads into retirement. For instance, in 2010 there were 2.3 workers per dependent (2.3 people aged 15-64 per person aged 0-14 and 65+). It is estimated that this number will shrink to about 1.5 by 2036. (Statistics Canada, 2010b; calculations by authors).

This change in the age distribution structure is most evident in the "population pyramids" seen in figure 1. While the young baby boomers clearly form the large base of the pyramid in 1971, as they age, the structure develops relatively more weight at the top (2036 projection).

This is important because as a group older Canadians consume more health care dollars than middle-aged and younger Canadians (see figure 2), which strains

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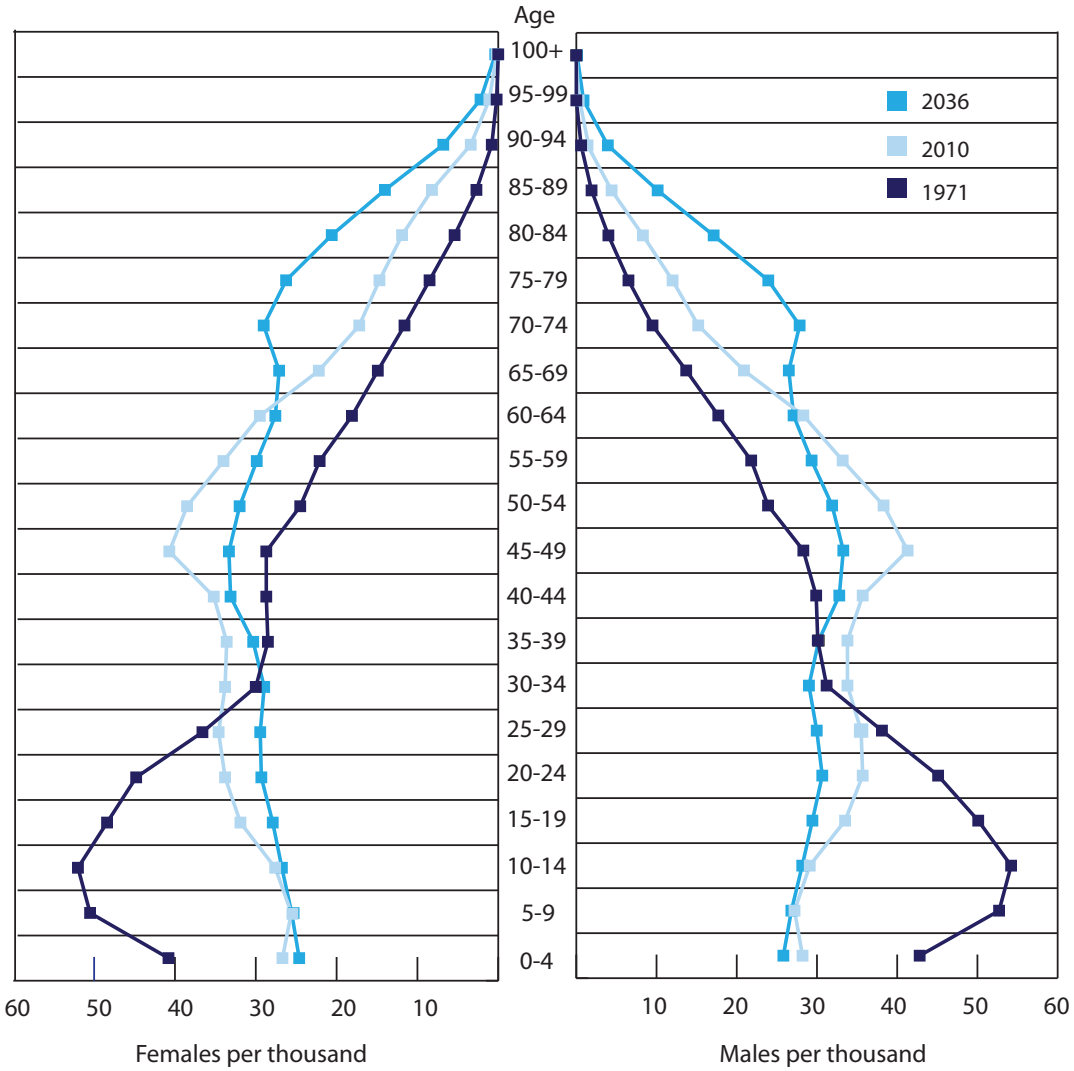
Figure 1: Population pyramids 1971, 2010, 2036



