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A Fraser Institute review of public policy in Canada

How Canada's premiers stack up

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The Canadian dream is within reach

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From the editor

Since the last issue of *Fraser Forum*, various provinces have gone to the polls, each with its own variety of issues. In British Columbia, the harmonized sales tax (HST) was voted down in a referendum. In Ontario, a provincial election was held in which Dalton McGuinty was re-elected, this time to a minority government. Alberta's ruling Progressive Conservative Party held a leadership race, which was won by Alison Redford, who thereby also became premier of the province. PEI and Manitoba also held elections, both reelecting their former premiers, while Kathy Dunderdale lead the Progressive Conservatives to election victory in Newfoundland & Labrador. With so much emphasis on change, this issue ends 2011 by focusing on the economic and fiscal policies of 10 Canadian premiers.

Our cover story, *Fiscal performance review of Canada's premiers*, (pg.10) studies the policies of current and former premiers and ranks each based on their government spending, taxes, and debt and deficits. A related article pays particular attention to the poor fiscal policies of Ontario premier Dalton McGuinty and Quebec premier Jean Charest (pg.14). Mark Milke examines the possible pitfalls that await Alberta's new premier in *Deficits, the public sector, and the new premier* (pg.17). Milke argues that Redford's policies on education and health care will need serious revision in the coming years.

In British Columbia, when voters nixed the HST, they also voted to reinstate the provincial sales tax (PST), an older and much less efficient tax than the HST. In *Mitigating the crushing blow to BC's competitiveness*, (pg.20) Niels Veldhuis, Charles Lammam, and Milagros Palacios discuss what this tax change will mean to BC's economy. Veldhuis, Lammam, and Palacios also look at federal Finance Minister Jim Flaherty's fiscal plan in *End regional development* (pg.24), explaining why he needs to balance the budget quickly and highlighting this one area of spending where cuts can be made relatively readily.

In *The Canadian dream is well within reach* (pg.6), Lammam and Amela Karabegović bust the myth that the opportunities available for Canada's youth to advance economically are limited. In fact, they show that Canada is a dynamic society where most move up the income ladder over their life and where there is a high degree of "intergenerational mobility"—the idea that children can succeed economically regardless of the financial position of their parents. This issue also includes a review of a proposal to merge Alberta's energy boards in *An Alberta energy super board: Effective regulatory streamlining or smoke and mirrors?* (pg.30), an article that obliterates the idea of "free" health care in *How much do we really pay? The price of public health care insurance* (pg.28), and an interview with the executive director of the Canadian Constitution Foundation, Chris Schafer (pg.31), who explains that Canadians should be very concerned about their eroding economic freedoms.

- Emma Tarswell

Fraser Forum

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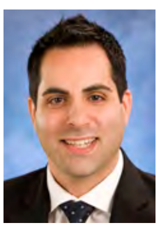

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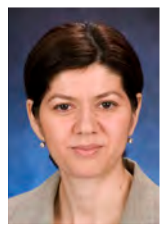

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The Canadian dream is well within reach

Amela Karabegović and Charles Lammam

The gap is growing! The gap is growing! The rich are getting richer. And the poor, well, they just remain poor. At least that's what one would gather from the hysteria reported in the media on the latest Conference Board of Canada report on income inequality.[1]

With headlines screaming "Canada becoming a nation of haves and have-nots" (*Toronto Sun*, 2011) and "the Canadian dream is out of reach for an increasing number" (McMartin, 2011), it's plain to see why young Canadians might believe that they can no longer shape their economic future. Nothing, however, is further from the truth. Despite the old cliché about the rich and poor, the Canadian dream of climbing the income ladder is not a fantasy.

By examining the share of national income going to the "richest 20%" and "poorest 20%" of Canadians,[2] the Conference Board continues to perpetuate the myth that most Canadians are born into, live, and die within certain income groups. But in reality, with some hard work, young Canadians can and will live better than their parents.

Most young people start in the low-income group and work up to the middle or high-income group over time. Given their initial lack of experience, education, and/or training, their incomes start out low but peak when they hit middle age (the prime earning years) and then taper off as they approach retirement.

Consider our own experience to which many Canadians can relate. We come from hard working immigrant families. Not long ago, we both were low-income earners working part-time jobs to support ourselves through school. After completing our education and gaining skills and experience, we moved up the income ladder (although admittedly we are still far from the highest earners in the population).

The reason why so many Canadians can relate is because our experience is the norm. Over the last 15 years, more than a dozen Canadian studies have examined changes in income using data that tracks people's income over time. These studies have found that most Canadians (about 98%) transition from low income into higher income groups in a relatively short period of time.

For example, a 2001 Statistics Canada study examined data on low income earners from 1993 to 1998 (Morissette and Zhang, 2001). It found that 67% of low income earners moved into a higher income group in a year's time and 80% did so in two.

A more recent 2010 Statistics Canada study found the same results (Statistics Canada, 2010). It tracked low-income earners between 2002 and 2007, and found 60% moved into a higher income group after one year, 79% did so after two, and nearly 90% after six.

These findings are critical because they show that being a low income earner is generally a temporary experience and a stepping stone to better paid employment. They also suggest that the ability to move up the income ladder hasn't decelerated over the last two decades.

While individual Canadians are financially mobile throughout their own lifetimes, a growing body of research shows that Canadian families are also financially mobile over generations.

Several studies, most of which published by Statistics Canada, have uncovered a surprisingly high level of "intergenerational mobility"—the finding that a Canadian child's future economic success is not strongly linked to the financial position of his or her parents.

In 2006, Miles Corak, an economics professor at the University of Ottawa, measured intergenerational mobility in nine highly developed countries and found that Canada is one of the most intergenerationally mobile societies in the developed world (Corak, 2006); a conclusion that is consistent with research by the Organization for Economic Co-operation and Development (OECD).[3]

We are lucky to live in a dynamic society where the ability to move up the income ranks is a reality for many Canadians. The Conference Board's failure to incorporate this reality into the discussion of income inequality gives Canadians the impression that the opportunities available for them to advance economically are limited. But as the evidence shows, that's simply not true.

Notes

1 The news release for the Conference Board's report can be viewed at http://www.conferenceboard.ca/press/newsrelease/11-09-13/Income_Gap_Between_The_Rich_And_Poor_Increasing_Faster_In_Canada_Than_In_The_United_States.aspx.


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2 More specifically, the Conference Board divided the Canadian population into five income groups and found that, between 1993 and 2008, the share of national income going to the "richest 20%" slightly increased while the share going to low and middle income groups declined. Such an analysis paints an inaccurate picture because it doesn't account for the fact that the richest 20% in 2008 are typically not the same people as the richest 20% in 1993. That is, the rich (and poor) are not the same group of people year after year. For additional details on the Conference Board's analysis, see http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx.

3 See d'Addio (2007) for a review of the OECD's research on intergenerational mobility, which highlights Canada's favourable international standing. See also chapter five in OECD (2010).

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Celebrate workers by giving them more choice

Amela Karabegović and Charles Lammam

On September 5th, Canadians honoured workers with Labour Day—a nearly 140 year long tradition.[1] Now that the celebrations are over, we should look beyond the picnics and parades, and reflect on the country's labour laws and whether they actually serve the interests of workers.

We believe workers should have the freedom to organize and be represented by a union, but the problem with many federal and provincial labour laws in Canada is that unions are given disproportionate power at the expense of ordinary workers. As a result of these laws, the rate of unionization in Canada is higher than it otherwise would be (Karabegović et al., 2009). And the implications are significant: studies show that increased unionization hinders the growth of employment opportunities, investment, and productivity.[2]

Enacting more balanced labour laws would not only expand worker choice but also lead to a stronger labour market and economy (Karabegović et al., 2011); all things that would benefit workers.

One important way to make Canada's labour laws more balanced is through "worker choice" laws that would allow workers to choose whether they want to join and financially support a union. Current federal and provincial labour laws permit mandatory union membership and dues payment clauses in collective agreements, meaning workers that join unionized firms can be forced to become union members and provide financial support as a condition of employment (Karabegović et al., 2009).

