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When the 2008/2009 recession hit about a year and a half ago, most of the world panicked. Between the fourth quarter of 2008 and the second quarter of 2009, Canada's GDP declined 3.6%. In the third quarter of 2009, unemployment hit 8.5%, up from a low of 6.1% in the third quarter of 2008.

Media outlets and politicians were quick to declare this economic downturn the worst recession since the Great Depression or the Second World War. Governments spent billions of tax dollars in an attempt to "stimulate" the economy. And now that the economy is growing again, Canadians are breathing a sigh of relief, knowing that they survived the "Great Recession."

Oh, how short memories can be.

In reality, the 2008/2009 recession could better be described as the "not-so-Great Recession." Anyone aged 30 and older has lived through much worse. As Amela Karabegović and Niels Veldhuis write in this issue of *Fraser Forum*, the 2008/2009 recession was relatively mild ("The 'Great Recession'?" pg. 12).

Consider the following:

The length of the 2008/2009 recession was three quarters; the lengths of the 1990/1991 and 1981/1982 recessions were four and six quarters, respectively. During the recent recession, employment declined by 1.8%. In contrast, employment declined by 2.1% during the 1990/1991 recession and by 5.1% during the 1981/1982 recession ("The 'Great Recession'?" pg. 12).

Some may see this as evidence that the federal government's Economic Action Plan worked, that the recession would have been much worse if the government had not intervened.

However, new Fraser Institute research shows that government stimulus spending had virtually no effect on Canada's economic recovery ("The stimulus didn't work," pg. 17). An analysis of Statistics Canada data reveals that the private sector was the driving force behind the economic growth in the third and fourth quarters of 2009.

This should come as no surprise, given the academic research. As Niels Veldhuis and Charles Lammam detail in their article, "Research or rhetoric?" (pg. 20), many studies on the effects of government stimulus study have been conducted, and the vast majority have found that government spending does not boost economic activity. Instead, government spending can actually impede economic growth.

Media hype and political rhetoric aside, the numbers speak for themselves. The recent recession was not the worst one since the 1930s. And even had it been so, government stimulus spending still would not have been the correct response. Past and recent experience shows that stimulus spending simply doesn't work.

KRISTIN FRYER (kristin.fryer@fraserinstitute.org)

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Canada fares well in annual Mining Survey

Quebec is still the top jurisdiction worldwide

FRED McMAHON AND MIGUEL CERVANTES

Mining industry executives have rated Quebec the world's best jurisdiction for mineral exploration and development for the third straight year, according to the Fraser Institute's *Survey of Mining Companies 2009/2010*, which examines 72 jurisdictions worldwide. However, they have a much less optimistic view of Ontario and British Columbia, citing multiple layers of regulation, little coordination among various government agencies, and uncertainty surrounding aboriginal land claims.

Mining executives say Quebec remains an international standout for investment because its stable government policies offer them certainty and reduce the risk of long-term projects. Yet that may be changing. With little, if any, consultation with the industry, the Quebec government recently increased taxes on miners and changed deduction rules in a way that could adversely affect the industry.

Miners do not mind paying taxes and following sensible regulations, but they are alarmed when they face uncertainty—and, in this case, they had no idea that these changes were coming. These miners have already sunk millions of dollars into projects, using cost calculations based on the old tax rates and rules. Because of the lengthy timeframe needed

for exploration and development, uncertainty can have a highly adverse affect on potential mining projects if miners worry that the rules may change by the time they bring a find into production.

Uncertainty in the policy environments of Ontario and British Columbia also worries miners. Both provinces, which have a lengthy history of mining, fell significantly in this year's survey. Ontario ranked 22nd overall, down from its 10th place finish last year, while British Columbia was even further back at 38th, dropping 14 places from 24th in 2009. In both cases, miners were concerned by uncertainty about mining regulations and native land claims.

Nevertheless, the Canadian provinces generally fared quite well in this year's rankings, occupying six of the top 10 spots. New Brunswick ranked second overall, an increase of four places since 2009. Alberta remained in 4th place, while Saskatchewan rose three spots to 6th. Newfoundland and Labrador ranked 8th, a decrease from 5th last year, while Manitoba ranked 9th overall. In 2007, Manitoba ranked first overall.

Since the Mining Survey was first published in 1997, the Canadian

provinces have steadily risen, on average, though two of the three territories remain weak. Yukon Territory ranked 11th, but Nunavut and the Northwest Territories ranked 43rd and 50th, respectively. Nova Scotia also missed the top 10, ranking 16th overall.

The Fraser Institute's *Survey of Mining Companies: 2009/2010* represents the opinions of 670 mining executives and managers worldwide on the policy and mineral endowment of 72 jurisdictions on all continents except Antarctica. Companies participating in the survey reported exploration spending of US\$2.9 billion in 2009 and US\$3.6 billion in 2008.

The survey asks miners about 13 key issues, including uncertainty concerning the administration, interpretation, and enforcement of existing regulations; environmental regulations; regulatory duplication and inconsistencies; overall taxation burden; uncertainty concerning native land claims and protected areas; infrastructure; socioeconomic agreements; political stability; two

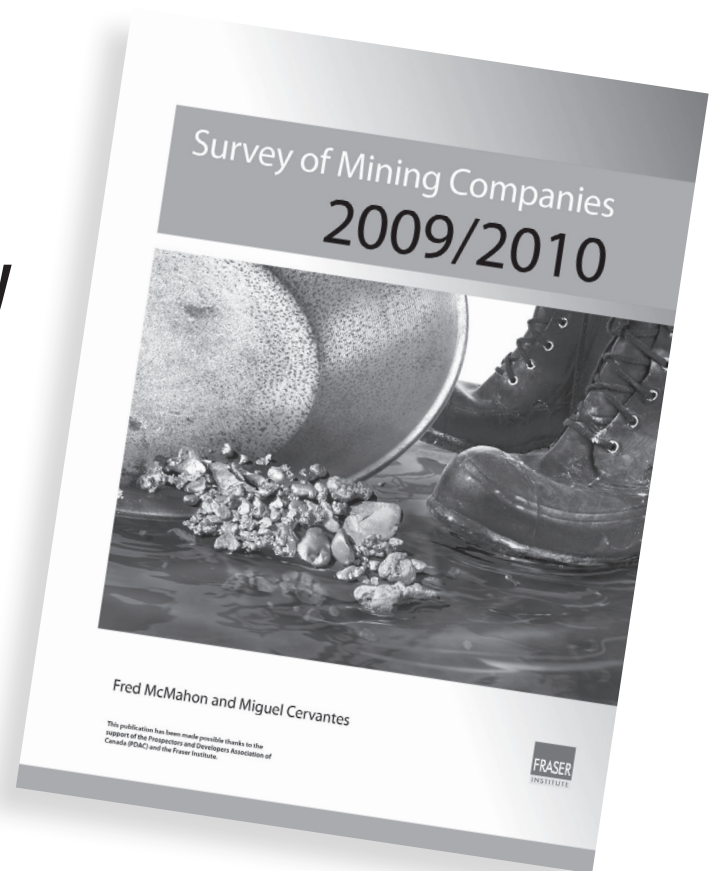
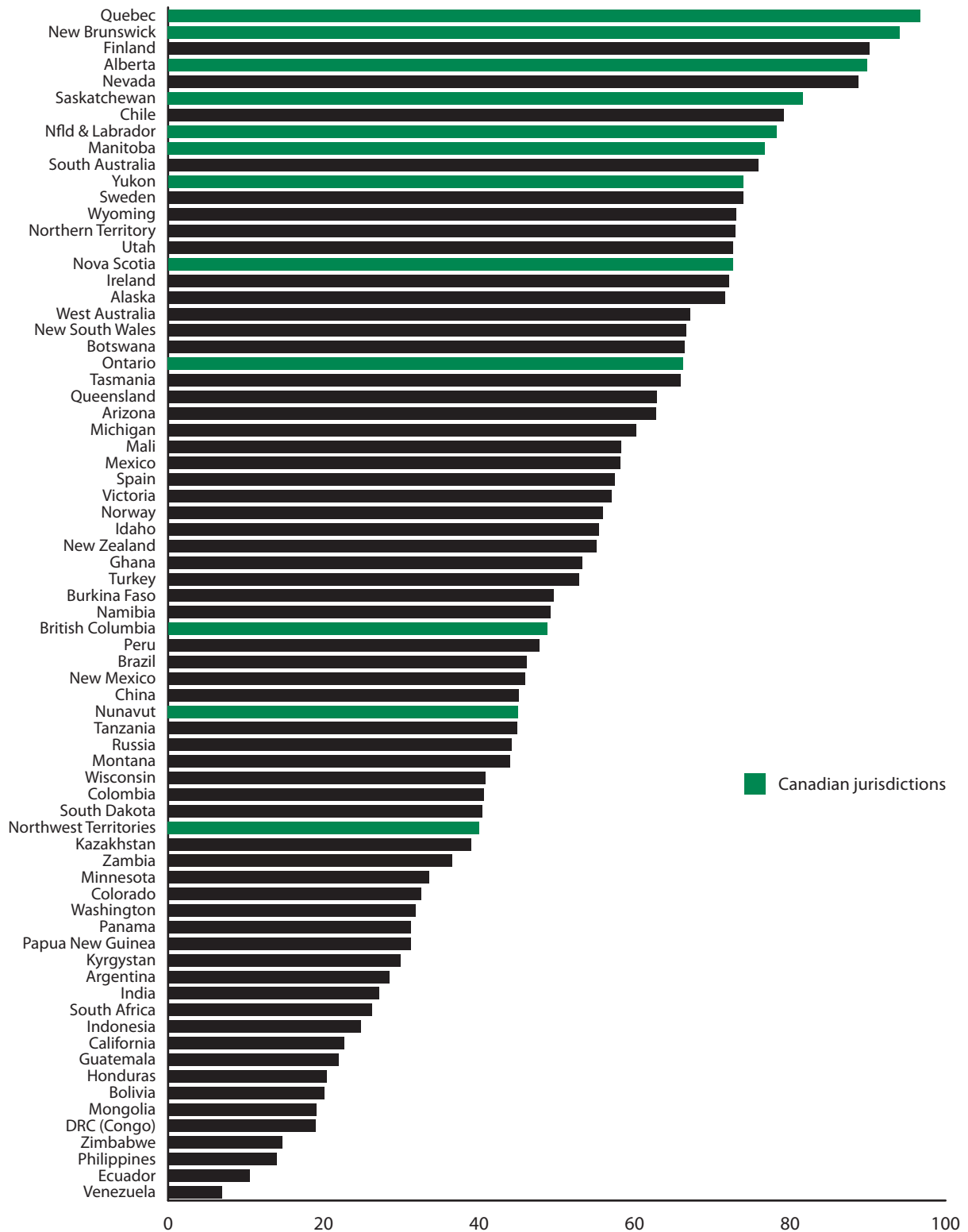


Figure 1: Mining Survey 2009/2010 Policy Potential Index



Source: McMahon and Cervantes, 2010.

questions on labour issues; geological database; and security.