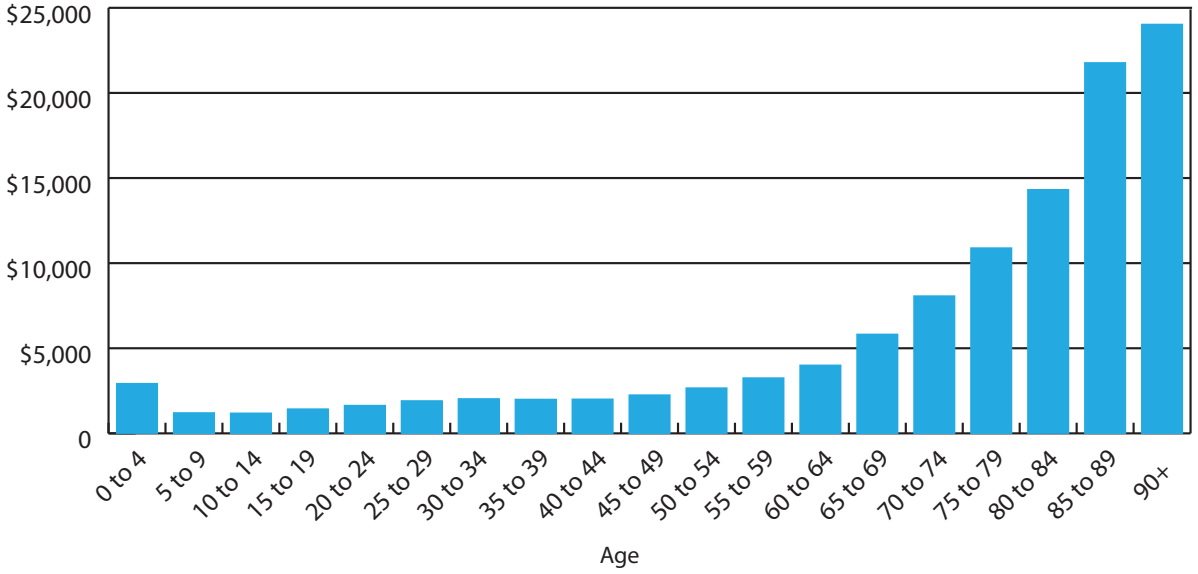
Source: Statistics Canada 2010b; Statistics Canada 2010c. Calculation by authors.

Table 1: Annual change in public per capita health expenditure due to aging (2008 age-specific expenditure-structure)

Time Period	2004-2010	2011-2016	2017-2021	2022-2026	2027-2031	2031-2036
Annual growth	0.88%	0.88%	0.90%	1.01%	1.11%	1.06%
		0.99% (2011-2036)				

Sources: Statistics Canada 2010b, Statistics Canada 2010d, Statistics Canada 2011, CIHI 2010b, CIHI 2010c. Calculations by authors.

Figure 2: Total provincial/territorial government health expenditures per capita, by age (2008)



Source: CIHI 2010b, CIHI 2010c, calculations by authors

public finances. Data from the Canadian Institute for Health Information (CIHI) show that "seniors age 65 and older consumed almost 44% of all provincial/territorial government health spending in 2008, while comprising only 13.7% of the population" (CIHI, 2010a; 46).

In order to examine the impact of this demographic shift on health care costs, we calculated the change in average per capita government health care expenditures when the age-structure changes, while keeping the age-specific expenditure-structure constant[2] (a methodology similar to that used by Morgan and Cunningham (2011), and Pinsonnault (2011).[3]

We found that between 2004 and 2010, per capita government health care expenditures grew by approximately 0.88% every year due to aging alone.[4] Further, we estimated the shifting age demographic will increase public per capita health care expenditure by approximately 0.99% annually between 2011-2036 (see table 1).[5] Importantly, this almost 1% annual growth in government health expenditures due to aging accounts for about 23.3% of our calculated growth in inflation-adjusted average per capita expenditure between 2003-2008.[6]

Our results are very similar to those found in a recent CIHI report entitled *Health Care Cost Drivers: The Facts* (2011), which found that population aging contributed an annual average growth of about 0.8% to public-sector health spending between 1998-2008.[7]

Given that researchers have now come to a consensus regarding the size of the contribution of aging to growth in health care expenditures, what remains to be decided is how policy makers should prepare for the future.

Government health care expenditures are already growing at an unsustainable rate across the provinces. Indeed, by 2017, 6 out of 10 provinces are projected to consume half of total available provincial revenues on health care (Skinner and Rovere, 2011). While policy makers should recognize the inevitability of our ageing demographics contribution to the growth of health care costs (both, now, and in the future), the more important focus should be on what they can control: how health care is financed and delivered.

Notes

1 See Mendleson (2011), Kushner (2011), Pinsonnault (2011), and Morgan and Cunningham (2011); for example.

2 For example, we held constant the average amount spent to treat 60-65 year olds, and looked at the impact of the change in the (proportional) number of 60-65 year olds who need to be treated. A 2008 age-specific expenditure-structure was used in our analysis.

3 Morgan and Cunningham (2011) estimate that the future effects of population aging on health care spending in British Columbia will be 1% or less per year until 2036. Pinsonnault (2011) estimates that, between 2010-2030, aging will push health care costs up by 21.9% in Ontario, 29.9% in Quebec, and 15% in British Columbia

4 All expenditure data was adjusted for inflation

5 These estimates, by design, do not account for future changes in other factors like advances in medical technology, population health, etc.

6 The Health Council of Canada (2009) estimates that the "impact of more Canadians living longer" accounts for about 11% of increased spending. Similarly, a study by CIHI (2011) concludes that aging accounts for only 10.8% of growth in total public-sector health spending. We found that when we adjusted CIHI's calculations for population growth and inflation (by removing their respective contributions to the whole), their data (like ours) also indicate that ageing accounts for about 22.2% of growth in total public-sector health spending.

7 The report also identified "a noticeable east–west gradient in Canada, in which the impact of aging is more significant in the Atlantic region and Quebec than in Ontario and Western Canada" (14).