By contrast, federal legislation in the United States makes it illegal to require union membership as a condition of employment. Workers can also opt-out of union dues that are not directly related to representation. For example, if a union financially supports a political party, workers can have their union dues reduced proportionately. Twenty-two US states have expanded federal legislation to allow workers to opt-out entirely of union dues through the adoption of worker choice laws.[3]

It turns out that when workers are given a choice with respect to union membership and dues payment, they choose unions less often. In 2010, the unionization rate in US states with worker choice laws (8.0%) was about half that of states without such laws (15.8%) and almost one quarter of the Canadian national rate (31.5%) (Statistics Canada, 2011; Hirsch and Macpherson, 2011).

Research on worker choice laws suggests Canada has much to gain from adopting them. Richard Vedder, a professor at Ohio University, has found that worker choice states have higher rates of labour force participation, lower unemployment rates, greater capital investment, and higher rates of economic growth. Those desirable economic outcomes were found after accounting for a number of other contributing factors such as a state's tax burden, level of education, amount of land area, and population growth (Vedder, 2010a and 2010b).[4]

Other studies support these findings, including research by Paul Kersey who found that, between 2001 and 2006, state economies that enacted worker choice laws grew by an average of 3.4% compared to 2.6% for those that hadn't (Kersey, 2007). In addition, employment grew by 1.2% annually in worker choice states compared to 0.6% for the others.

While worker choice laws would provide real economic stimulus here in Canada, other reforms are also needed to bring balance to Canadian labour laws. Among them is instituting secret ballot voting for union certification in all provinces.

Currently, four provinces (Manitoba, Quebec, New Brunswick, and Prince Edward Island) and federal law (applicable to federally regulated industries such as transportation and banking) allow unions to be certified automatically—without a secret ballot vote—if, say, a union gets a certain percentage of workers to sign union membership cards (Karabegović et al., 2009).

Automatic certification gives unions an unfair advantage over individual workers since they can be



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pressured by colleagues or union representatives to sign a union card or petition. Requiring a secret ballot vote reduces those pressures and allows workers to make their decision anonymously. Like worker choice laws, research shows that secret ballot voting results in workers choosing unions less frequently.

University of British Columbia Professor Chris Riddell investigated BC's experience with secret ballot voting between 1978 and 1998, a period when secret ballot voting was introduced, eliminated, and reintroduced (Riddell, 2004). He found that union success rates fell dramatically after mandatory secret ballot voting was introduced. Similarly, Professor Sara Slinn of Queen's University found a decline in the likelihood of union certification in Ontario's construction sector after secret ballot voting was introduced in 1995 (Slinn, 2004). Susan Johnson's 2002 examination of the differences in unionization rates among Canadian provinces found the same: secret ballot voting reduces certification success rates (Johnson, 2002).

After all the Labour Day events, let's really celebrate workers by giving them more choice. Reforming biased labour laws would be a well-deserved gift for all hardworking Canadians.

Notes

1 See http://www.thecanadianencyclopedia.com/index.cfm?PgNm=ArchivedFeatures&Params=a218.

2 See Karabegovic et al. (2011) for a review of the research on unionization and economic performance.

3 These states are often called "right-to-work states." For a list of these 22 states, see Karabegović, et al., 2011.

4 Professor Vedder also found an enormous migration into 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. Professor Vedder concluded 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).

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Fiscal performance of Canada's

AMELA KARABEGOVIĆ, CHARLES LAMMAM, AND MILAGROS PALACIOS

With large budget deficits and increased government debt in many provinces, prudent fiscal management has become an important economic issue for Canadians. And rightly so, as sound fiscal policy is a key determinant of a jurisdiction's long-term economic success. While all provincial premiers should focus on restraining government spending, ensuring balanced budgets, and keeping taxes low, some, according to a recent Fraser Institute study, *Measuring the Fiscal Performance of Canada's Premiers*, have performed better than others (Lammam et al., 2011).

The study measures the relative performance of 10 Canadian premiers[1] on three key components of fiscal policy: government spending, taxes, and debt and deficits.[2] Specifically, the study gauges whether the premiers managed government spending in a relatively prudent manner; whether they maintained low and competitive corporate and personal income tax rates; and whether they balanced the books and paid down government debt.

The performance of the premiers is evaluated for the duration of their time in office up until the 2010/11 fiscal year. Each premier received an overall score (out of 100) and rank (out of 10) based on how they performed on each of the three components.[3]

Here is a brief summary of the results for each premier, starting with first-ranked Gordon Campbell of British Columbia, and ending with last-placed Robert Ghiz of Prince Edward Island.

1st Gordon Campbell

British Columbia

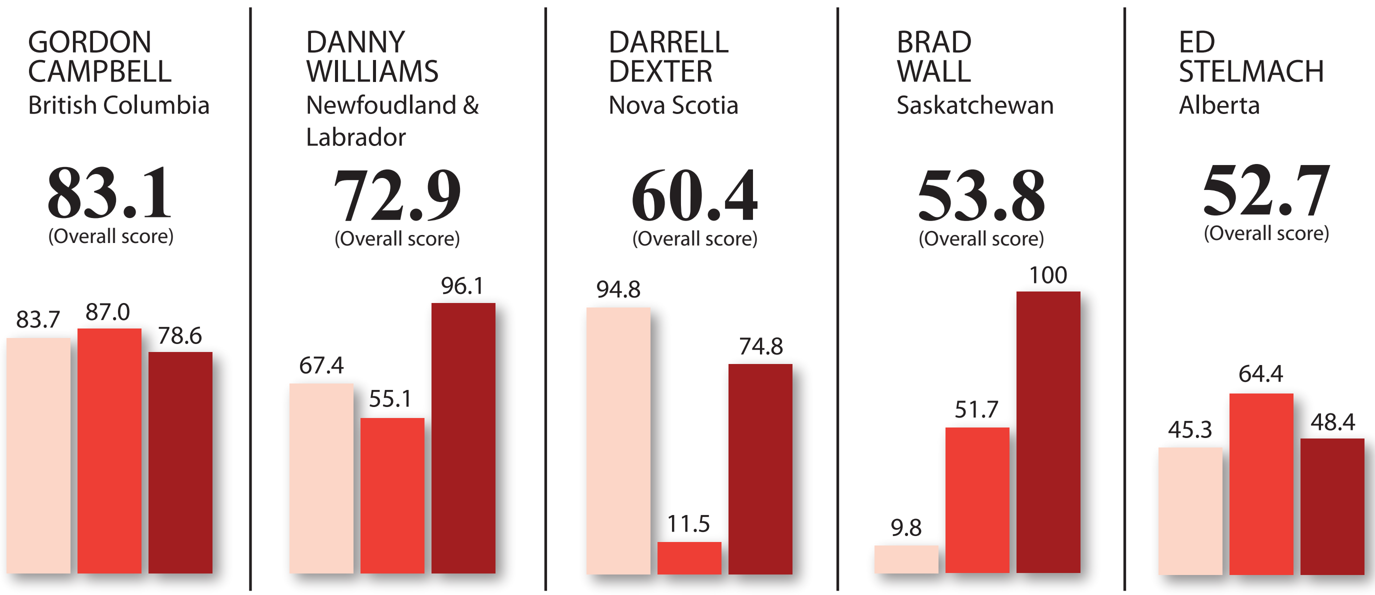
Pruneau

Period evaluated: 2001/02-2010/11
Overall rank: 1 / Government Spending: 2 / Taxes: 1 / Debt and Deficits: 3

Gordon Campbell restrained the growth of government spending better than most of his counterparts by keeping the average growth rate in program spending (4.1%) below that of economic growth (4.4%). In his first budget in 2001, he enacted a 25% across the board reduction in personal income tax rates, followed by additional cuts in 2007 and 2008.[4] He also reduced the general corporate income tax rate from 16.5% in 2001 to 13.5% in 2002. Further reductions dropped it to 10.0% in 2011, tying BC with Alberta

Fiscal performance chart:

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



Source: Lammam et al. (2011).

and New Brunswick for the lowest corporate income tax rate among the provinces. Although Campbell recorded five deficits during his tenure, he averaged a surplus amounting to 0.18% of gross domestic product (GDP) and reduced BC's net debt from 17.6% in 2000/01 to 15.2% in 2010/11.