The most important issue the survey considers is uncertainty in existing regulations. In this context, uncertainty is caused by an absence of transparency and predictability (i.e., projects that meet the regulations are allowed to proceed and those that fail are denied). Lack of certainty enables political manipulation of the regulatory process so that bad projects—for example, ones without appropriate environmental safeguards—are accepted while good projects that create jobs and prosperity are rejected.

The rankings are based on the Policy Potential Index (PPI). This index is a composite of the 13 policy areas examined in the survey and thus it measures the overall policy attractiveness of the 72 jurisdictions in the survey. The PPI is normalized to a maximum score of 100. A jurisdiction that ranked first under the “Encourages investment” response in every policy area would receive a score of 100; one that scored last under “Would not invest” in every category would receive a score of zero. Quebec’s score, 96.7, was the highest, while Venezuela’s score, 6.7, was the lowest (figure 1).

Finland was the top non-Canadian jurisdiction, ranking third overall. Other jurisdictions among the top 10 were perennial favourite Nevada, in 5th place; Chile, the only Latin American country among the top 10, in 7th place; and South Australia, the highest-ranked Australian jurisdiction, in 10th place.

Other highly ranked non-Canadian jurisdictions were Sweden (12th overall), Wyoming (13th), Utah (15th), and Alaska (18th).

Among the Australian states, South Australia was followed by the Northern Territory in 14th place, West Australia in 19th, and New South Wales in 20th.

Chile, the top-ranked Latin American nation, was followed by

Mexico in 28th, Peru in 39th, and Brazil in 40th.

Botswana was the highest-ranked African nation (21st), followed by Mali and Ghana in 27th

Canadian provinces occupied six of the top 10 spots.

and 34th place, respectively.

The bottom 10 scores were awarded to Venezuela, Ecuador, the Philippines, Zimbabwe, Democratic Republic of Congo, Mongolia, Bolivia, Honduras, Guatemala, and California.

In addition to the rankings, the Mining Survey examines other issues that are relevant to the industry. Last year’s survey revealed significant pessimism among miners towards new mining investment, but this year’s survey showed a strong rebound in optimism. Almost twice

as many mining companies said that their exploration budgets will increase as those who said their budgets will remain the same or decrease.

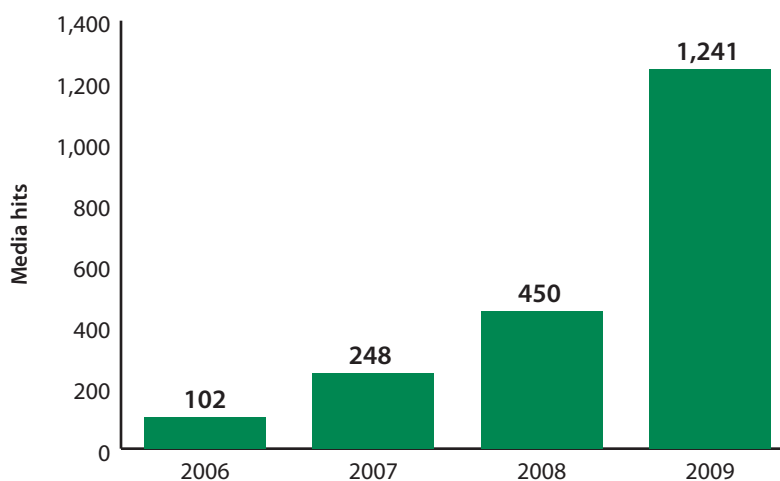
Miners also expect mineral prices to increase over the next two years: 64% of the survey’s respondents expect that mineral prices will rise moderately, while nearly 20% expect substantial increases.

When asked whether they expected price peaks for eight mining products in the foreseeable future, 20% of miners said they expected peaks for copper and gold; approximately 10% said they expected new peaks for silver, nickel, platinum, zinc, and coal; and only 3% predicted new peaks for diamonds.

Impact of the Mining Survey

The Mining Survey appears to have had a positive effect on mining policies in Canada. As noted above, Canadian jurisdictions rank highly

**Figure 2: Number of global media hits for the Mining Survey and other research from the Fraser Institute
Global Centre for Mining Studies**



Source: The Fraser Institute.

today and have gained steadily in the rankings over the life of the survey.

As well, mining ministries across the nation contact the Fraser Institute in the weeks leading up to the release of the survey in an attempt to obtain advance information (a request the Institute does not grant) and find out where their policy is weak and strong.

Mining officials and ministers have stated “off the record” that the survey affects their jurisdiction’s policy environment. They have said that they pay close attention to the survey since it provides useful information to them concerning which policy areas need improvement and which jurisdictions can serve as models for best practices—information that was often not available prior to the launch of the Mining Survey over a decade ago. The survey also encourages transparency, making governments that adopt anti-mining policies or procedures accountable for their actions.

The survey has had the most impact in Canada, but it is becoming increasingly influential around the world, which may lead to policy improvements in many other jurisdictions. Last year, Fraser Institute representatives addressed mining conferences in Canada, the United States, Australia, Colombia, and Mexico. Moreover, mining ministries outside Canada are among those contacting the Institute for information about the survey prior to its release. The 2008/2009 survey has received over 1,200 media mentions since its release last year (figure 2).

To view or download the complete 2009/2010 Mining Survey, please visit www.fraserinstitute.org.

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A NOTE TO OUR READERS

Dear Readers,

More and more people are getting their information in a digital rather than a printed format. Many of you have asked us if we can e-mail you when a new issue of *Fraser Forum* is available online so that you can read it as soon as it is published, without having to wait for the paper copy to arrive on your doorstep.

We are aware of trends in the publishing industry and are working on responding to your requests. To that end, we are making two significant changes to *Fraser Forum*.

First, we are going to print and mail *Forum* six times a year beginning with the September/October issue, down from the 10 copies you’ve been receiving thus far. You will receive the June and joint July/August issues as normal.

Second, the Fraser Institute has invested in a piece of software that will enable us to deliver e-mails quickly and efficiently. Our readers will soon have the opportunity to sign up for an all-new *Fraser Forum* e-newsletter, one of several new e-mail newsletters that will be launched in 2010. These newsletters will give you more specific and current information on our research, events, and programs, as well as our impact.

If we have your e-mail address on file, we will let you know about these new newsletters as we launch them. You can then sign up for those that interest you.

If you would like to pre-register for the new *Fraser Forum* e-newsletter, please send your name and your e-mail address to Kristin Fryer, *Fraser Forum* Managing Editor, at kristin.fryer@fraserinstitute.org, with the subject line “Digital Fraser Forum.”

Best regards,
The Fraser Institute



Ontario's 2010 budget piles on the debt

Government spending must be reduced



MILAGROS PALACIOS AND CHARLES LAMMAM

The aim of Ontario's 2010 budget, according to Premier Dalton McGuinty and Finance Minister Dwight Duncan, was to "open Ontario to new jobs and growth." Unfortunately, the budget did not take the steps necessary to make Ontario more competitive and attractive for investment and business development. Rather than put forth an aggressive plan to balance the books and set the province on a path to prosperity, the government plans to increase spending and run deficits for the next several years, while providing no new tax relief and significantly increasing government debt (Ontario, Ministry of Finance, 2010).

The most troubling aspect of the budget is the government's willingness to run deficits. The government will run a deficit of \$21.3 billion (or 3.8% of GDP) in 2009/2010, the

highest shortfall in the province's history, and is planning to follow that up with deficits for the next seven years. The combined deficits for the fiscal years 2009/2010 to 2016/2017 will amount to \$110.2 billion (table 1).

Ontario's deficit woes are primarily due to the government's inability to control spending. The Ontario government has a history of profligate spending and their recent budget follows that trend. Spending is set to increase by \$8.1 billion or 6.9% this year (2010/2011), after increasing by \$14.4 billion (or 13.9%) in 2009/2010. Spending will decrease by 1.4% in 2011/2012, before it's ramped up again over the next six years (2012/2013 to 2017/2018). By 2017/2018, total government spending will amount to \$141.9 billion—\$24.2 billion (20.5%) higher than in 2009/2010 (table 1).

Revenues are expected to increase by \$10.5 billion (10.8%) to \$106.9 billion this year (2010/2011) and then grow at a robust average rate of 4.2% from 2011/2012 to 2017/2018 (table 1).

Given that revenues are expected to rebound quickly, it is clear that the real culprit behind the \$110.2 billion in combined deficits from 2009/2010 to 2016/2017 is the government's unwillingness to address its overspending.