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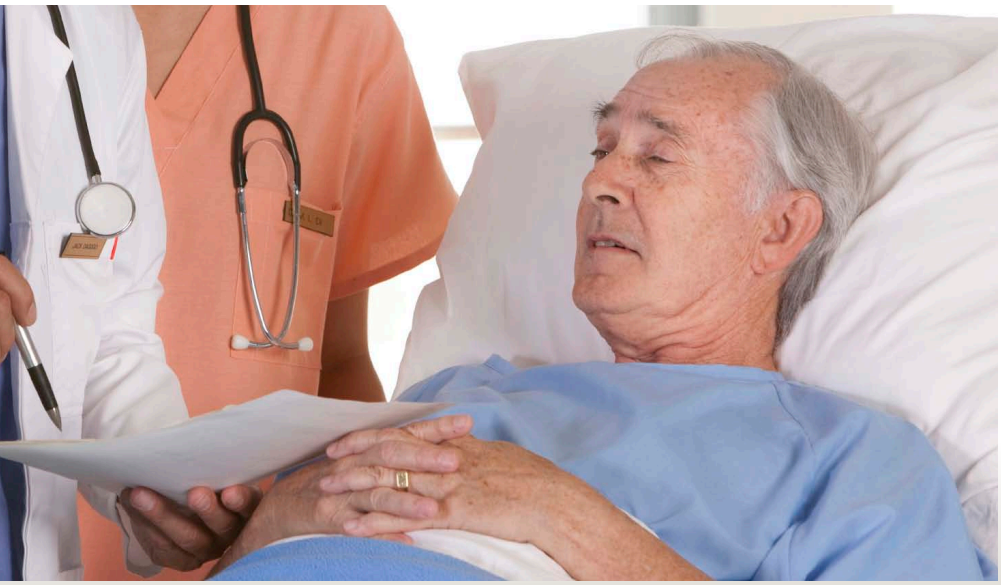

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Why we wait

Bacchus Barua

The Fraser Institute's most recent update of its annual *Waiting Your Turn* study estimated that, despite significant increases in government health spending, Canadians were forced to wait almost four and a half months, on average, to receive medically necessary elective treatment after referral from a general practitioner in 2011 (Barua et al., 2011). Importantly, the 19.0 week wait recorded by the survey is the longest since the Fraser Institute began measuring wait times across Canada—the number stood at 9.3 weeks in 1993 (Miyake and Walker, 1993).

While the fact that Canadians wait an inordinately long time for health care is well acknowledged, research examining the challenges preventing physicians from providing medical services more quickly is relatively lacking. An attempt to provide some insight into the causes of long wait times was made last year with the Fraser Institute's study *Why We Wait*, which used physician responses to the Institute's annual wait times' surveys between 2001 and 2011. In addition to measuring the length of wait times, the annual survey also asked doctors if their wait times had changed within the last year and, if so, what the cause was.[1]

Updated results from our 2011 survey

In 2011, 1,631 Canadian physicians responded to a question in the survey that asked, "Has the length of your waiting lists changed since last year at this time?" Approximately 40% of the respondents indicated that their waiting lists had increased, about 15% indicated a decrease, and slightly over 44% indicated that their waiting list had stayed the same over the year. The frequency with which physicians cited specific reasons for these changes is presented in table 1.

Provincial and medical specialty breakdowns

Results for 2011 indicate that "Availability of operating room time"[2] was the most frequently cited factor responsible for changes (increases or decreases) in waiting lists for most provinces except New Brunswick and Prince Edward Island, where "Change in patient load" was the most frequently cited reason. Doctors in Saskatchewan reported that "Other" reasons were most frequently responsible for changes in their waiting lists.

Similarly, when the results are broken down by medical specialty, "Availability of operating room time" was again the most frequently cited factor responsible for changes waiting lists for all specialties except Radiation Oncology ("Availability of technical staff" and "Other"), Medical Oncology ("Other"), and Internal Medicine ("Change in patient load").

Analyzing the most frequently reported reasons for change

Expanding the analysis to include data from 2000/01-2011[3] shows that the availability of O/R time has consis-

Table 1: Reasons cited for change in wait times between 2010 and 2011

	Increase		Decrease		Increase or decrease	
Reason	Frequency	Percentage (indcating increase)	Frequency	Percentage (indcating decrease)	Frequency	Percentage (indcating increase or decrease)
Availability of O/R nurses	161	24.5%	26	10.5%	187	20.7%
Availability of other technical staff	33	5.0%	20	8.1%	53	5.9%
Availability of beds	190	28.9%	19	7.7%	209	23.1%
Availability of O/R time	414	62.9%	98	39.7%	512	56.6%
Change in patient load	290	44.1%	80	32.4%	370	40.9%
Availability of ancillary investigations	70	10.6%	16	6.5%	86	9.5%
Other	123	18.7%	83	33.6%	206	22.8%

Notes:
1 Percentages will not add up to 100 as respondents could indicate more than one reason per survey
2 658 surveys indicated an increase in wait times.
3 247 surveys indicated a decrease in wait times
4 905 surveys indicated either an increase or decrease in wait times.

Source: Barua et al., 2011. Calculations by author.

tently been the most frequently cited reason for physician reported increases in wait times (figure 1), one of the most prominently cited reasons that led to decreases in wait times figure 2), and overall, the most commonly reported determinant of how long patients may have to wait (figure 3).

It is ironic that almost 63% of physicians who claimed their waiting lists increased in 2011 reported that they had done so because of a lack of operating room time, since evidence suggests that there is currently a systematic underuse of hospital operating rooms. A recent investigation conducted by the Montreal Economic Institute examined the use of 49% of the operating rooms in Quebec's public hospitals between April 2005 and March 2006. The report found that in addition to an average of nearly one closed O/R per hospital, the rate of use of "open" operating rooms was only 46% for day shifts on weekdays. Further, while 62% of rooms were open weekday evenings, they were used at only 9% of their capacity. On weekends the opening rate fell to 45%, while the rate of use fluctuated between 6% and 8% (Frappier and Laberge, 2007).