2nd Danny Williams

Newfoundland and Labrador

Athenchen

Period evaluated: 2004/05-2010/11
Overall rank: 2 / Government Spending: 3 / Taxes: 4 / Debt and Deficits: 2

During the tenure of Danny Williams, program spending in Newfoundland & Labrador grew at an average rate of 6.1%, which was slower than the annual rate of economic growth (8.2%). However, program spending did grow over three times faster than the annual rate of inflation plus population growth (1.7%). Williams reduced marginal tax rates at all three income levels assessed in the report ($50,000, $75,000, and $150,000), but did not reduce the province's relatively high corporate income tax rate of 14.0%. Williams maintained a surplus averaging 1.82% of GDP and more than halved Newfoundland & Labrador's net debt as a share of GDP from 63.4% in 2003/04 to 27.7% in 2010/11.

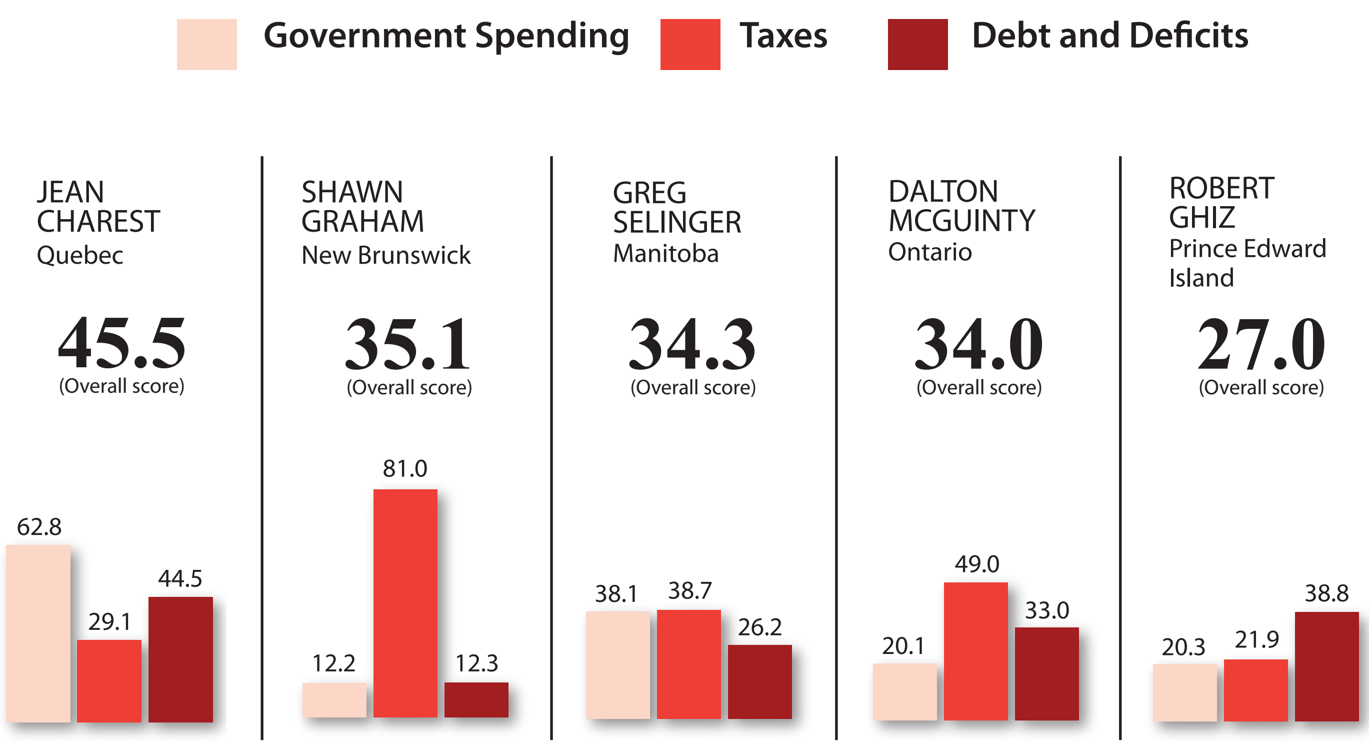
3rd Darrell Dexter

Nova Scotia

Keith Lehwald

Period evaluated: 2009/10-2010/11
Overall rank: 3 / Government Spending: 1/ Taxes: 10 / Debt and Deficits: 4

Darrell Dexter showed the most restraint of all premiers on government spending. Nova Scotia's program spending grew at an annual rate of 1.8%, a full percentage point below the growth rate of GDP. His performance on tax policy was a different story, as Premier Dexter ranked last. He not only failed to reduce the province's relatively high tax rates on corporate and personal income, but he raised the rate on workers earning $150,000 (or more). Premier Dexter averaged a small deficit equalling 0.03% of GDP and slightly increased Nova Scotia's net debt as a share of GDP.



Prudent fiscal management has become important for Canadians

4th Brad Wall

Saskatchewan

Daniel Paquet

Period evaluated: 2008/09-2010/11
Overall rank: 4 / Government Spending: 10/ Taxes: 5 / Debt and Deficits: 1

Under Brad Wall's leadership, Saskatchewan's annual program spending growth (9.9%) outpaced economic growth (6.9%) and was nearly three times the combined rate of inflation and population growth (3.4%). As a result, the size of Saskatchewan's government (total spending as a percentage of GDP) increased from 16.9% in 2007/08 to 18.3% in 2010/11. Premier Wall did allow a previously planned corporate income tax rate cut, from 13% in 2007 to 12% in 2008, to go through. But he did not reduce Saskatchewan's relatively high marginal tax rates on personal income, especially the rate at $50,000. Premier Wall maintained the second largest average surplus (1.16% of GDP) among the premiers and cut Saskatchewan's net debt in half from 11.9% of GDP in 2007/08 to 6.1% in 2010/11.

5th Ed Stelmach

Alberta

Duffy 2032

Period evaluated: 2007/08-2010/11
Overall rank: 5 / Government Spending: 5/ Taxes: 3 / Debt and Deficits: 5

Profligate spending by Ed Stelmach resulted in the expansion of Alberta's size of government from 12.4% of GDP in 2006/07 to 14.1% of GDP in 2010/11. Average program spending growth (6.8 %) far exceeded both annual economic growth (3.9%) and inflation plus population growth (4.4%). Stelmach did not change Alberta's personal and corporate income tax rates, which are among the lowest in the country. Over his four year tenure, Stelmach averaged a small deficit (0.04% of GDP) and eroded Alberta's Sustainability Fund[5] to pay for the shortfalls. As a result, provincial net assets declined as a share of GDP from 12.7% in 2006/07 to 6.8% in 2010/11.

6th Jean Charest

Quebec

Period evaluated: 2003/04-2010/11
Overall rank: 6 / Government Spending: 4/ Taxes: 8 / Debt and Deficits: 6

Jean Charest did a better job of restraining government spending than some of his counterparts, but his record should not be considered prudent. While in office, average program spending growth (4.7%) surpassed annual GDP growth (3.5%) and the combined rate of inflation and population growth (2.5%). Premier Charest was one of only two premiers to increase the corporate income tax rate while in office and failed to reduce Quebec's marginal tax rates on personal income, which are among the highest in the country. Premier Charest recorded a deficit in six of the eight years that his performance was evaluated.

7th Shawn Graham

New Brunswick

jeangagnon

Period evaluated: 2007/08-2010/11
Overall rank: 7 / Government Spending: 9 / Taxes: 2 / Debt and Deficits: 10

Shawn Graham presided over annual growth in program spending (6.7%) that was over twice the rate of economic growth (2.6%) and nearly four times that of inflation plus population growth (1.7%). In a milestone 2009 budget, Graham announced major tax cuts, many of which went through by the time he left office in late 2010. He reduced New Brunswick's top marginal income tax rate from one of the highest in Canada to the third lowest. On the business side, he cut the corporate income tax rate from 13.0% to 11.0% in 2010. However, Graham recorded the largest average deficit among the premiers (1.40 % of GDP) and substantially increased New Brunswick's net debt as a share of GDP by an annual rate of 7.2%.

8th Greg Selinger

Manitoba

Period evaluated: 2010/11
Overall rank: 8 / Government Spending: 6 / Taxes: 7 / Debt and Deficits: 9

In the one year evaluated, Greg Selinger's government increased program spending (6.6%) faster than the rate of economic growth (5.0%) and over three times the combined rate of inflation and population growth (2.1%). Manitoba's corporate and personal income tax rates were unchanged. This is unfortunate since the province has relatively high marginal tax rates on the three income levels assessed. Also troubling, Selinger recorded a deficit in 2010/11 (0.98% of GDP) and increased Manitoba's net debt share of GDP by 6.9%.