Rather than decrease spending in order to tackle the deficit, the McGuinty government plans to slow the increase in spending by cutting administrative costs (e.g., freezing salaries for MPPs and Ontario Public Service employees), "managing" the growth of health care spending, reviewing government programs and services, and eventually slowing the pace of some of the government's

Table 1: Ontario's fiscal outlook, 2009/2010 to 2017/2018, in billions of \$

	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	Average growth 10/11–17/18
Revenue	96.4	106.9	107.7	112.0	117.6	123.4	129.6	136.1	142.9	
Growth		10.8%	0.8%	4.0%	5.0%	4.9%	5.0%	5.0%	5.0%	5.1%
Total spending	117.7	125.9	124.1	126.9	129.9	133.2	136.5	139.3	141.9	
Growth		6.9%	-1.4%	2.3%	2.4%	2.5%	2.5%	2.1%	1.9%	2.4%
Deficit*	-21.3	-19.7	-17.3	-15.9	-13.3	-10.7	-7.8	-4.2	0.0	

*Note: The deficit includes reserves of \$0.7 billion in 2010/2011 and \$1.0 billion for subsequent years until 2017/2018.

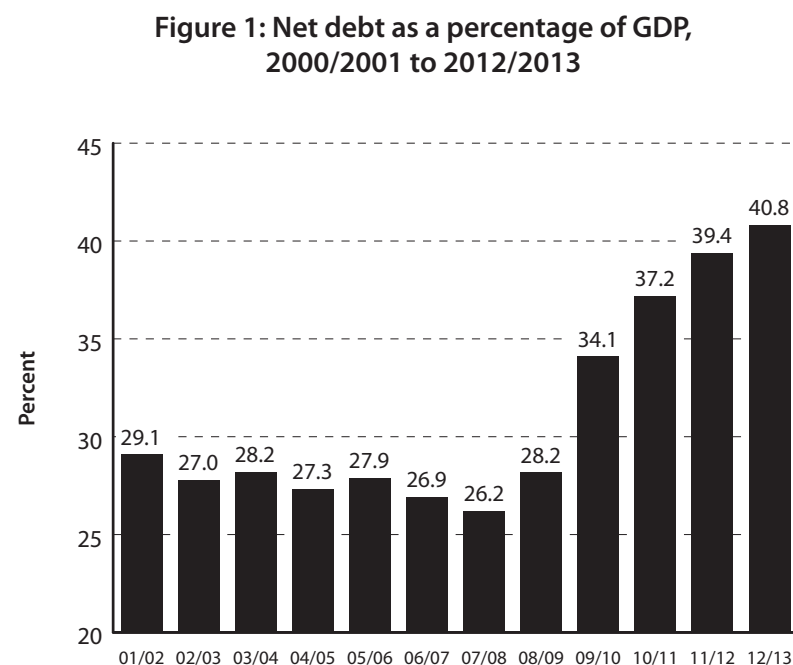
Source: Ontario, Ministry of Finance, 2010.

capital projects after the “stimulus” spending ends (Ontario, Ministry of Finance, 2010: xx–xxi).

However, the government will continue to increase spending in “priority areas” such as health care, the government’s single largest expenditure.¹ Specifically, the government will increase health care spending by \$6.0 billion (or 13.8%) over the next three years. This follows an almost 50% increase in health spending since Premier McGuinty took office in October 2003.

The government’s plan to increase health care spending underscores its refusal to acknowledge that increased spending will not improve health services. Despite previous spending increases, Ontarians’ access to doctors and medical technology lags behind that in most other developed nations (Esmail, 2009). The real solution to Ontario’s health care woes is to adopt best practices from other developed countries with universal health care programs (see Esmail and Walker, 2008). Implementing a few key reforms would produce large savings without adversely affecting health outcomes for Ontarians.²

The 2010 budget also introduced several new spending initiatives: \$310 million for additional spaces for students in colleges and universities; \$450 million over three



Source: Ontario, Ministry of Finance, 2010.

years for a regional development program (i.e., the Ontario Northern Strategy); \$63.5 million annually for implementing full-day kindergarten; \$45 million over three years for economic development; and \$32 billion for infrastructure “stimulus” investments.

The increase in infrastructure spending, coupled with yearly deficits, will increase Ontario’s provincial debt significantly. Over the

next three years, Ontario’s debt will grow by an alarming \$74.6 billion or 38.6%. As a percentage of total economic output (GDP), the provincial debt will increase from a low of 26.2% in 2007/2008 to 40.8% in 2012/2013 (figure 1).

With this dramatic increase in debt, a larger portion of provincial revenues will be devoted to interest payments instead of funding government programs or improving

*Over the next three
years Ontario's debt
will grow by an alarming
38.6%*

the competitiveness of Ontario's tax regime. In 2007/2008, 8.6 cents of every dollar collected by the provincial government was used to pay interest on Ontario's debt. By 2012/2013, 11.2 cents for every dollar of revenue will be dedicated to servicing the debt.

There were a few positive measures in the budget. While the budget did not contain any new tax relief, the Ontario government will continue with its scheduled corporate income tax rate reduction (from 14% in 2009 to 10% in 2013) and the previously announced move to a harmonized sales tax (HST). These changes will benefit Ontarians greatly through increased business investment and higher rates of economic growth (Palacios and Harischandra, 2008; Veldhuis and Lammam, 2009; Mintz, 2009).

Nevertheless, Ontario's 2010 budget will not "create jobs" or "lay the foundation for ... growth," as the government claims. Instead, with this budget the government will, through its inability to reduce spending and its willingness to run seven more years of deficits, make Ontario's economy weaker. Most importantly, these deficits will eliminate the fiscal room the government needs to improve Ontario's competitiveness through tax relief.

Notes

1 Currently, the health sector accounts for almost 46 cents of every program dollar spent (Ontario, Ministry of Finance, 2010: xix). For a discussion about the sustainability of government health care spending and recommendations for reform, see "The unsustainable growth of government health care spending," on page 30 of this issue of *Fraser Forum*, and Skinner and Rovere (2009).

2 Improving services would require Ontario to adopt two key health policy reforms: competition in the delivery of publicly funded care and cost sharing (i.e., requiring patients to share in the cost of their care through co-payments). See Esmail (2009) for detailed information.

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The “Great Recession”?



AMELA KARABEGOVIĆ AND NIELS VELDHUIS

It is almost impossible to downplay the hysterical economic reporting that has transpired in Canada over the past year and a half. Since January 2009, the phrase “Great Recession” has been used in almost 750 articles in Canadian newspapers; 82 times in the *Globe and Mail* (over 1.5 times per week!), 72 times in the *National Post*, and 54 times in the *Toronto Star*.¹ Expressions such as “the worst recession since the Great Depression,” “the worst recession since the 1930s,” and “the worst recession since the Second World War” have been used over 375 times.² With similar reports common on TV, radio, and the internet, it is almost surprising that Canadians are not stocking up on canned food, water, and other supplies in anticipation of the apocalypse.

Our politicians certainly have not helped the situation. Federal Finance Minister Jim Flaherty has repeatedly referred to the 2008/2009 recession in Canada as “the most serious economic crisis since the 1930s” (Argitis and Quinn, 2010, Mar. 5). Similarly, Liberal leader Michael Ignatieff has called it “the most serious economic crisis since the Second World War” (Brennan, 2009, May

28). In fact, the severity and depth of the 2008/2009 recession is perhaps the only thing on which the three main federal parties agree: NDP leader Jack Layton has also called it “the worst recession since the 1930s” (*CBC News*, 2009, Aug. 17). Ontario Premier Dalton McGuinty has echoed these sentiments, calling it “our biggest economic crisis in 80 years” (McGuinty, 2009).

While no one should dismiss the impact that the recession has had on many Canadian families, the narrative surrounding the recession has been—and still is—very important. Hysterical media coverage can feed fears, lengthening and deepening a recession.

Governments across the country have seized on the current narrative to justify massive spending sprees in the name of taming the “Great Recession.” Not only is this spending leaving a legacy of deficits and debt that will burden Canadians for years to come, but it has also had a negligible impact on Canada’s economic turnaround since last year (Karabegović et al., 2010).

But was the recent recession really the worst since the Great Depression? Not according to the data.

Defining recessions

In economics, the standard definition of a recession is two consecutive quarters of decline in economic output, typically measured by real (i.e., inflation-adjusted) gross domestic product (GDP). GDP is the value of all goods and services produced in an economy during a specific period of time (*The Economist*, 2008, Dec. 30).

Many economists and organizations take a broader view of a recession by also examining employment growth, unemployment rates, personal income, and other indicators. For example, Statistics Canada examines employment numbers as well as changes in GDP (Cross, 2009).^{3,4} Specifically, Statistics Canada measures the beginning and duration of a recession by using both employment losses and decreases in real GDP per person.

The prestigious National Bureau of Economic Research (NBER), charged with officially dating the start and end of recessions in the United States, also does not rely solely on GDP but uses a range of indicators, including changes in gross disposable income, personal income, employment, and manufacturing volumes (see NBER, n.d.).

While there are numerous ways to measure the state of the economy and the severity of a recession, in this article we will examine changes in GDP, industrial production, employment, and unemployment.

Decline in economic output

This article will compare economic declines in Canada since 1929 using two measures of economic output. Ideally, quarterly GDP data would be used throughout the entire period (1929 to 2009), but that data are available only for 1946 and later.⁵ For the years 1929 to 1946, we will use industrial production: the value of goods and services produced by a number of industries, such as mining, manufacturing, electric power generation, gas distribution, and other utilities (Statistics Canada, 2009a). While industrial production is not directly equivalent to GDP, the fluctuations in industrial production are nonetheless the best available indicator of contractions and expansions in the economy in the early 1900s.⁶ In addition, the difference between industrial production and GDP will have a negligible impact on the analysis since we will compare the percentage changes from quarter to quarter, rather than the values.