While puzzling, it is possible that other factors may also contribute to less operating room time for physicians (even if an operating room is open and available). For example, global-budget models are predominantly used to finance hospitals in Canada (Sutherland, 2011). Such models provide annual funding (in the form of a fixed budget) to hospitals in order to cover their operational costs, regardless of how many patients are admitted, and studies have shown that under-treatment (or providing fewer services to patients in order to keep within budget) is common under such payment schemes (Aas, 1995; Leonard et al., 2003).

Further, with only 1.8 acute care[4] hospital beds per 1,000 people, ranking Canada last out of 26 OECD countries in 2009 (OECD 2011; calculations by author), it may be the case that the current stock of beds is unable to keep pace with increasing demand.[5] Fewer beds might also mean capping the number of patients a hospital may schedule for surgeries in a day. Unfortunately, evidence also suggests that the few beds Canadians have access to, aren't necessarily being used efficiently. For example, 15% of Ontario's acute and other inpatient care beds were occupied by alternative-levels-of-care (ALC) patients in April 2011 (Ontario Hospital Association, 2011). These are patients who continue to occupy an acute care hospital bed after the acute phase of their inpatient stay is complete (Wait Time Alliance, 2011) and are simply "awaiting an alternative level of care in a more appropriate setting" (Walker, et al., 2009:1). In other words, the result is that almost "one in six beds is filled with patients who should be cared for somewhere else" (Wait Time Alliance, 2011: 10).

Figure 1: Reasons for increase in waiting times

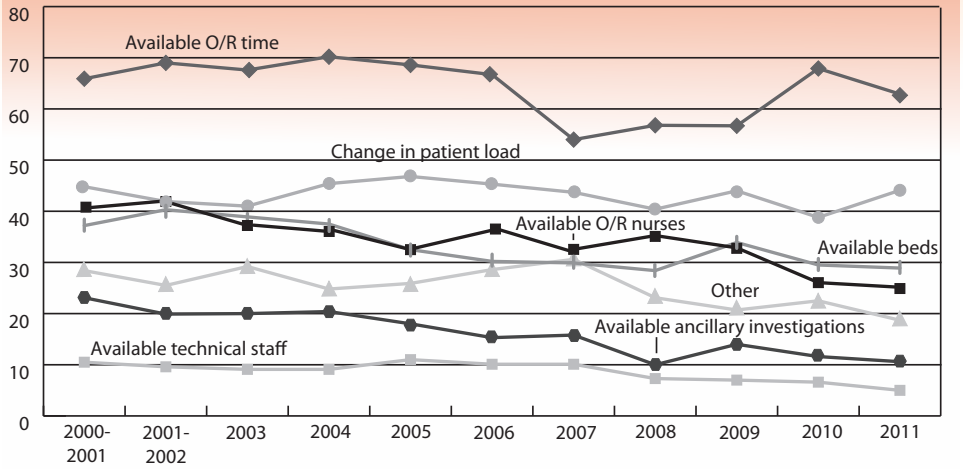


Figure 2: Reasons for decrease in waiting times

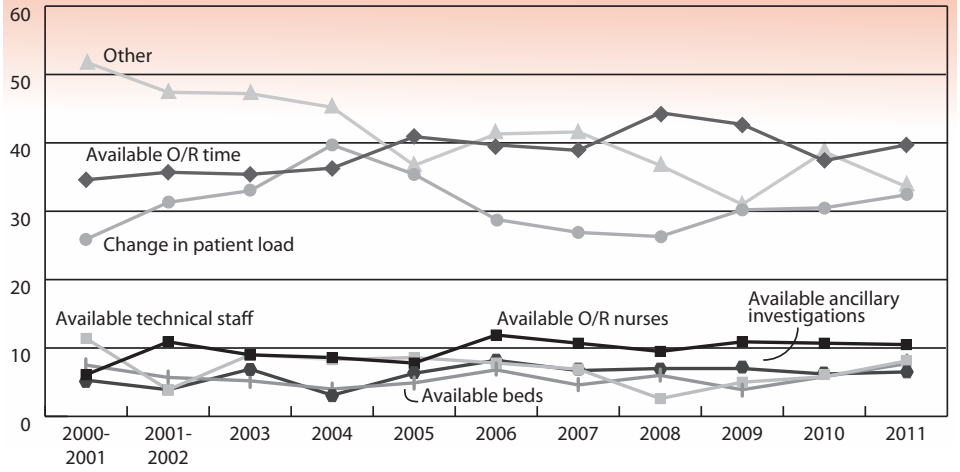
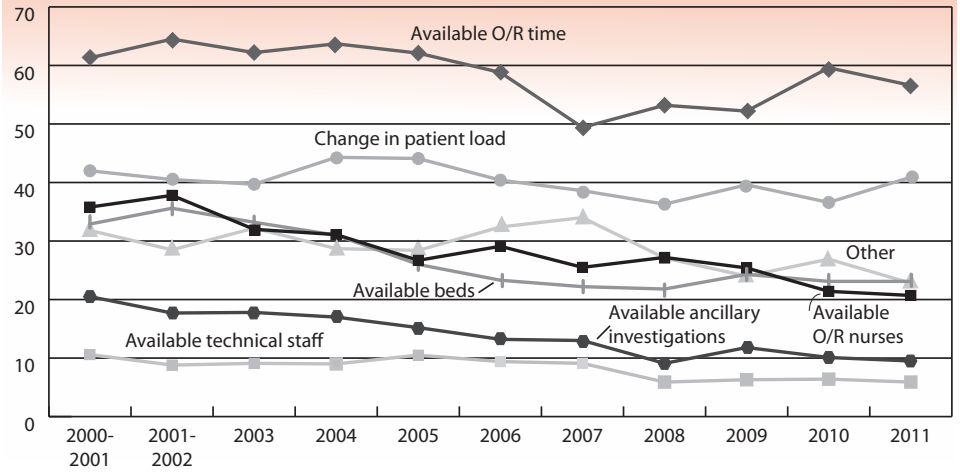