9th Dalton McGuinty

Joshua Sherurcij

Ontario

Period evaluated: 2004/05-2010/11
Overall rank: 9 / Government Spending: 8 / Taxes: 6 / Debt and Deficits: 8

Dalton McGuinty demonstrated a spendthrift approach to managing provincial finances. Ontario's average program spending growth (7.1%) was over twice the annual rate of economic growth (3.2%) and inflation plus population growth (2.9%). Shortly after entering office, Premier McGuinty broke a 2003 election campaign promise not to raise taxes. He increased personal income taxes by introducing the Ontario Health Premium, cancelled the planned elimination of the personal income surtax, and increased business taxes by raising the general corporate income tax rate from 12.5% to 14.0%. Fortunately, he realized the destructive impact of some of those tax policies and reversed his position in his 2009 budget. A key budget announcement was a phased-in reduction to the corporate income tax rate from 14.0% in 2009 to 10.0% by 2013 (the rate is currently 11.5%). To finance large increases in government spending, Premier McGuinty resorted to both tax hikes and deficits, which inevitably resulted in increased government debt. During his tenure, Premier McGuinty recorded the second largest average deficit (0.98% of GDP) and increased Ontario's net debt from 28.2% of GDP in 2003/04 to 35.4% in 2010/11.

10th Robert Ghiz

PrLog

Prince Edward Island

Period evaluated: 2007/08-2010/11
Overall rank: 10 / Government Spending: 7 / Taxes: 9 / Debt and Deficits: 7

Robert Ghiz's government grew program spending at a rate (6.9%) that significantly exceeded both annual GDP growth (3.0%) and inflation plus population growth (2.5%). He did not make PEI's high tax rates on corporate and personal income more competitive. Making matters worse, Premier Ghiz ran a deficit every year during his tenure (averaging 0.85% of GDP) and increased his province's net debt to GDP ratio by an annual rate of 3.2%.

Notes

1 There were seven current and three former premiers at the time the study was published in September 2011.

2 Each component contains multiple measures and there are, in total, 13 measures. For a review of the academic literature highlighting why each fiscal policy component is important for economic performance, see Lammam et al. (2010).

3 The first edition of *Measuring the Fiscal Performance of Canada's Premiers* contains details on methodology (Lammam et al., 2010) and the most recent edition, which this article is based on, has details on data sources (Lammam et al., 2011).

4 In 2009, there were rate cuts for the two lowest personal income brackets as well.

5 Alberta's Sustainability Fund "helps protect the government's program and infrastructure spending plans from unexpected drops in revenue and the costs of emergencies, disasters." More details are here: http://www.finance.alberta.ca/fipac/savings_investments.html.

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A new fiscal direction is needed in Ontario and Quebec

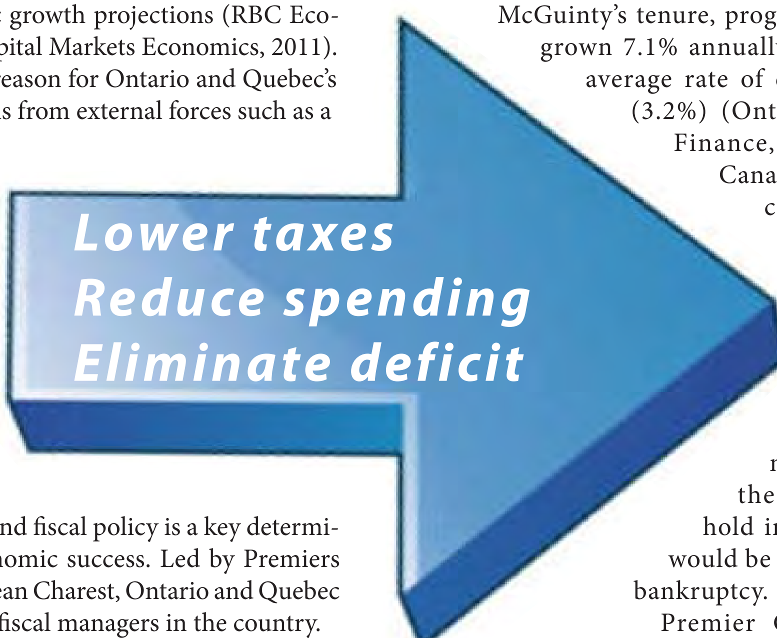
Dalton McGuinty

Jean Charest

Charles Lammam, Niels Veldhuis, and Milagros Palacios

With Ontario and Quebec accounting for nearly 60% of Canada's gross domestic product (GDP) (Statistics Canada, 2010; authors' calculations), as they go, so goes the Canadian economy. Unfortunately, the economic news from Canada's largest provinces doesn't look good, and many forecasters are now downgrading their economic growth projections (RBC Economics, 2011; BMO Capital Markets Economics, 2011).

While part of the reason for Ontario and Quebec's lagging economies stems from external forces such as a shaky United States economy, the policies implemented by their governments have contributed to, rather than mitigated, their economic woes.



Consider their management of provincial finances, a critical issue since sound fiscal policy is a key determinant of long-term economic success. Led by Premiers Dalton McGuinty and Jean Charest, Ontario and Quebec have some of the worst fiscal managers in the country.

A recent study, *Measuring the Fiscal Performance of Canada's Premiers*, published by the Fraser Institute, highlights just how poorly Premiers McGuinty and Charest have done (Lammam et al., 2011). The study measures the relative performance of 10 Canadian premiers at managing key aspects of fiscal policy during their time in office.[1] Ontario's premier, McGuinty, ranked ninth overall with a score of 34.0 out of a possible 100 while Quebec's premier, Charest, did slightly better ranking sixth overall with a score of 45.5 (see figure 1).

When it comes to government spending both Premiers McGuinty and Charest have displayed an inability to restrain themselves. During Premier McGuinty's tenure, program spending has grown 7.1% annually—over twice the average rate of economic growth (3.2%) (Ontario, Ministry of Finance, 2011; Statistics Canada, 2010; authors' calculations). If an Ontario family managed its budget the same way—that is, by increasing spending at more than double the rate of household income growth—it would be on a quick path to bankruptcy.

Premier Charest's performance was less severe but he also increased government program spending (4.7%) considerably faster than the rate of provincial economic growth (3.5%) (Quebec, Ministère des Finances, 2011; Statistics Canada, 2010; authors' calculations). That's an unsustainable approach to managing provincial finances.

Other more prudent premiers like Nova Scotia's Darrell Dexter and former British Columbia Premier Gordon Campbell (ranked as Canada's best fiscal manager) kept spending increases roughly in-line with economic growth (Lammam et al., 2011).

Since government spending ultimately drives taxation, it's no surprise that the McGuinty and Charest governments have relied on a combination of tax increases and deficits to finance their spendthrift ways.