Table 1 presents data on the duration (number of quarters) and severity (percentage decline in real GDP)

of Canadian recessions since 1929. The most recent recession began with a decline in real GDP in the fourth quarter of 2008 and lasted until the second quarter of 2009. That is, in the third and fourth quarters of 2009, the Canadian economy started to improve and real GDP began to increase. A comparison of the 2008/2009 recession to others since 1929 reveals that it was shorter than the recessions of the early 1980s and the early 1990s. Of the 12 recessions recorded since 1929, nine were either longer or equal in duration to the 2008/2009 recession.

In terms of severity, the 2008/2009 recession was relatively mild. For instance, real GDP declined by 3.6%

Table 1: Canadian recessions, 1929 to 2009

Start date - End date	Duration (number of quarters)	Severity (decline in real GDP)
Q2 1929 - Q1 1931	8	-34.0%
Q3 1931 - Q3 1932	5	-17.1%
Q4 1937 - Q4 1938	5	-8.1%
Q2 1944 - Q1 1946	8	-21.6%
Q2 1946 - Q4 1946	3	-4.0%
Q4 1953 - Q2 1954	3	-4.0%
Q3 1957 - Q4 1957	2	-1.8%
Q2 1960 - Q1 1961	4	-0.8%
Q2 1980 - Q3 1980	2	-0.3%
Q3 1981 - Q4 1982	6	-5.0%
Q2 1990 - Q1 1991	4	-3.4%
Q4 2008 - Q2 2009	3	-3.6%

Note: Growth in real GDP from 1929 to 2009 is measured using three different series. From 1929 to 1946, a measure of industrial production (the value of goods and services produced by mining, manufacturing, electric power generation, gas distribution, and other utilities industries) is used as a proxy for GDP growth. From 1946 to 1961, real growth in GDP is measured by the growth in real GDP at basic prices—i.e., the prices we pay for goods and services before various taxes; from 1961 on, it is measured by the real growth in GDP at market prices—i.e., the actual price we pay for goods and services. The difference between those two series is that GDP at market prices includes the taxes we pay on goods and services (such as GST), after deducting for subsidies.

Sources: Statistics Canada, 2010c, d, e; calculations by authors.

between the fourth quarter of 2008 and the second quarter of 2009. The 2008/2009 recession was slightly more severe than the 1990/1991 recession but much less severe than the 1981/1982 recession.

Decline in employment

Decline in employment, the percentage reduction in the number of Canadians working, is another method by which to gauge the length and severity of a recession. Table 2 presents employment data for 1954 to 2009.⁷ While annual employment data is available prior to 1954, quarterly data is not.

Using employment data, the 2008/2009 recession began in the fourth quarter of 2008 and ended in the third quarter of 2009. In the fourth quarter of 2009, Canadian employment grew by 0.3%. By this measure, the 2008/2009 recession was shorter than both the 1991/1992 and 1981/1982 recessions, which lasted five and six quarters, respectively.

In terms of severity, the 2008/2009 recession (1.8% decline in employment) was milder than the 1990/1991 recession (2.1% decline in employment) and the 1981/1982 recession (5.1% decline in employment).

Unemployment rate

The Canadian unemployment rate measures the proportion of workers who are looking for employment but are

Table 2: Decline in employment, 1954 to 2009

Start date - End date	Duration (number of quarters)	Severity (reduction in employment)
Q4 1957 - Q1 1958	2	-1.6%
Q4 1967 - Q1 1968	2	-0.3%
Q3 1981 - Q4 1982	6	-5.1%
Q3 1990 - Q1 1991	3	-2.1%
Q3 1991 - Q3 1992	5	-1.3%
Q4 2008 - Q3 2009	4	-1.8%

Note: Monthly employment data are available for 1954 to present, with significant breaks in the data (i.e., changes in methodology and/or survey questions) in 1966 and 1976.

Sources: Statistics Canada, 2010f, 2009b, 2010g; calculations by authors.

unable to find work. While the unemployment rate is not an ideal metric for assessing the length or severity of a recession, it does provide a barometer to measure the severity of a recession.⁸

Figure 1 presents quarterly unemployment rates for 1954 to 2009.⁹ The unemployment rate during the most recent recession increased from 6.1% in the third quarter of 2008 to 8.5% in the third quarter of 2009. However, it is important to note that the unemployment rate in 2008 was much lower than Canada's normal rate. Since the 1970s, when our unemployment insurance system was made significantly more generous, the normal (average) rate of unemployment has been 8.2%.¹⁰

As figure 1 shows, Canadians fared relatively well during the 2008/2009 recession in terms of unemployment. During the recession of the early 1980s, unemployment soared to 13.0%; during the 1990s recession, it hit 11.7%. Thankfully, Canada's unemployment rate is no longer growing; it decreased in the last quarter of 2009 and the first quarter of 2010.

Conclusion

As the data show, the 2008/2009 recession certainly does not live up to the mantle of "Great Recession." It was not the worst recession since the 1930s or the Second World War. Whether one examines declines in real GDP, decreases in employment, or increases in the unemployment



Figure 1: Canadian unemployment rate, 1954 to 2009



Note: There are significant breaks in the data (i.e., changes in the methodology and/or survey questions) in 1966 and 1976.

Sources: Statistics Canada, 2010f, 2009b, 2010g; calculations by authors.

rate, the length and severity of the 2008/2009 recession compares favourably to recessions in both the 1980s and 1990s. While labelling the recession the “worst” since the Great Depression or the Second World War might make for great political speeches and media reports, those allegations are simply not factual.

Notes

1 This search of expressions used by the media was done using the outline database at <www.fpinfomart.ca> on April 6, 2010.

2 It should be noted that some of these terms might have been used to describe economic declines in nations other than Canada.

3 Statistics Canada is not formally tasked with tracking recessions, but since no other organization in Canada does so, it has stepped in to fill in the void (Cross, 1996).

4 During recessions, unemployment receives more attention than employment. Unemployment rates, however, tend to lag behind economic recoveries due to the influx of people who join the labour force as economies start to recover. This makes the unemployment rate less useful as an indicator of the beginning and end of a recession (Cross, 2009). For

this reason, Statistics Canada uses employment rather than unemployment data (Cross, 2009). The National Bureau of Economic Research (NBER), which is formally tasked with dating recessions in the United States, also uses employment, rather than unemployment, as an indicator when dating business cycles in the United States (Cross, 2009).

5 Consistent GDP data is not available for 1946 to 2009. As a result, we use two different data series for real GDP growth from 1946 to 2009. The difference between those two GDP series is the inclusion of various types of sales taxes, such as GST, HST, fuel and excise taxes on tobacco and alcoholic beverages, property taxes, etc., after deducting subsidies (Statistics Canada, 2008). In economic

terms, one of the GDP measures is at basic prices and the other is at market prices (see Statistics Canada, 2008, for details).

6 Industrial production may overestimate recessions somewhat because manufacturing, a sector that is typically highly affected by recessions, is a much larger component of industrial production than of overall GDP.

7 Monthly employment data are available for 1954 to present, with significant breaks in the data (i.e., changes in methodology and/or survey questions) in 1966 and 1976, making pre-1976 data not directly comparable to post-1976 data. However, the pre- and post-1976 employment data are not directly compared in this article. Instead, we examine the percentage changes in the employment data within the periods during which the series are comparable.

8 For instance, unemployment rates typically lag behind recessions since many people enter the labour force as the economy starts to recover, making the unemployment rate higher rather than lower.

9 Annual data is available prior to 1954, but quarterly data is not.

10 See HRSDC (2004) and Kuhn and Riddell (2006) for an explanation of unemployment insurance changes in the 1970s.

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The stimulus didn't work

Government stimulus spending had virtually no effect on Canada's economic recovery

NIELS VELDHIJS AND CHARLES LAMMAM

We presented a plan, a bold plan, Canada's Economic Action Plan ... That plan is working ... The proof is in our performance," boasted federal Finance Minister Jim Flaherty in his March budget speech (Canada, Department of Finance, 2010a: 4–5). While Flaherty's comments may be great political rhetoric, the latest data from Statistics Canada tells a very different story. It shows that government stimulus had a negligible effect on Canada's economic turnaround in the second half of 2009. Put simply, the stimulus didn't work.

Nevertheless, Canada's economic outlook has improved dramatically since last year. Stock markets are continuing to rally (Abma, 2010), housing starts are increasing (Statistics Canada, 2010a), the unemployment rate is slowly edging downward (Statistics Canada, 2010b), manufacturing sales are beating expectations (Statistics Canada, 2010c), labour productivity growth is hitting recent historical highs (Statistics Canada, 2010d), and the Bank of Canada and major private sector banks are forecasting positive economic growth for 2010 (Bank of Canada, 2010; TD

Economics, 2010; RBC Economics Research, 2010).

But the most encouraging sign of economic recovery can be found in new data from Statistics Canada, which shows that the Canadian economy began to improve midway through 2009 (Statistics Canada, 2010e). Specifically, gross domestic product (GDP)¹ increased by 0.2% in the third quarter of 2009 and by 1.2% in the fourth quarter, after three consecutive quarters of decline: -0.9% in the fourth quarter of 2008, -1.8% in the first quarter of 2009, and -0.9% in the second quarter of 2009.

The federal government points to the shift from declining GDP in the second quarter of 2009 to growing GDP in the third and fourth

quarters as evidence that their Economic Action Plan has worked.

But how much of that shift can actually be attributed to government stimulus spending?

To gauge whether government stimulus had an impact on the economic turnaround in 2009, we examined Statistics Canada data on the contributions of government consumption (i.e., spending), government investment (i.e., infrastructure spending), and private sector activity in relation to improvement in economic growth at two critical junctures.²

Between the second and third quarters of 2009, GDP growth improved by 1.1 percentage points from -0.9% to 0.2%. Of this 1.1 percentage point improvement in GDP growth, government consumption and government investment each contributed only 0.1 percentage points. Private sector investment contributed 0.8 percentage points and was the driving force behind the economic growth between the second and third quarters of 2009.