Figure 3: Reasons for change in waiting times



Source: Walker and Wilson (2001), Fraser Institute (2002-2010), Barua et al. (2011). Calculations by author.

Lastly, the frequency with which physicians cite a "change in patient load" being responsible for changes in wait times can be seen as a basic demand and supply issue—and the fact that wait times have increased significantly over the last two decades is evidence of a gap between the two. Further, data indicate that while Canada's physician-to-population ratio has been slowly rising over the past decade (OECD, 2011), there were only 2.4 physicians per 1,000 people in 2009, ranking the nation 19th out of 23 OECD countries (OECD 2011; calculations by author).[6] At the same time, approximately 67 percent of Canada's specialist physicians cited "Increasing complexity of patient case load" as a factor responsible for "increasing the demand for the physician's time at work" in 2010 (CMA, 2010), which may also partly be a result of Canada's aging population.

Conclusion

It is clear that physicians consider the availability of operating room time and a changing patient load, at the very least, to be significant determinants affecting the lengths of their waiting lists—and are thus potential areas for policy makers to focus on.

Further, the number of physicians citing the above reasons in conjunction with an experienced increase in their waiting lists, far outweighs those who cited them in conjunction with a decrease. This, coupled with the reality that Canadians had to wait 17 percent longer in 2011 than they did in 2000-01 (Walker and Wilson, 2001), [7] gives credence to the notion that these reasons may not be just levers of change, but rather levers of rationing.[8]

Notes

1 Physicians were given options for reasons for an increase, decrease, or no change which included: Availability of operating room (O/R) nurses, Availability of beds, Change in patient load, Availability of other technical staff, Availability of operating room (O/R) time, Availability of ancillary investigations or consultations (i.e., Magnetic Resonance Imaging (MRI), Compound Tomography (CT) scans), and Other.

2 "Change in patient load" was often cited with almost equal frequency.

3 Data were compiled using eleven editions of *Waiting Your Turn* (published between 2001and 2011).

4 Acute care services provide necessary and active short term treatment of a serious injury or illness, an urgent medical condition, or during recovery from surgery. (Alberta Health Services, 2012).

5 For the purposes of ranking, data were extracted for the year 2009 (or the most recent year available). The OECD average for 26 countries was 3.4.

6 A composite index consisting of "practicing physicians", "professionally active physicians" and "all physicians licensed to practice" (depending on the different ways countries report data) was used. For the purposes of ranking, data was extracted for the year 2009 (or the most recent year available). The OECD average for 23 countries was 3.1.

7 Canadians waited 104 percent longer in 2011 than they did in 1993.

8 Given the qualitative nature of the responses included in this analysis, the author acknowledges that only an indicative, rather than definitive, conclusion may be drawn.

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Canada's food cartels versus consumers

Mark Milke

When Prime Minister Stephen Harper was in Honolulu in late 2011 and announced that Canada wants in on talks to create a proposed pan-Pacific free trade zone, other countries brought up Canada's anti-free trade "supply management" boards. Specifically, they were (and are) opposed to Canada's participation because of its protectionist approach on eggs, chicken, turkey, and dairy products (Clark, 2011).

The prime minister and Trade Minister Ed Fast initially murmured vaguely about whether such boards could be the subject of negotiation and possible abolishment. However, in March 2012, Fast clarified the government's stance and promised that the federal Conservatives would "continue to defend Canada's system of supply management" (Schnurr, 2012).

That's unfortunate. In addition to being a significant irritant in international trade negotiations, these same boards (also known as "marketing" boards) harm consumers by restricting new market entrants and restricting supply, both of which force prices higher than they otherwise would be.

Some context: the supply management boards exist because of powers delegated to them by the federal and provincial governments. Efforts to establish such boards

date back as far as 1872 when attempts were made to "improve" prices (from the farmers' perspective, not the consumers') and stabilize farmers' incomes. The first supply/marketing board was eventually established in British Columbia in 1927, when the BC legislature passed the Produce and Marketing Act. That act was declared unconstitutional by the Supreme Court of Canada in 1931 because it interfered with interprovincial trade—i.e., the ability to move products across provincial boundaries, among other legal issues (Tamilia and Charlebois, 2007: 124 and Lippert, 2001: 25).

In contrast to earlier decisions, which occurred after the federal government's action to bring the BC law to the high court in the 1920s and in 1931 by courts that prevented such boards from exercising such powers, later federal governments were more sympathetic to the notion of controlled supply and managed prices. Federal and provincial governments in the 1940s and 1950s passed various acts that allowed for the creation of provincial marketing boards whose function was to limit the supply of agricultural and dairy products in each province. However, even a 1949 federal law, the Agricultural Products Act, was seen by producers as inadequate for the desired task—it lacked the ability to limit national milk production and to affect interprovincial trade on the same (Lippert, 2001: 26).