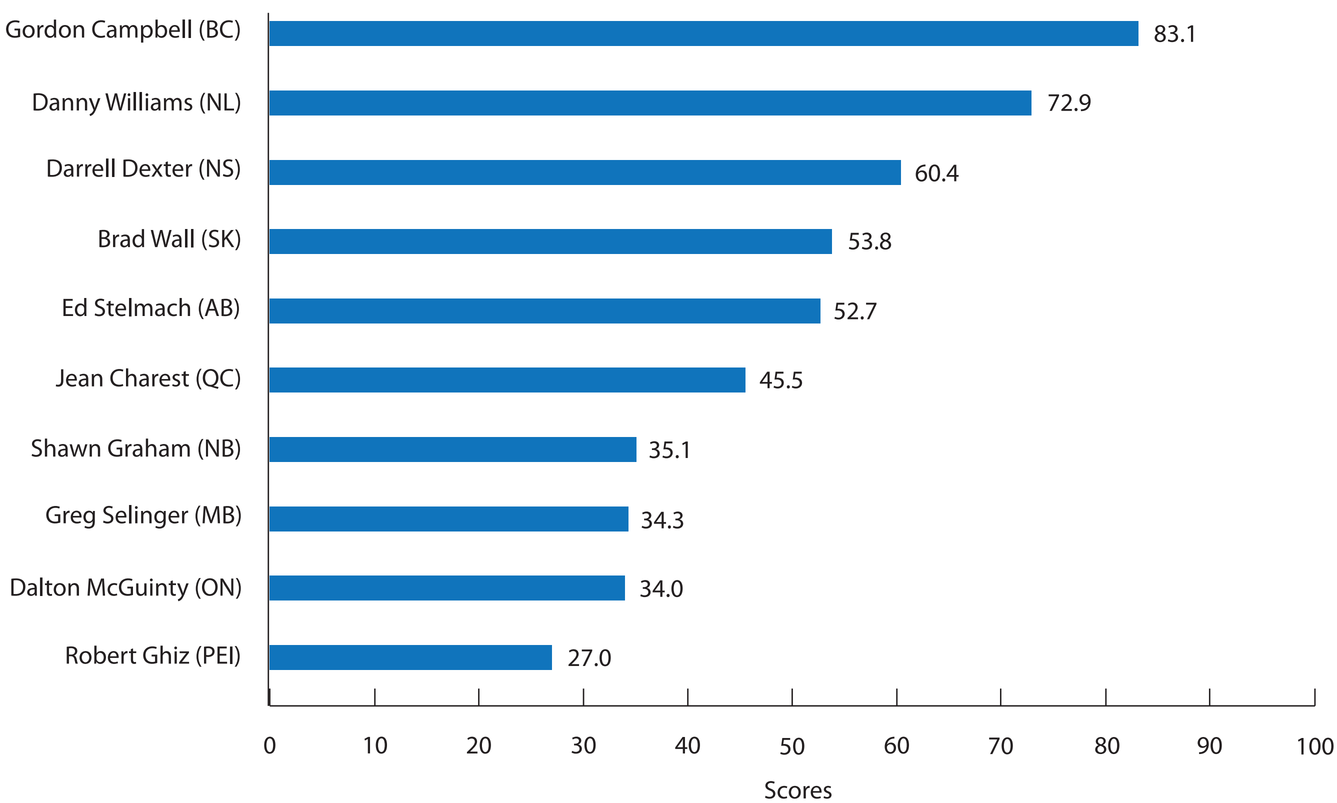
While in power, the McGuinty government has accumulated $41 billion in deficits with plenty more projected to come over the next six years (an additional $68 billion) (Ontario, Ministry of Finance, 2011). Likewise, the Quebec government has racked up $17 billion since Premier Charest took office and plans another $3 billion over two years (Quebec, Ministère des Finances, 2011). Although Premiers McGuinty and Charest are apt to blame the economic downturn for their deficits, the reality is their current fiscal woes are primarily the result of excessive spending well before the recession.[2]

Premiers McGuinty and Charest have also implemented highly damaging tax increases to help pay for their government spending excesses. For example, both premiers hiked the corporate income tax rate during their tenure which increased the cost of business investment in their provinces.[3]

By contrast, while Ontario and Quebec increased corporate income taxes, governments of all ideological stripes in Western Canada reduced them. Conservative-led Alberta decreased its corporate income tax rate (12.5% to 10.0%),[4] as did Liberal-led British Columbia (16.5% to 10.0%)[5] and Saskatchewan's NDP and now Conservative government (17.0% to 12.0%).[6] In other words, while Premiers McGuinty and Charest increased the cost of investing in Ontario and Quebec, governments out west were moving in the opposite direction.

Fortunately for Ontario, Premier McGuinty realized his errors and changed course, announcing a phased-in plan to reduce the general corporate income tax rate from

Figure 1: Overall performance of Canada's premiers (score out of 100)
Rankings based on premiers' peformance at managing key aspects of fiscal policy during their tenure



Source: Lammam et al. (2011).

14.0% in 2009 to 10.0% by 2013.[7] The same can't be said about Premier Charest in Quebec.

Unfortunately, neither premier has made any effort to reduce personal income taxes for high skilled workers. Marginal tax rates in both provinces remain high, particularly the rate on high earners, which tend to be precisely the skilled professionals these provinces want to attract and retain (Lammam et al., 2011; 2010: 19).

The Canadian economy is facing many risks. To overcome them, we need strong economies in our two largest provinces. Let's hope the Ontario and Quebec governments take a lesson from their provincial counterparts and make sound fiscal policy a priority.

Notes

1 Performance is measured for three critical components of fiscal policy: government spending, taxes, and deficits and debt. Each component contains multiple measures and there are, in total, 13 measures. For a review of the academic literature highlighting why each fiscal policy component is important for economic performance, see Lammam et al. (2010).

2 Between 2004/05 and 2007/08, Premier McGuinty increased program spending (7.6%) considerably faster than the average rate of economic growth (4.3%) (Ontario, Ministry of Finance, 2011).

3 Premier McGuinty increased Ontario's general corporate income tax rate from 12.5% to 14.0%, while Premier Charest increased Quebec's from 8.8% to 11.9% (for active business income).

4 Alberta decreased its corporate income tax rate gradually from 12.5% in 2003 to 10.0% in 2006 (Alberta, Ministry of Finance, 2003; 2006).

5 Gordon Campbell's government reduced the general corporate income tax rate from 16.5% in 2001 to 13.5% in 2002. Further reductions dropped it to 10.0% in 2011, which was announced in BC's 2009 budget.

6 Saskatchewan's 2006 budget announced that the corporate income tax rate would be reduced from 17.0% to 12.0% by July 2008 (Saskatchewan, Ministry of Finance, 2006).

7 Please see Lammam and Veldhuis (2009) for a summary of the major tax changes announced in Ontario's 2009 budget.

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Update from Alberta:

Deficits, the public sector, and the new premier

Premier Alison Redford

Imparo

Mark Milke

Education and health care are two of the biggest expenses for any provincial government. In Alberta, primary and secondary education will account for 16% of all program expenditures in 2011/2012 and health spending will account for 39%. That means two items in the budget account for 55% of all program expenditures (Alberta, 2011c: 70).

In most provinces, in order to try and understand what the future may hold, it helps to look at the positions and promises of the politicians making the decisions. In Alberta, given how rarely governing parties lose power (the last change was in 1971 when Peter Lougheed's Progressive Conservative party took over from the Social Credit Party) the positions taken during a battle for the PC party leadership are often more consequential than those in a provincial election. It therefore makes sense to look at the positions taken by a winning leadership candidate.

Alison Redford, Alberta's newest premier, won the PC leadership in October 2011 in round two of a run-off ballot process after placing a distant second in the first vote to former provincial cabinet minister, Gary Mar. Extra intricacies of the contest are unimportant here, but not what it took Redford to overtake Mar: plenty of favouritism for the province's public sector unions—as when she promised to "restore" $107 million to education spending, refused to consider private involvement in the heavily public sector unionized health care sector, and refused to consider changes to public sector pensions. Thus, Redford, whose campaign trumpeted change, was actually the status quo candidate insofar as anything fiscal was concerned. Her campaign promises will likely translate into more spending—it already has with the infusion of millions more into education beyond already budgeted increases—along with continued government quasi-monopolistic control in health care and education.

Some background: After her win, Redford claimed, "we are going to take a disciplined approach to spending" (Cuthbertson, 2011). However, during her run for leadership, Redford continually spoke of "restoring" $107-million in cuts to education spending (Gerein, 2011: A4). But there haven't yet been any reductions to be restored; instead, education

None of Alberta's problems seem to have registered with the legislature in Edmonton

spending will hit $6.2 billion this year, up from just under $6 billion last year (Alberta, 2011a: 31). If the new premier is willing to make what amounts to a fictional claim on the budget—and she did it repeatedly during her campaign for PC leader—it casts into doubt the pledge to take a disciplined approach to the province's finances.

There have been layoffs in Alberta's education sector recently, but this has much to do with changes to a pay and pension deal with the province's teachers which have proven to be costly. In 1992, the provincial government accepted liability for two-thirds of an unfunded liability in the provincial Teachers' Pension Plan, while teachers were responsible for one-third. (The unfunded liability resulted from, pre-1992, where teachers and the government never contributed enough—or on the other side, never ensured promised benefits were modest enough—to match existing contributions to make the plan solvent). Fifteen years later, in 2007, in a five-year deal on pay and pensions, the provincial government took over that remaining portion of the unfunded liability.