Despite the government's attempts to stimulate renovations in the housing sector through the high-profile Home Renovation Tax Credit,

The stimulus spending was unnecessary and will burden Canadians with a legacy of debt.

Statistics Canada data show that investment in residential structures did not contribute to the change in GDP growth between the second and third quarters of 2009.

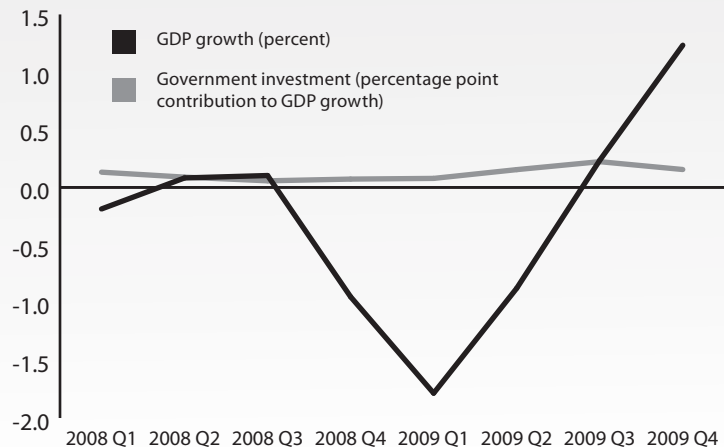
Similarly, the federal government's temporary business tax relief intended to stimulate the purchase of new computer equipment did not account for a significant part of the private sector investment that drove the economic turnaround during this period.

Another goal of the federal stimulus package was to stimulate private sector consumption. While increased private sector consumption did contribute to improved economic growth between the second and third quarters of 2009, that contribution was slight.

To the federal government's credit, the \$4.5 billion reduction in personal income taxes contained in its stimulus package likely had an impact on consumption, given the permanent nature of the tax relief. Academic research suggests that widespread tax relief does much more to improve economic growth than increased government spending (see, for example, Alesina and Ardagna, 2009). Unfortunately, less than 10% of the federal stimulus plan was dedicated to permanent tax relief (Canada, Department of Finance, 2010; calculations by authors).

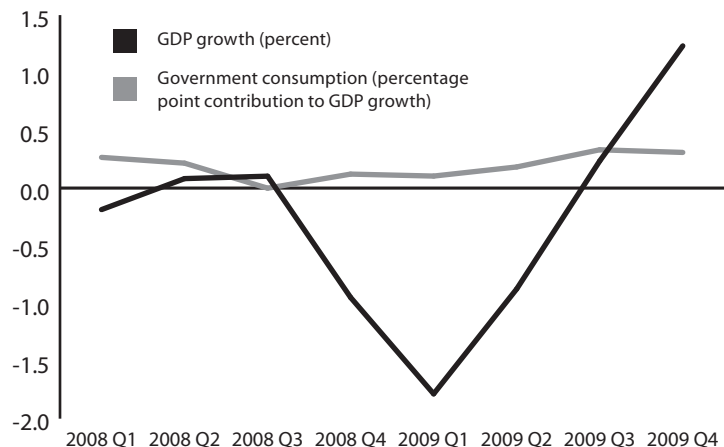
Between the third and fourth quarters of 2009, GDP growth increased by 1.0 percentage point from 0.2% to 1.2% growth. At this juncture, government consumption and government investment contributed nothing to the 1.0 percentage point improvement in economic growth. Increased net exports were solely responsible for the improvement during this period.³

Figure 1: GDP growth and contribution from government investment



Source: Statistics Canada, 2010e.

Figure 2: GDP growth and contribution from government consumption



Source: Statistics Canada, 2010e.

Most indicative of the government's misguided stimulus is that both before and during the recession, and well into the recovery of 2009, the government's contribution to GDP growth was markedly

constant (figures 1 and 2). In other words, whether the economy was shrinking, stagnant, or growing, the contributions of government infrastructure investment and government spending to economic

growth had little effect on changes in GDP growth.

This, of course, contradicts the government's claim that "infrastructure measures in the Action Plan ... have contributed to the economic recovery in Canada" (Canada, Department of Finance, 2010b: 278). As figure 1 shows, the contribution of government infrastructure investment to GDP growth was noticeably constant from the beginning of 2008 to the end of 2009.

This should come as no surprise, given that more than 40% of the federal government's stimulus package was earmarked for infrastructure initiatives (Canada, 2009: 215), which take time to plan and implement.

Looking ahead, our fear is that spending on infrastructure will occur as the economy naturally begins to grow again, meaning that the government will compete with the private sector for resources, resulting in increased costs and fewer private sector projects (Veldhuis, 2009).

Despite the government's claims, the stimulus package didn't work. All of the spending was unnecessary and will burden Canadians with a legacy of debt for years to come.

Notes

1 Gross domestic product (GDP) is simply the value of all the goods and services produced in Canada during a given time period.

2 For a more detailed analysis, please see the study upon which this article is based, Karabegović et al. (2010).

3 The increase in net exports during this period was primarily the result of

a slowdown in the growth of imports. This slowdown had the effect of increasing net exports (i.e., total exports minus total imports).

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Research or rhetoric?

Academic studies show
government stimulus
spending does not
increase economic
activity

NIELS VELDHUIS AND CHARLES LAMMAM

In the previous article, we detailed the findings of our study *Did Government Stimulus Fuel Economic Growth in Canada? An Analysis of Statistics Canada Data* (Karabegović et al., 2010). Based on the latest economic data from Statistics Canada and using the same methodology for analyzing the data as internationally renowned macroeconomists (see Cogan et al., 2009, Sep. 19, and Taylor, n.d.), we found that the federal government's deficit-financed, \$47.2 billion Economic Action Plan had virtually no impact on last year's economic turnaround.

Prime Minister Stephen Harper and Finance Minister Jim Flaherty responded to our report with harsh words (*CBC News*, 2010, Mar. 25). Both criticized the report as being “ideologically” motivated. Minister Flaherty said he was “disappointed” and remarked that our report was “poorly done” and “shabby.”

Prime Minister Harper went further, saying, “Economic theory and history is clear, governments must ... make sure [funds] are put to productive use in the economy to create jobs ... that is what we have been doing, that has been successful [and] every reputable international study says so” (*CBC News*, 2010, Mar. 25).

With all due respect, Mr. Prime Minister, that is simply not true.

A vast body of academic research casts serious doubt on the ability of government stimulus spending to boost economic activity.

Last October, leading fiscal policy expert and Harvard University professor Alberto Alesina and his colleague Silvia Ardagna conducted a comprehensive analysis of stimulus initiatives in Canada and 20 other industrialized countries from 1970 to 2007 (Alesina and Ardagna, 2009). Their study identified 91 instances where governments tried to stimulate the economy and found that unsuccessful attempts were based on government spending. Alesina noted that “a one percentage point higher increase in the current [government] spending to GDP ratio is associated with a 0.75 percentage point lower growth.” In plain English, increased government spending reduces, not increases, economic growth.

Professor Alesina's study also found that successful stimulus initiatives—those that actually increased economic growth—were based on tax cuts. Unfortunately, only 13% of the federal government's \$47.2 billion Economic Action Plan was dedicated to tax relief (Canada, Department of Finance, 2010; calculations by authors).¹

In a 2009 study published in the prestigious *American Economic Review*, Stanford University professor John Taylor reviewed the evidence concerning fiscal stimulus over the past decade and concluded that “there is little reliable empirical evidence that government spending is a way to end a recession or accelerate a recovery” (Taylor, 2009).²

Another 2009 study by University of London professor Andrew Mountford and University of Chicago

professor Harald Uhlig assessed and compared the economic impact of various cases of deficit-financed spending, deficit-financed tax cuts, and tax-financed spending from 1955 to 2000 (Mountford and Uhlig, 2009). They found that spending-related measures are the weakest ways to stimulate the economy and that both deficit-financed and tax-financed spending have the effect of discouraging private investment.

The International Monetary Fund (IMF), which Prime Minister Harper has cited as an authority on economic matters, recently surveyed fiscal stimulus initiatives in advanced and emerging economies and concluded that, on average, the effect of discretionary fiscal policy “does not provide strong evidence of countercyclical effects” (IMF, 2008). In other words, the IMF concluded that fiscal stimulus is generally not an effective way to combat a recession.

Unfortunately, the Prime Minister’s Office and the Department of Finance brushed aside the findings of these and dozens of other reputable studies that contradict their rhetoric.³

Instead, the Conservative government continues to highlight its internally generated estimates of the impact of their Economic Action Plan. These “estimates” assume that an extra dollar of government spending increases economic output (GDP) by \$1.50. In econ-speak, the government uses a “multiplier” of 1.5.

Put differently, the folks who called our study “ideologically” motivated assume that if the government takes a dollar out of your pocket or borrows it and then spends it on someone else, it generates an extra \$1.50 in economic activity (GDP).

How did Minister Flaherty and the Department of Finance arrive at their 1.5 spending multiplier estimate?

This multiplier certainly does not come from “reputable” studies, as the prime minister has suggested. The estimate is actually taken from a political document co-authored by Christina Romer, chair of US President Barack Obama’s Council of Economic Advisers (see Romer and Bernstein, 2009). That document dubiously assumes a government spending multiplier of 1.57.⁴

Many internationally renowned economists have criticized Romer’s spending multiplier, including Stanford University professor John Cogan and his colleagues, who in a 2010 study accused Romer of making “highly questionable” assumptions to arrive at a multiplier of 1.57 (Cogan et al., 2010).

Under more realistic assumptions, professor Cogan and his co-authors found that the spending multiplier is

substantially smaller and that it likely lies between 0.5 and 0.6. In other words, if government spending increases by one dollar, then GDP increases by only 50 to 60 cents.

It is important to note that the multiplier results apply at a given level of taxation. If government spending is deficit-financed, like the federal government’s Economic Action Plan, or tax-financed, then increased government spending reduces other parts of GDP such as consumer spending, private sector investment, and net exports.