The dairy marketing boards provide a good example of how supply management developed and still functions. In 1963, the federal government, at the urging of several provinces, established the Canadian Dairy conference. The eventual result was the 1965-established Canadian Dairy Commission, which initially administered federal support programs for butter, skim milk powder, industrial milk, cream, and cheese. At the time, provincial marketing boards which had existed in various iterations since the 1930s in some provinces were able to control provincial production and prices, but there was no nationwide mechanism to limit production. Any province could allow more milk production; it was just that once the available quotas for federal subsidies were reached, no federal subsidy would be given for additional milk produced. It was one way to try and control prices but not a comprehensive enough one for producers interested in limiting supply and thus restraining the possibility for lowered prices (Lippert, 2001: 26-27).

By 1970, the *Canadian Dairy Commission Act* (initially passed in 1966 but not operational until 1970) gave the Canadian Dairy Commission (CDC) the power to set prices across the country for industrial milk (60 percent of all milk produced at the time). In addition a special committee created by the CDC, called the Canadian Milk Supply Committee, forecast industrial milk supply each year and then assigned milk quotas to each province (Tamilia and Charlebois, 2007: 124)

Thus, by the 1970s, in the interventionist spirit then prevalent, marketing boards had four powers over supply and pricing: first, matching supply to demand (literally, "production planning"); second, administered pricing; third, controls on imports; and fourth, payments (subsidies) to producers (Lippert, 2001: 4 and Painter, 2007: 3).

At present the CDC is made up of 10 provincial supply management boards and provincial representatives are all signatories to the National Milk Marketing Plan. Based on that plan, an associated committee determines a quota that determines how much milk each province can produce. That quota is then further apportioned among individual dairy producers. They in turn must sell all their milk to their respective provincial marketing boards, and as Painter notes "once a year, farm gate prices are reviewed in light of costs to produce milk, labour and investments and market indicators," at which point the Canadian Dairy Commission then sets prices (Painter, 2007: 3-5).

In addition, high import tariffs are imposed on imported products. The tariffs range from 202 percent for skim milk to 298 percent for butter. Cheese, yogurt, ice cream, and regular milk fall within that range (Painter, 2007: 4).

The net effect of the command-and-control approach to supply and the high tariff wall is that Canada's 12,965 dairy farmers (CDC, 2011: 64) prosper at the expense of the majority of the other 34.6 million Canadians (Statistics Canada, 2012).

Problematically for those who defend such practices, supply management boards fit the dictionary definition of a cartel: "A combination of independent commercial or industrial enterprises designed to limit competition or fix prices" (Merriam-Webster, 2012).

The only difference is that most other cartels are outlawed on grounds that such collusion is bad for consumers. It is only when government and agricultural and dairy interests converge that we're told high, above-market prices are good for us. For example, Wally Smith, president of

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the Dairy Farmers of Canada, wrote in a 2011 column that the "supply management system is working and not just for dairy farmers" but for "Canadian consumers, taxpayers as well as the food industry" (Smith, 2011: A8).

The facts suggest otherwise. As Montreal economist William Watson found when he recently compared the average retail price of four litres of milk, controlling supply and keeping out US imports leads to substantial price differences between American and Canadian milk prices. Watson found the average price for four litres of milk in US cities so far this year was $3.85 (in Canadian dollars) (Watson, 2011).

In comparison, according to Statistics Canada data obtained by Watson, at the same time, four litres of milk in Canada set a consumer back between $4.50 (in Regina) and $6.79 (in Charlottetown). All other cities surveyed were within that range. (Statistics Canada does not provide a cross-country average) (Watson, 2011).

In the global context, Canada's practices contrast sharply with New Zealand. There, and again using the dairy sector as an example, farmers also prosper but do so in a free and competitive market without government protection or subsidies.

As Saskatchewan economist Marvin Painter explained in a 2007 study that compared the two countries, New Zealand dairy farmers "have become world cost leaders in the production of milk and have diversified along the value chain into the processing and marketing of dairy products" (Painter, 2007: 2).

Futhermore, Painter writes that "Since 1974, the average herd size has increased while the number of dairy herds has decreased." He notes how the average New Zealand dairy farm has 315 cows compared to an average of 62 cows on Canadian dairy farms (Painter, 2007: 6-8).

New Zealand's free market in dairy products hasn't led to the obliteration of the industry. Quite the opposite; while that country accounts for just two percent of world dairy production, New Zealand has approximately 40 percent of the world trade in dairy products. "In New Zealand, the dairy industry is a free market, where anyone can produce milk and dairy products if they so choose," remarks Painter (2007: 2).

Canada's cartel-like supply management boards should be abolished and for the same reason other cartels are already illegal: they cement an undesirable nexus between politics and money; they promote crony capitalism, lock out competition, and, in the case of supply management boards, collude to raise prices on an essential human need: food.

Let's not forget who that hurts most of all: the poorest Canadians whose meagre incomes are overwhelmingly spent on the basic necessities of life.