This means that the province committed taxpayers to the entire pre-1992 liability (Alberta 2007a and Alberta 2007b) which has grown to $7.5 billion, as of the most recent fiscal year (Alberta, 2011b: 54). This year alone, that pension deal will cost taxpayers $451 million as the province attempts to pay it down (Alberta, 2011a: 32).

Similarly, the five-year deal with Alberta's teachers will result in a 21% salary increase by 2012, or twice the estimated rate of inflation (Alberta 2011a, 31). It is precisely that expensive pay and pension deal that is now causing teacher and support staff layoffs as the costly deal crowds out other priorities, both in the education budget and in the overall provincial budget.

On the other major provincial expense, health care, during her campaign for leader, Redford defended the status quo. On any private involvement, she created a "straw man" by equating any private involvement with abandoning all government involvement: "As soon as we start talking about privatizing health care, we're talking about abandoning the public health care system" (Cuthbertson, 2011: A4).

So instead of emulating health care systems in every other Organisation for Economic Co-operation and Development (OECD) country (particularly in Europe, where most countries offer some combination of private and government insurance and delivery (Esmail and Walker, 2008: 10), Redford said she wants to preserve and "fix" the existing public system (Kleiss, 2011: A4).

Redford did give a vague promise of reform on compensation for politicians, a populist measure but of minor budget consequence. The unfunded liability (again, where pension plan's benefits are not adequately planned for and funded in advance) in the Members of the Legislative Assembly (MLA) pension plan is $44 million. By contrast, the unfunded liability in the teachers' pension (both the past unfunded liability and newer commitments) now stands at almost $8 billion (Alberta, 2011b: 54).

In a response to a survey from the Canadian Taxpayers Federation during the leadership race, Redford


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opposed moving the public sector to defined contribution plans from defined benefits (Canadian Taxpayers Federation 2011, 19). Defined benefit plans promise specific retirement payouts to an employee but can and do create unfunded liabilities. Defined contribution plans rely on contributions from employers and employees plus investment earnings to fund an undefined retirement benefit.

Redford took that anti-change position even though that's exactly where the private sector is headed. The Royal Bank of Canada, for example, announced in September 2011 that it would stop offering defined benefit plans to its 50,000 Canadian employees in favour of defined contribution plans. (Perkins, 2011: 23). They did so because, as the example of the unfunded liabilities in the Alberta Teachers' Pension plan demonstrates, defined benefit pension plans create costly liabilities for employers, which in the case of the public sector, must be paid for by taxpayers.

Alberta has a deficit problem that has been caused by per capita program spending that is among the highest in the country. When adjusted for inflation, program spending hit $10,204 per person last year (Milke, 2011: 28), near the all-time highs in the late 1980s. Such spending occurs in the context of a world economy that already faces severe economic headwinds from Europe, the United States, and, perhaps soon, even China. That is already depressing prices for Alberta's commodities and, thus, tax revenues.

None of that seems to have registered at the legislature in Edmonton. Beyond surface appeals to make changes on minor issues, and given how substantive policy change was opposed by the new premier in health care, how she has increased spending in education (Thomas 2011), and how she forswore any change in costly public sector pensions, all of the foregoing may turn out to be problematic for Alberta's public finances.

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Mitigating the crushing blow to BC's competitiveness

Niels Veldhuis, Charles Lammam, and Milagros Palacios

With the defeat of the harmonized sales tax (HST) on August 26, British Columbia's competitiveness will suffer a severe blow as the province experiences a rebirth of the provincial sales tax (PST).[1] The unfortunate reality is that restoring the PST will lead to a reduction in investment and job creation. It now falls on Premier Christy Clark and her colleagues to show leadership and put forth a tax plan to mitigate the unrealized economic gains that the HST would have encouraged.

The HST's greatest benefit is that it exempts all inputs used to create products and services. A return to the PST will once again mean that items purchased by businesses to produce those products and services will be subject to sales tax. This will increase the cost of investing in machinery, equipment, and new technologies, which will make it more expensive for BC businesses to expand, upgrade, and innovate.[2]

In a world where provinces (and countries) compete for investment dollars, restoring the PST will adversely impact BC's investment climate, making it a less attractive place for investors to set up or expand. This is especially true since other provinces, including Ontario, are maintaining the HST and reducing other taxes on investment.[3]

In addition, the rebirth of the PST will harm the competitiveness of export-oriented firms in BC. Since businesses will have to pay sales tax on their production inputs, firms that export their goods and services will face

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higher costs than their competitors operating in jurisdictions such as Alberta and Ontario that do not apply sales taxes on inputs.

Without additional tax changes, BC will be left behind and risks losing much-needed investment that will instead gravitate to jurisdictions with more competitive tax policies.

Consider the impact of restoring the PST on the overall tax rate imposed on new business investment (including corporate income taxes, capital taxes, depreciation, and sales taxes on business inputs).[4] Moving from the HST to PST will increase the overall tax rate from 20% to more than 27% and result in BC having one of the highest overall tax rates on investment among the provinces (Mintz, 2011; calculations by the authors; Chen and Mintz, 2011).[5]

But all is not lost. The BC government can pursue other options to mitigate the damaging impact of restoring the PST. One option is to completely eliminate BC's corporate income tax. Currently, BC's general corporate income tax rate is 10%, the same as that in Alberta and New Brunswick (Ontario's rate will fall to 10% by 2013).[6] Abolishing the corporate income tax would increase the after-tax return to investment and, as a result, dramatically improve the incentives for businesses to develop and expand.[7]

In addition, abolishing the corporate income tax would provide BC with a unique tax advantage within

Rebirth of the PST will harm the competitiveness of export-oriented firms in BC

Canada and the province would join a handful of US states without a corporate income tax like Nevada, Texas, and Wyoming.[8]

While some may be sceptical about the affordability of this option, consider that the provincial government was willing to reduce the HST to 10% from 12%. Returning to a 7% PST will bring in significantly more revenue than the province would have earned with a 10% HST—to the tune of about $1.4 billion (calculations by the authors based on document from BC's Ministry of Finance). That is nearly the same amount a 10% corporate income tax would have brought in.[9] In other words, eliminating the corporate income tax is perfectly obtainable in the current fiscal framework.

Another option is to reintroduce the PST, but mitigate the impact on business inputs by introducing a complete sales tax exemption on machinery, equipment, and technology for all businesses. This was attempted back in 2001, but the province limited the exemption by narrowly interpreting the types of machinery and equipment, and manufacturing companies, that qualified (Wang, 2004). Indeed, the exemption was not available to most businesses. This option is not ideal since not all business inputs would be exempt, yet it would significantly improve the incentives to invest in technologies and advancements that make BC workers more productive.

Finally and most significantly, BC could move to an integrated approach to business and personal income taxation by instituting a flat tax. Under a flat tax, all sources of income, capital gains, business income, wages and salaries, and interest income are taxed at one rate. In addition, all savings and investment are exempt from the tax which gives businesses incentives to increase investment and encourages individuals to work, save, and take entrepreneurial risks.[10]

University of Stanford Professor Alvin Rabushka calculated that BC could introduce a flat tax at less than 8% and collect the same amount of revenue as it currently does (Rabushka and Veldhuis, 2008).

While the HST's defeat strikes a blow to BC's competitiveness, Premier Clark has options to mitigate the damage. Hopefully, she will show the leadership and courage to create a new tax plan that ensures a brighter economic future for the province.

Notes

1 For results of the HST referendum, see http://www.elections.bc.ca/index.php/referenda-recall-initiative/hst-2011/.

2 For more details on the key differences between the PST and HST, see Lammam et al. (2010).

3 The Ontario government has decreased its general corporate tax rate from 14% in 2009 to its current rate of 11.5%. It plans to decrease the rate further to 10% by July 2013.

4 Specifically, the overall tax rate imposed on new business investment is called the marginal effective tax rate (METR). The METR is a measure of the tax wedge between the pre-tax and after-tax rate of return on incremental business investment; it accounts for corporate income taxes, capital taxes, depreciation and inventory cost deductions, and sales taxes imposed on business inputs. See Chen (2000) for a detailed explanation of how METRs are calculated and why they matter for capital allocation.

5 Only Prince Edward Island will have a higher rate.

6 For current corporate income tax rates, see the Canada Revenue Agency's website http://www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/rts-eng.html.