Romer’s multiplier for government spending is also inconsistent with research done by Harvard University professor Robert Barro, who has spent most of his academic career estimating fiscal stimulus multipliers. While Barro’s seminal 1981 study calculated a spending multiplier of 0.8 (Barro, 1981), his more recent work suggests that the multiplier is even lower (Barro and Redlick, 2009).

Earlier this year, Barro noted that the spending multiplier is actually negative after accounting for the fact that the government has to balance its budget over time, using future tax hikes to finance current deficit spending. Barro has also criticized Romer and noted that there is no “serious scientific research by Ms. Romer on spending multipliers” and that he “cannot understand her rationale for assuming values well above one” (Barro, 2010, Feb. 23).

The conclusions of professors Cogan and Barro are supported by a 2009 study led by professor Eric Leeper of Indiana University. The Leeper study found that stimulus spending multipliers for government investment are generally negative due to the long delays associated with infrastructure projects and the expectations taxpayers form when the government finances these projects through debt.⁵

This should be a concern for Canadians, given that more than 40% of the federal government’s stimulus package was earmarked for infrastructure initiatives and the spending was financed through large deficits.

Finally, even the IMF’s survey reached many of the same conclusions and indicated that, despite some rare outliers, a typical range for spending multipliers is below one (IMF, 2008: 166).⁶

Rather than rely on economic models in which the answer is “built-in” and assumes government spending increases economic growth, our study examined actual Statistics Canada data on stimulus spending. We found that before the recession, during the recession, and well into the economic recovery in 2009, the government’s contribution to GDP growth has been markedly constant. In other words, whether the economy was shrinking, stagnant, or growing, the contributions of government

spending and government infrastructure investment to economic growth had a negligible effect on changes in GDP growth (see figures 1 and 2 in previous article).

The unfortunate reality for Canadians is that the federal government's stimulus package was politically, rather than economically, motivated. And now, again due to politics, the government that reluctantly implemented the stimulus package is now aggressively defending it and attacking sound, rigorous, independent economic research.

Our study, supported by a large body of academic evidence, confirms that the stimulus package did not work. It's time for the government to admit its stimulus misstep and return to prudent fiscal policies.

Notes

1 As the previous article notes, less than 10% of the stimulus plan was dedicated to *permanent* tax relief. However, 13% was allocated for general tax relief, which includes temporary measures.

2 Professor Taylor's 2009 study is an update to an earlier one that reached the same conclusion: fiscal stimulus initiatives are unlikely to improve economic performance (see Taylor, 2000).

3 For examples of such studies, see Alesina et al. (2002), Alesina and Ardagna (1998), Alesina and Perotti (1997), Ardagna (2004), Auerbach (2002), Berben and Brosens (2007), Blanchard and Perotti (2002), Fatás and Mihov (2003, 2006), Giavazzi et al. (2000), Giavazzi and Pagano (1990), Gordon and Leeper (2005), McDermott and Wescott (1996), Perotti (2004, 2005), and Ramey and Shapiro (1999).

4 Most indicative of the political nature of the Romer and Bernstein document is that it promulgates an economic view on fiscal stimulus that flies in the face of Christina Romer's earlier academic work. In a 1994 study co-authored with her husband David, Romer analyzed the contribution of fiscal policy to post-War economic recoveries and concluded that "the historical record contradicts the view that fiscal policy is essential to ending recessions or ensuring strong recoveries" (Romer and Romer, 1994). This message is the complete opposite of the political rhetoric that is now coming out of Washington.

The 2009 Romer and Bernstein document also assumes that \$1 of tax cuts raises GDP by 0.99 cents—a tax multiplier of 0.99. However, this tax multiplier is completely at odds with Romer's previous academic work, most notably a 2007 study she co-authored with husband David at the University of California, Berkeley, just months before taking her current

job with the Obama administration (see Romer and Romer, 2007). In their 2007 working paper, soon to be published in the *American Economic Review*, the Romers examined the impact of tax changes on economic growth in the United States from 1945 to 2007 and found that each dollar of tax cuts has historically raised economic output (GDP) by about \$3—three times the tax multiplier used in the Obama administration's report.

5 For instance, when taxpayers understand that increased government debt today translates into higher taxes or lower spending tomorrow, they respond by saving more, paying down their own debt, or cutting back on their own spending in preparation. In the Leeper study, the multipliers turned positive only if government investment was highly productive (i.e., it generated a very high rate of return). But a look at the infrastructure initiatives contained in the Economic Action Plan suggests that this is improbable in the Canadian context.

6 The latest research from University of Chicago professor Casey Mulligan also suggests that Romer's spending multiplier is grossly exaggerated (Mulligan, 2010). After examining recent US data, Mulligan found that "the government spending multiplier is less than one, even during this recession."

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Canadians hand over 42% of their income to government

Income tax is just one part of our total tax bill

MILAGROS PALACIOS AND NIELS VELDHUIS

Having recently completed their tax returns, many Canadians now know just how much income tax they paid last year—and for some it might be shocking. Somehow, the amount of income tax deducted from each pay cheque does not seem like much until we see the total amount paid on our tax returns.

Of course, there are many Canadians who happily pay their income taxes, knowing that their taxes finance many government programs, such as health care, education, and the military. But when it comes to paying taxes, there are two questions that all Canadian taxpayers should ask themselves: “Am I getting my money’s worth?” and “How has my tax bill changed over the years?” To answer these questions, Canadians must have an accurate picture of their total tax bill, which includes more than just income taxes.

Our total tax bill

Income taxes constitute only a portion of the total tax bill imposed on us by the federal, provincial, and local governments. Last year, the average Canadian family¹ earned approximately \$69,175² and paid \$9,341 in income taxes. Personal income taxes, however, only represent about one-third of Canadians’ total tax bill (table 1, figure 1).

Two other significant taxes that appear on their tax returns are the Canada Pension Plan (CPP)—the Quebec Pension Plan if you’re a resident of *la belle province*—and Employment Insurance (EI). At income tax time, Canadians are forced to prove that they have paid the correct amount of CPP and EI for the year. Residents of British Columbia, Ontario, and Quebec also pay health care taxes through

direct premiums or payroll taxes. All told, the average Canadian family paid some \$6,074 in CPP, EI, and health taxes in 2009 (table 1). Social security and health care taxes are second only to personal income taxes as the single largest government levy.

There are two other relatively visible taxes that Canadians pay, though not at the same time as they pay income taxes: property taxes and sales taxes. The average Canadian family paid about \$2,834 in property taxes in 2009. One common misconception is that only homeowners pay property taxes. The truth of the matter is that property taxes for renters are included in their monthly rent, so we all pay property taxes in one way or another. At least homeowners can see the cost of their property taxes since they receive an annual bill.

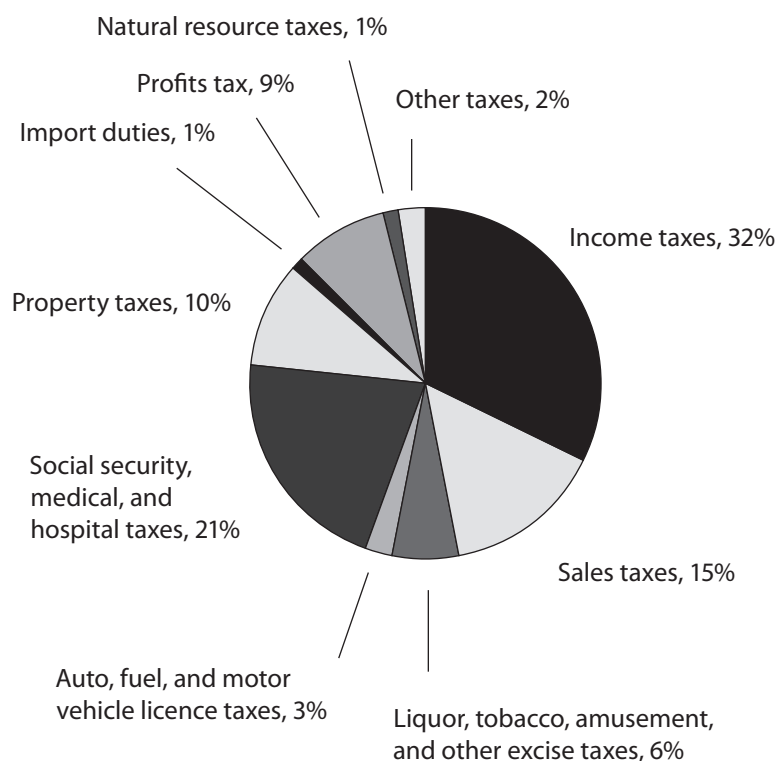


Table 1: Tax bill of the average Canadian family (families and unattached individuals), 2009

Total cash income	\$69,175
Taxes	
Income taxes	\$9,341
Sales taxes	\$4,259
Liquor, tobacco, amusement, and other excise taxes	\$1,757
Auto , fuel, and motor vehicle licence taxes	\$749
Social security, medical, and hospital taxes	\$6,074
Property taxes	\$2,834
Import duties	\$272
Profits tax	\$2,484
Natural resource taxes	\$397
Other taxes	\$710
Total taxes	\$28,878

Source: The Fraser Institute's Canadian Tax Simulator, 2009. For more information about the Tax Simulator, please see Palacios and Veldhuis, 2009.

Figure 1: Distribution of the average Canadian family's total tax bill, 2009



Source: The Fraser Institute's Canadian Tax Simulator, 2009.

Sales taxes are visible whenever we make a purchase upon which the tax is applied. However, it would be difficult, if not impossible, to track just how much we pay in sales taxes over the course of a year. Our estimates indicate that the average Canadian family paid about \$4,260 in sales taxes in 2009, representing nearly 15% of their total tax bill.