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Fiscal policy

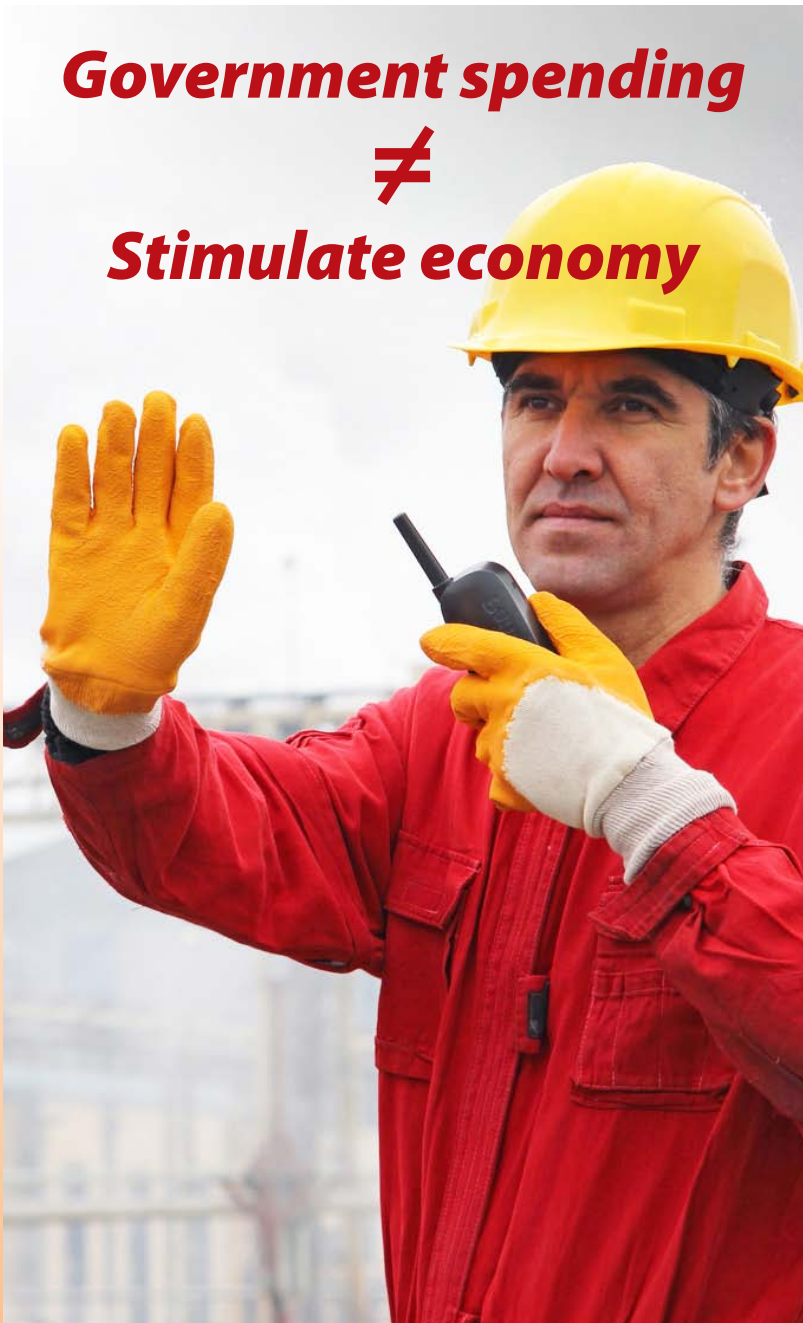
Ramey, Valerie (2012). *Government Spending and Private Activity*. NBER Working Paper No. 17787. National Bureau of Economic Research.

The assertion that deficit financed government spending would resuscitate the economy was widely touted by politicians as justification for the stimulus packages enacted in the aftermath of the recent economic recession. Such claims were based on the notion that temporary, deficit financed increases in government spending boost private sector spending and employment. In this study, the author examines the impact of increases in government spending on private sector spending (consumption, investment, and net exports) and employment. The author uses quarterly data from the US on government spending, gross domestic product (GDP), public and private sector employment, tax rate indices, and other variables spanning the period from 1939 to 2008. Using a variety of methodologies and after accounting for periods marked by episodes of unusually large increases in government spending (World War II and the Korean War), the author finds that government spending typically does not increase private sector spending. On the contrary, private sector expenditures often decline as a result of being crowded out by increased public sector expenditures. Regarding employment, the analysis suggests that deficit financed government spending might lower unemployment but that most of the decline is due to direct employment of more individuals in the public sector, not from jobs created in the private sector. The author concludes that deficit-financed government stimulus spending does not boost private sector economic activity.

—Nachum Gabler

Cohen, Lauren, Joshua Coval, and Christopher Malloy (2011). Do Powerful Politicians Cause Corporate Downsizing? *Journal of Political Economy* 6, 119: 1015-1060.

This paper analyzes the impact of federal government spending on private sector activity in US states by examining changes in congressional committee chairmanships. The authors consider 232 instances over the last 42 years in which the senator or representative of a particular state becomes chairman of a powerful congressional committee overseeing such areas as financial, intelligence, and judiciary issues. The authors find that within a year after being appointed chairman, the state experiences, on average, a 40%-50% increase in its share of federal earmarked spending, a 9%-10% increase in total federal government transfers (distinct from earmarked funds for projects, programs, and grants), and a 24% increase in total government procurement contracts. Contrary to the Keynesian view of government stimulus, these federal government spending "shocks" led to significant cutbacks from corporations headquartered in the target state. In fact, a year after a congressman is appointed chairman, the average firm in his state reduced investment in new capital by 8%-15%, decreased research and development (R&D) spending by 7%-12%, and increased



payouts to investors by 4%-13%. Additionally, employment growth was scaled back by 3%-15% and sales growth fell by up to 15%. These cutbacks occurred in both large and small states and were most pronounced among firms with sole operations in the target state.