7 For a detailed literature review of the impact of taxes on economic growth, labour supply, investment, and entrepreneurship and risk-taking, see Palacios and Harischandra (2008).

8 For a list of corporate income tax rates in US states, see Tax Foundation, State Corporate Income Tax Rate, 2000-2011, available at http://www.taxfoundation.org/taxdata/show/230.html.

9 According to budget 2011, the BC government expects to raise $1.46 billion in 2013/14 (British Columbia, Ministry of Finance, 2011a).

10 For a detailed analysis of the case for a flat tax in Canada, see Clemens (2008)

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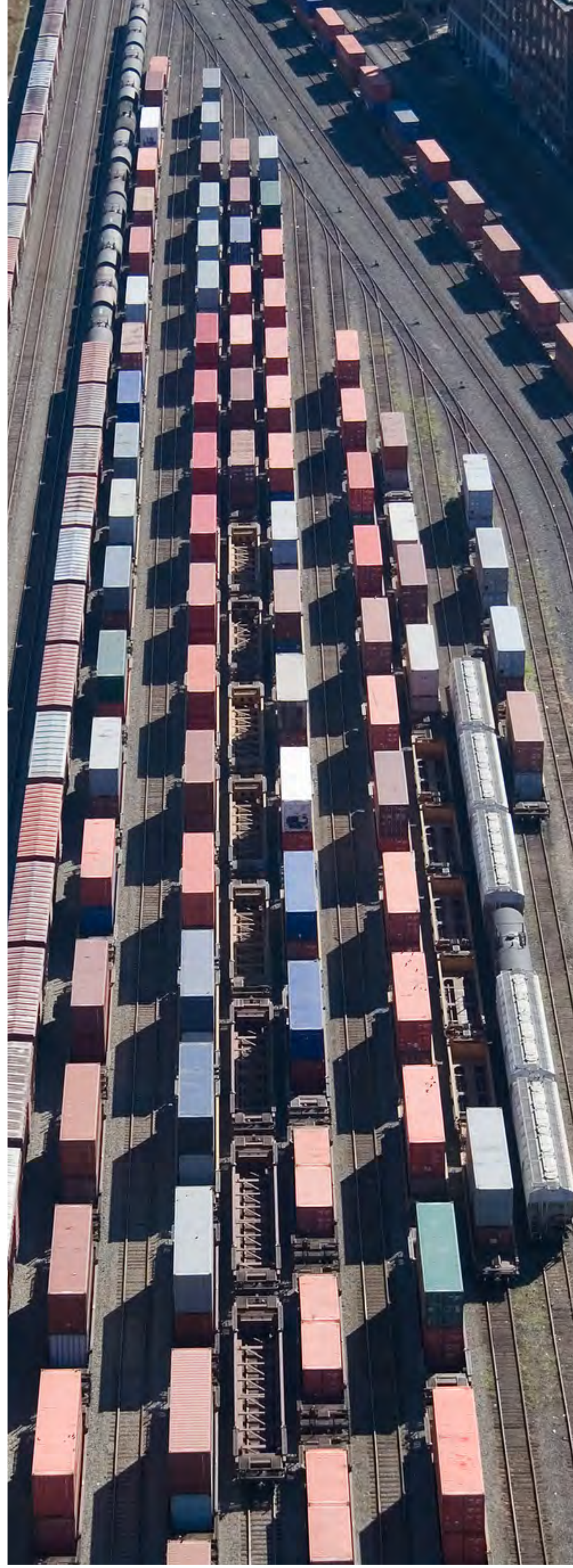

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End regional development

Niels Veldhuis, Charles Lammam, and Milagros Palacios

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With the continuing fragile state of the global economy and likely lower than expected government revenues, Finance Minister Jim Flaherty's plan to balance the budget is looking ever more shaky.[1] Currently, the federal government is forecasting revenues to grow at a robust average rate of 5.6% over the next five years while planning to hold program spending increases to an average rate of 2.0%. A balanced budget plan that relies on strong revenue growth is one with significant downside risk and little to no upside potential. Lower than forecasted revenue growth will mean larger deficits for a much longer time period and significantly more government debt.

To reduce the frailty of the current fiscal plan, the federal government should quickly balance its budget. To do so, Finance Minister Jim Flaherty should aim his sights at cutting unnecessary government spending, and one area that's ripe for cutting is regional development spending.

Since establishing the first of two region-specific development agencies in 1987-88, the Atlantic Canada Opportunities Agency and Western Economic Diversification, the number of agencies and amount spent by the federal government on regional development has increased significantly, especially over the past several years (see figure 1).[2]In 2010-11, the federal government distributed almost $2 billion through its main regional initiatives: Federal Economic Development Agency for Southern Ontario ($507 million), Canada Economic Development for the Regions of Quebec ($463 million), Western Economic Diversification ($429 million), Atlantic Canada Opportunities Agency ($382 million), Northern Ontario Development Program ($61 million), and Canadian Northern Economic Development Agency ($61 million) (Treasury Board Secretariat, 2010a).

While these regional development schemes share common goals like encouraging economic growth in flagging communities and regions with few employment opportunities, they have historically had little, if any, positive net economic impact.

All federal regional development agencies focus on providing subsidies to businesses through repayable contributions or "loans" (often not paid back) and non-repayable contributions. In 2009-10, subsidies to businesses and other organizations made up 65% of Atlantic Canada Opportunities Agency's spending, 54% of Western Economic Diversification spending, and 62% of Canada Economic Development for the Regions of Quebec spending (Treasury Board Secretariat, 2010b).

The justification for these subsidies is that capital from the private sector is unavailable, either because entrepreneurs are unaware of the opportunities in these areas or unwilling to take the risk (Mintz and Smart, 2003). The reality, however, is that in many cases, loans and non-repayable subsidies are provided to businesses to fund investments that would have proceeded without involuntary taxpayer-financed assistance.

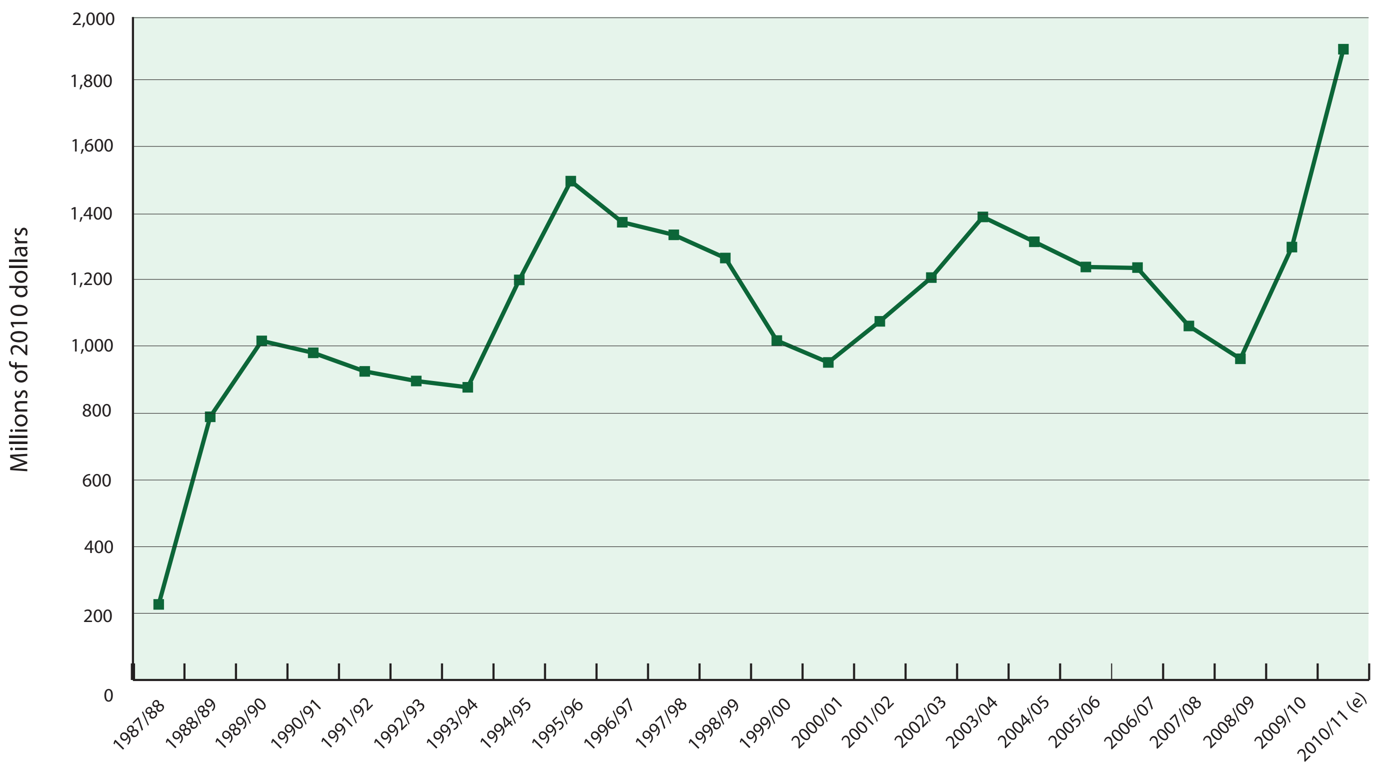
Also troubling is the fact that businesses receiving federal subsidies bid up the price of labour, capital, and other resources which increases the cost of these factors for non-subsidized businesses and ultimately reduces private investment.[3]