In addition to personal income taxes, social security, health care taxes, property taxes, and sales taxes, which are all visible to a certain degree, there are a host of taxes that Canadians pay but do not see. For instance, profit taxes amounting to approximately \$2,484 in 2009 were assessed indirectly on the average Canadian family. Taxes on liquor, tobacco, and amusement amounted to \$1,757 for the average Canadian family, while automobile and gas taxes totalled about \$749. Finally, the average Canadian family was assessed about \$272 in import duties in 2009, another cost that is not easily discernible.

All told, the average Canadian family faced a tax bill of \$28,878 in 2009 against an income of \$69,175. The total taxes imposed on the average Canadian family consumed nearly 42% of its income.

Unfortunately, the average Canadian family's tax burden has been rising steadily for the better part of 40 years. Back in 1961, the average family had an income of \$5,000 and paid a total of \$1,675 in taxes. This means that the average Canadian family's total tax bill has increased by 1,624% since 1961 (table 2).

As table 2 reveals, for the first time since the early 1990s, the

Taxes consume more of an average Canadian family's income than basic necessities.

Table 2: Taxes paid by the average Canadian family (families and unattached individual), 1961 to 2009

Year	Cash income (\$)	Tax bill (\$)	Increase in tax bill over base year (%)
1961	5,000	1,675	–
1969	8,000	3,117	86
1974	12,500	5,429	224
1976	16,500	5,979	257
1981	27,980	11,429	582
1985	32,309	14,834	786
1990	43,170	18,693	1,016
1992	43,770	17,751	960
1994	44,328	18,499	1,004
1996	45,585	19,979	1,093
1998	48,736	21,693	1,195
2000	54,226	25,041	1,395
2002	56,295	25,639	1,431
2004	59,911	27,324	1,531
2006	65,216	29,691	1,673
2008	71,007	30,362	1,713
2009	69,175	28,878	1,624

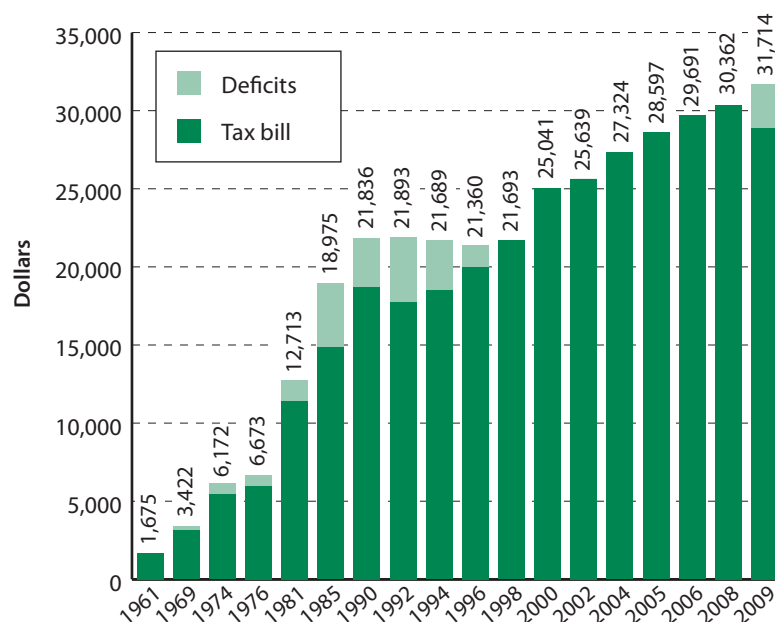
Source: The Fraser Institute's Canadian Tax Simulator, 2009.

average Canadian family's tax bill actually decreased in 2009. The primary reason for the decline was the recession. When the economy slows and incomes decline, the average family's tax burden is reduced.³

While the total tax bill for the average Canadian family decreased in 2009, most federal and provincial governments resorted to deficits to finance their expenditures. These deficits must one day be paid for by taxes. Deficits should therefore be considered deferred taxation. Figure 2 shows the total tax burden for the average Canadian family when government deficits are added to the bill.

As figure 2 reveals, the average family's total tax burden would be higher than it actually is if, instead of financing expenditures through deficits, all Canadian governments had increased tax rates to balance their budgets. When deferred taxes (deficits) are included, the tax bill of the average Canadian family has increased by 1,793% since 1961.

Figure 2: Taxes paid by the average Canadian family (families and unattached individual), including deficits, 1961 to 2009



Source: The Fraser Institute's Canadian Tax Simulator, 2009.

The tax bill in perspective

The tax bill faced by Canadian families has increased dramatically relative to other major expenditures. Between 1961 and 2009, expenditures on shelter increased by 1,198%, food by 559%, and clothing by 526% (table 3, figure 3).

Over the last 40 years, taxes have grown much more rapidly than any other single expenditure. The average Canadian family now spends more of its budget on taxes than on the basic necessities such as food, shelter, and clothing combined. In 1961, the average family spent 56.5% of its income on shelter, food, and clothing, and 33.5% of its income on taxes. Now, the average family spends 37.1% of its income on the necessities of life and 41.7% on taxes.

Conclusion

It is critical for Canadians to understand that the taxes they pay on their income tax returns represent less than half of their total tax bill. Understanding our total tax bill will enable each of us to better assess whether we are receiving value for our money. Our hope is that this understanding will lead to meaningful tax relief for Canadians in the future. At the very least, we should be better able to hold our politicians accountable for the resources they extract from us.

Notes

1 A “family” is defined as all families (of two or more persons) and unattached individuals.

2 The income concept used is cash income, which includes income from wages and salaries, self-employment, interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments. This definition coincides with the one used by Statistics Canada in its Survey of Household Spending (Statistics Canada, 2009).

3 For example, the amount of sales and other consumption taxes people pay tends to decrease as individuals prioritize savings over consumption.

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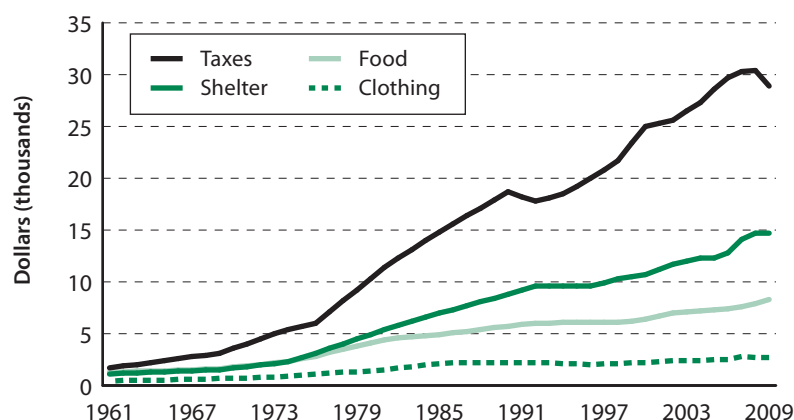
Table 3: Income, taxes, and selected expenditures of the average Canadian family, 1961 to 2009

Year	Average cash income	Average tax bill	Average expenditures		
			Shelter	Food	Clothing
1961	5,000	1,675	1,130	1,259	435
1969	8,000	3,117	1,497	1,634	654
1974	12,500	5,429	2,294	2,320	886
1976	16,500	5,979	3,134	2,838	1,119
1981	27,980	11,429	5,381	4,440	1,499
1985	32,309	14,834	6,984	4,899	2,141
1990	43,170	18,693	8,776	5,745	2,234
1992	43,770	17,751	9,607	6,024	2,215
1994	44,328	18,499	9,592	6,066	2,116
1996	45,585	19,979	9,577	6,108	2,017
1998	48,736	21,693	10,266	6,053	2,143
2000	54,226	25,041	10,712	6,403	2,245
2002	56,295	25,639	11,706	6,984	2,371
2004	59,911	27,324	12,256	7,214	2,393
2005	62,357	28,597	12,341	7,274	2,497
2006	65,216	29,691	12,782	7,445	2,451
2008	71,007	30,362	14,719	7,912	2,734
2009	69,175	28,878	14,671	8,301	2,722
% increase 1961-2009	1,284	1,624	1,198	559	526

Note: All expenditure items include indirect taxes. Average shelter expenditures for years prior to 1998 are estimates. This estimate takes into account a difference in the definition of “shelter” between the Family Expenditure Survey and the Survey of Household Expenditures. Expenditures for 2009 were estimated using the results of the 2008 Survey of Household Spending. Final results were adjusted for inflation.

Source: Palacios and Veldhuis, 2010.

Figure 3: Taxes and basic expenditures of the average Canadian family, 1961 to 2009



Source: Palacios and Veldhuis, 2010.



Reducing opportunities for Ontario's youth

Minimum wage hikes increase unemployment

AMELA KARABEGOVIĆ AND NIELS VELDHUIS

When Statistics Canada released its latest job market numbers in April, there was some good news: Ontario's economy is finally churning out new jobs (Statistics Canada, 2010a, 2010c). After shedding 120,800 jobs in 2009, Ontario saw an increase of 30,300 jobs in January, followed by another 7,100 in February and 10,300 in March (Statistics Canada, 2009a, 2010a, 2010c). Unfortunately, Ontario's unemployment rate stubbornly remains at almost 9%, having changed very little over the past six months (Statistics Canada, 2009a, 2010a, 2010c).

The news for Ontario's youth is much worse. The unemployment rate for those aged 15 to 24 currently sits at 17.7%—double the provincial average (Statistics Canada 2010b). This means that nearly one in five young Ontarians who want to work cannot find a job.

Should we be surprised?

On March 31, Ontario raised its minimum wage to \$10.25 per hour—the highest minimum wage in the country—up from \$9.50 last year and \$7.45 in 2005 (HRSDC, 2010). In other words, the minimum wage has increased by 38% over the past five years. In addition,

Ontario's minimum wage as a percentage of GDP per worker, a measure that accounts for the ability to pay wages, is one of the highest in North America (10th highest among the 60 US states and Canadian provinces) (Palacios et al., 2009).