—Milagros Palacios

Tax policy

Romer, Christina D., and David H. Romer (2012). *The Incentive Effects of Marginal Tax Rates: Evidence from the Interwar Era*. NBER Working Paper No. 17860. National Bureau of Economic Research.

Focusing on the interwar period in the United States (1919-1941), the authors examine the incentive effects of changes in marginal income tax rates—the tax rates paid on the next dollar of income earned. During the 1920s and 1930s, marginal tax rates changed regularly and dramatically across income groups. One key feature of the interwar tax system in the US was that the burden of personal income taxes fell almost entirely on the very wealthy. For instance, the top 0.05% of income earners paid roughly 95% of total personal income taxes. That's why the authors focused only on the behavioural impact of taxes on those at the top of the income distribution. Their results show that during the interwar period, changes in marginal tax rates had a significant effect on reported income. Specifically, a 1% decrease in the marginal tax rate increased reported income by 0.2%. In analyzing the impact of taxes on entrepreneurial activity, the authors found that a reduction in marginal rates increased business formation (i.e., the number of incorporations).

—Milagros Palacios

Size of government

Afonso, Antonio, and João Tovar Jalles (2011). *Economic Performance and Government Size*. Working Paper Series No 1399 (November 2011). European Central Bank. http://www.ecb.int/pub/pdf/scpwps/ecbwp1399.pdf.

The authors examine the relationship between the size of government and economic growth. They use data from both developing and developed nations (108 countries in total) over a period of nearly 40 years (1970 to 2008). The authors find that the size of government is negatively correlated with economic growth, meaning that large governments hinder economic development. The negative relationship is stronger in nations that lack political rights and civil liberties and have lower levels of institutional quality (i.e., high levels of corruption and political instability). The findings suggest that the magnitude of the negative impact of government size on economic growth depends on the ability of a country's institutions to provide proper checks and balances—through, for example, increased rule of law and transparency—which are needed to mitigate and offset the disadvantages of overly large governments.

—Amela Karabegović

Labour market policy

Rothstein, Jesse (2011). *Unemployment Insurance and Job Search in the Great Recession*. NBER Working Paper No. 17534. National Bureau of Economic Research.

The author examines the impact of the change in Unemployment Insurance (UI) eligibility in the United States on the unemployment rate. Prior to the change, those on UI were eligible for up to 46 weeks of benefits. In June of 2008, the US Congress extended the UI benefits to up to 99 weeks. The author tracks Americans from 2004 to 2011 using data from the Current Population Survey which indicates whether an individual is unemployed and looking for work. After accounting for various external economic conditions such as a state's employment growth, unemployment rate, and unemployment duration, the author finds that more generous UI benefits increased the US unemployment rate by 0.1 to 0.5 percentage points. Based on the author's analysis, extended benefits "reduce the rate at which unemployed workers re-enter employment." In other words, extended benefits reduce the incentive for those who are unemployed to find employment and as a result this increases the unemployment rate.

—Amela Karabegović

Dupes for the state

Walter Williams

Public misunderstanding, ignorance, and possibly contempt for liberty play into the hands of people who want to control our lives. In my recent column, "Compliant Americans," I argued that the anti-tobacco movement became the template and inspiration for other forms of government intrusion, such as bans on restaurants serving foie gras and on McDonald's including toys with their Happy Meals, and the confiscation of a child's home-prepared lunch because it didn't meet US Department of Agriculture guidelines. A few responses read like this: "Smoking is different because that actually affects other people. We should be living by the notion that you should be able to do whatever you want as long as you don't hurt other people. Smoking hurts other people."

If we banned or restricted all activities that affect, harm, or have the possibility of harming other people, it wouldn't be a very nice life. For instance, non-obese people are harmed by obesity, as they have to pay more for health care, through either higher taxes or higher insurance premiums. That harm could be reduced by a national version of a measure introduced in the Mississippi Legislature in 2008 that read, in part, "An act to prohibit certain food establishments from serving food to any person who is obese, based on criteria prescribed by the state Department of Health." The measure would have revoked licenses of food establishments that violated the provisions of the act. Fortunately, the measure never passed, but there's always a next time.

The US National Highway Traffic Safety Administration reported that in 2010, nearly 33,000 people were killed in auto crashes. That's a lot of harm that could be reduced by lowering the speed limit to 5 or 10 miles an hour. You might say that that's ridiculous. What you really mean to say, but don't have the courage to, is that to save all of those lives by making the speed limit 5 or 10 miles per hour is not worth the inconvenience. Needless to say—or almost so—there are many activities we engage in that either cause harm to others or have the potential for doing so, but we don't ban all of these activities.

One of the least-understood functions of private property rights is that of determining who may harm whom in what ways. In a free society, it is presumed that the air in a person's house, restaurant, hotel, car, or place of business is his or her own property. That means that if you own a restaurant and don't want your air polluted by tobacco smoke, it is your right. Most would deem it tyranny if a bunch of smokers had the political power to get the city council to pass an ordinance forcing you to permit smoking. You'd probably deem it more respectful of liberty if those who wanted to smoke sought a restaurant owner who permitted smoking. The identical argument can be made about a restaurant owner who permits smoking in a city where non-smokers have the political power. The issue is not whether smoking harms others. The issue is the rights associated with property ownership.

The emerging tragedy is our increased willingness to use the coercive powers of government, in the name of health or some other ruse, to forcibly impose our preferences upon others. In the whole scheme of things, the tobacco issue itself is trivial. Far more important is its template for massive government disrespect for private property. ■

Snail's pace driving? A ban on calories? No smoking on your own property?

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