High and increasing minimum wages have repeatedly been proven to kill job opportunities, especially for young workers (Godin and Veldhuis, 2009).

When minimum wages are increased, employers respond by reducing the number of workers they employ and/or the number of hours their employees work. In other words, minimum wage increases result in higher unemployment for young workers and reduce opportunities for many youth to gain valuable skills and work experience.

This effect has been well documented in the academic literature. A review of academic studies from Canada and around the world demonstrates that high minimum wages lead to lower employment levels (Godin and Veldhuis, 2009). For example, a comprehensive study by renowned minimum wage experts Professor David Neumark of the University of California, Irvine, and Dr. William Wascher, US Federal Reserve Board economist, reviewed more than 100 studies covering 20 countries over the past 15 years and found that the "overwhelming majority" of studies, especially the most credible, consistently showed that minimum wage increases result in decreases in employment (Neumark and Wascher, 2007).

In Canada, 14 studies have specifically examined the impact of minimum wage increases in the 10 provinces (Godin and Veldhuis, 2009). The Canadian research indicates that a 10% increase in the minimum wage is likely to decrease employment by 3% to 6% among all young workers (aged 15 to 24). For those young workers most directly affected—those who earn between the current and the new minimum wage—the impact is more acute, resulting in employment losses of 4.5% to 20%.

Those Ontario youth lucky enough to retain their jobs after the minimum wage hike will likely see reductions in their hours, fringe benefits, and/or training (Godin and Veldhuis, 2009). Again, these effects have been widely studied. For example, a study in the *Journal of Labor Economics* found that a 10% increase in the minimum wage reduced the proportion of minimum wage workers aged 20 to 24 who received on-the-job training by two percentage points (Neumark and Wascher, 2001). This means that even if young workers retain their jobs, they may actually not be better off, depending on changes to their benefits and training.

Many governments introduce minimum wage increases because they falsely believe that doing so will help reduce poverty. But the typical minimum wage earner is not the person often depicted by advocates of higher minimum wages. Statistics Canada data reveal that the large majority (66%) of minimum wage workers in Ontario are

between 15 and 24 years old, and most of those workers (89%) live at home with family (Statistics Canada, 2009b). Many of the remaining individuals earning minimum wages are adults supplementing their family income with part-time work during child-rearing years or after retirement (Statistics Canada, 2009b). As such, increasing the minimum wage does not reduce poverty.

Ontario's minimum wage hike will rob young workers of the opportunity to participate in the labour market and gain the skills and experience they need to succeed in today's workplace. The youth unemployment rate is nearly 18%, and this new minimum wage hike will only make it harder for young people to find work. It's time for Ontario to freeze its minimum wage.

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The unsustainable growth of government health care spending

Only market incentives can save provincial health care systems

MARK ROVERE



Over the last year, sustainability has become a common concern among Canada's premiers and provincial health ministers. It seems as though provincial governments are finally beginning to accept the fact that provincial health care spending cannot be sustained by public means alone.

In his mid-March throne speech, Ontario Premier Dalton McGuinty admitted that if serious reforms are not implemented immediately, then health spending will consume 70 cents of every provincial dollar spent in 12 years. The premier also acknowledged that health care spending in the province would crowd out other critical public services (Ontario, 2010).

The Fraser Institute has been warning provincial governments of this inevitability for years in its annual study *Paying More, Getting Less: Measuring the Sustainability of Government Health Spending in Canada*. According to the most recent edition, provincial government health spending (averaged across all provinces) has grown at an average annual rate of 7.4% over the most recent 10-year period (1999/2000 to 2008/2009). During this time, the average annual growth rate for total

available provincial revenue was 6.5% and the average annual GDP (gross domestic product) growth rate was 6.4% (Skinner and Rovere, 2009). If this trend is projected into the future, the data indicate that six of the 10 provinces will spend 50% of available revenue on health care by 2034 (Skinner and Rovere, 2009).

Ontario and New Brunswick are in the worst financial position, as health spending in those provinces is projected to consume 50% of total available revenue by 2014 (figure 1). While some provinces are worse off than others, this fundamental sustainability problem exists in every province. As a result, provincial governments will be forced to examine alternate ways of financing future health care costs or implement cost containment policies that will lead to reduced health care services.

This reality has been acknowledged by some Canadian politicians. Last year, BC Health Minister Kevin Falcon addressed the issue of unsustainable health care costs by proposing alternate methods of financing provincial health care services. He suggested that patients should be able to use their own money to purchase expedited health services in the private sector (Fayerman, 2009,

June 25). For a number of years, Fraser Institute research has advocated reform based on similar principles, arguing that the best way to increase choice and access to timely medical care is to allow the private sector to be involved in the financing and delivery of health care in Canada.

Canadians cannot continue to pay more for health services while getting less in return. In 2009, patients waited approximately 16.1 weeks from the time they obtained a referral from a general practitioner to the time they received treatment from a specialist (Esmail, 2009). Although the provinces keep spending more and more on health care each year, total wait times in 2009 are 73% longer than they were in 1993, and are roughly the same as they were in 2000 and 2001 (Esmail, 2009).

In addition, research shows that in comparison to its international counterparts, Canada lags behind many developed nations in the size of its medical technology inventory, though it is one of the most expensive universal-access health care systems in the world (Esmail, 2008). At the same time, Canadians are waiting longer to access the newest prescription drugs, which are available much sooner in Europe and in the

United States. Worse still, Canadians who are dependant on provincial public drug plans are often denied access to new medicines. Averaged across all provincial drug plans, only 23% of new drugs that were approved by Health Canada in 2004 were approved for reimbursement by provincial plans as of December 31, 2009 (Skinner and Rovere, 2010).

Market incentives: the optimal policy solution

The most effective way for the provinces to decrease wait times while improving access to the newest prescription drugs and medical technologies is to take advantage of the market incentives that are unique to the private sector. If competition through profit incentives is allowed to flourish, the price, supply, and quality of medical resources will respond to consumer demands. The best way to achieve this goal is for provincial governments to relinquish their monopoly on health insurance for medically necessary services.

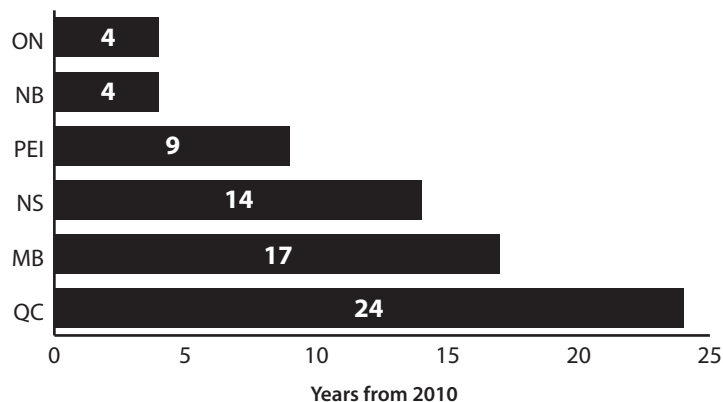
Governments should allow people to purchase private health insurance in a competitive insurance market and make patients responsible for a portion of their health care needs by introducing cost-sharing mechanisms. Quebec's Finance Minister Raymond Bachand recently proposed that the province introduce user fees for medical services which would be structured in the form of a deductible. Under his proposal, patients would have to pay \$25 per medical visit, though fees would ultimately be capped at 1% of a family's annual income (Seguin, 2010, Mar. 30). Although the ability to purchase private insurance for all medically necessary services has not yet been proposed in Quebec, introducing user fees is a good place to start because it will create economic incentives for the efficient use of

medical resources, without harming patients (Rovere, 2009).

A recent public opinion poll by the Canadian Medical Association (CMA) suggests that many Canadians are willing to consider such changes. On March 8, the CMA released an Ipsos Reid poll on the economics of Canadian health care. The survey found that 59% of respondents agreed that the current method of financing health care is

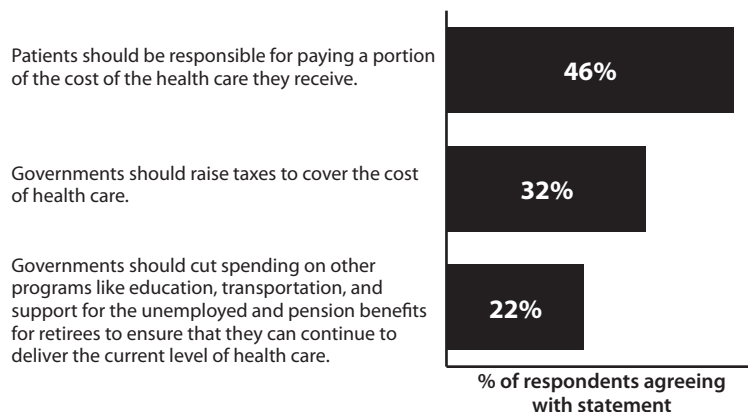
not sustainable. Of those respondents (shown in figure 2), 46% agreed that "patients should be responsible for paying a portion of the cost [of the] health care they receive"; 32% agreed that "governments should raise taxes to cover the cost of health care"; and 22% agreed that governments "should cut spending on other public services such as education and transportation" in order to continue paying for health care services (CMA, 2010).

Figure 1: Number of years until government health expenditures consume 50% of total available revenue, 2010 forward, by province



Source: Skinner and Rovere, 2009.

Figure 2: Which of the following possible solutions is the best way to address the issue of the affordability of the health care system?*



*According to an Ipsos Reid poll of Canadians conducted on behalf of the CMA. Source: CMA, 2010.

As the CMA poll shows, many Canadians believe that health care funding is in serious trouble and are willing to pay a portion of their health care costs to ensure that their medical needs are met. The debate over whether patients should be allowed to pay privately for health services in Canada has persisted for many years. It's time to push ideological resistance aside so that sound economic reforms can be realized.

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