In those rare cases where existing (non-subsidized) businesses do not get "crowded out" by their taxpayer-financed competition, and investments truly would not have gone ahead without government assistance, government-supported businesses are rarely sustainable over the long term (Brander et al., 2008).

The poor track record of business subsidies spurring economic growth is well documented, particularly for the Atlantic Canada Opportunities Agency. In a 2003 examination, University of Calgary professor, Jack Mintz, and University of Toronto professor, Michael Smart, concluded: "the impact of [the Agency's] activities has questionable effects on the economy at a relatively significant cost" (Mintz and Smart, 2003: 16).

Canada's Auditor General has found similar results in its examinations of the federal government's regional development initiatives. For instance, in a wide-ranging audit, the Auditor General found that most programs had objectives stated in general terms rather than specific, measurable goals (Auditor General of Canada, 1995). And despite the billions spent

Figure 1: Spending on main federal regional development agencies 1987/88 to 2010/11



(e) indicates estimated amount
Source: Dupuis (2011); Treasury Board Secretariat (2010a and 2010b).

on economic development programs, there was no clear consensus on results.

The Auditor General has also confirmed that government regional subsidies displace existing businesses. In one case, the federal government sponsored the construction of a new fish plant in Quebec at a cost of $2.2 million (Auditor General of Canada, 1995). The plant was built near an established, already operating fish plant, which also received federal subsidies. More than 250 jobs were to be created by the construction of the new plant but this job creation was offset by the closure of the established plant with as many employees.

In the case of the federal government's regional development projects in Quebec, the Auditor General noted how Ottawa's own evaluators could not determine if the programs were of any benefit and noted 30% of projects that received financial aid would have gone ahead without government assistance (Auditor General of Canada, 1995).

In a review of the Atlantic Canada Opportunities Agency, the Auditor General uncovered a finding of considerable concern: the Agency apparently did not consider the net economic benefit to the region of nearly a quarter of all its projects (Auditor General of Canada, 1995). In a subsequent review, more than 20% of projects were deemed unlikely to be financially sustainable in the future without on-going government assistance (Auditor General of Canada, 2001). Meanwhile, recipients of the Agency's Business Development Program repaid only $78 million (or 17%) of $460 million in repayable contributions (Auditor General of Canada, 2001).

At Western Economic Diversification, the Auditor General concluded that monitoring of projects was poor, that incomplete information existed on the success rate of projects, and that there were frequent accounts of beneficiaries making multiple applications and receiving multiple grants for the same projects (Auditor General of Canada, 1995). Indeed, 50% of more than 100 cases studied had received multiple funding. And a third of projects in a major program administered by Western Economic Diversification failed to meet objectives while another third produced inconclusive results (Auditor General of Canada, 1995).

Rather than use taxpayer money for regional development initiatives that have a history of questionable benefit, the government should focus on creating the right economic environment for all businesses to succeed through lower taxes, minimal red tape, prudent government finances, and the maintenance of adequate infrastructure.[4]

There are many areas of government spending that could be reduced or even eliminated with very little impact on economic growth. With a potential $8 billion in savings over the next four years, regional development spending is a top contender.

Notes

1 The federal government currently plans to balance the budget by 2014-15 but that timeframe is contingent on whether the government achieves its targeted savings through the Strategic Operating Review (Canada, Department of Finance, 2011).

2 For an overview of federal regional development organizations, see Dupuis (2011).

3 For a review of the academic literature on corporate welfare, see Milke (2007).

4 For more information on how to foster a positive investment or economic climate see Lammam et al. (2010).

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FRASER INSTITUTE ANNUAL

Survey of Mining Companies

2010/2011

FRASER INSTITUTE

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Fred McMahon

Fraser Institute Vice-President of International Policy Research

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How much do we really pay?

The price of public health care insurance

Bigstock

Milagros Palacios and Nadeem Esmail

Canadians often misunderstand the true cost of our public health care system. This is partly because physician and hospital services covered by public health care insurance are free at the point of use[1], which leads many to grossly underestimate the actual cost of the care delivered. Furthermore, health care is financed through general government revenues rather than through a dedicated tax, which blurs further the true dollar cost of the service. In addition, health spending numbers are often presented in aggregate, which results in a number so large that it becomes almost meaningless to the average Canadian.

For instance, consider that approximately $125 billion of our tax dollars was estimated to have been spent on publicly funded health care in 2010 (Canadian Institute for Health Information [CIHI], 2010). If Canadians understood the true cost of our publicly funded health care system on a personal level, we would be able to better assess whether we are receiving value for our money. A more informative measure of the cost of our health care system is health spending on a per capita basis. The $125 billion spent on health care in 2010 is approximately $3,663 per Canadian (CIHI, 2010). This would be the cost of the public health care insurance plan if every Canadian resident paid an equal share. However, Canadians certainly do not pay equal amounts in taxes each year; some Canadians are children and dependents and are not taxpayers. Given the nature of our tax system, higher-income earners bear a greater proportion of the tax burden than lower-income earners, and thus contribute proportionally more to our public health care system.

In order to more precisely estimate the cost of public health care insurance for the average Canadian family in 2011, we must determine how much tax an average family pays to all levels of government. The percentage of the family's total tax bill[2] that pays for public health insurance

Table 1: Average income and average total tax bill of representative families, 2011*

Family Type	Average Cash Income	Average Total Tax Bill	Tax Rate	Health Care Insurance
Unattached Individuals	$36,962	$14,472	39.2%	$3,607
2 Parents, 0 Children	$92,709	$42,960	46.3%	$10,707
2 Parents, 1 Child	$106,593	$42,018	39.4%	$10,473
2 Parents, 2 Children	$105,712	$42,070	39.8%	$10,486
1 Parent, 1 Child	$47,548	$14,932	31.4%	$3,722
1 Parent, 2 Children	$52,252	$14,206	27.2%	$3,541

Notes:
*Preliminary Estimates

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

Table 2: Average income and total tax bill in each decile, 2011*

Decile**	Average Cash Income	Average Total Tax Bill	Tax Rate	Health Care Insurance
1	$11,395	$1,991	17.5%	$496
2	$25,624	$4,680	18.3%	$1,166
3	$34,696	$9,341	26.9%	$2,328
4	$43,949	$14,727	33.5%	$3,671
5	$54,339	$20,555	37.8%	$5,123
6	$67,115	$26,732	39.8%	$6,663
7	$80,752	$34,372	42.6%	$8,567
8	$98,750	$42,753	43.3%	$10,656
9	$124,579	$55,953	44.9%	$13,946
10	$241,549	$128,855	53.3%	$32,116

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

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

is then assumed to match the share of total government tax revenues (income) spent on health care—estimated to be 24.9% in 2010/11 (Statistics Canada, 2011; CIHI, 2010; authors' calculations). Table 1 shows six Canadian family types, the estimated average income[3] for those family types in 2011, and their estimated dollar contribution to health care. In 2011, the average unattached (single) individual, earning a little less than $37,000, will pay approximately $3,607 for public health care insurance. An average Canadian family consisting of two adults and two children (earning a little more than $105,700) will pay about $10,486 for public health care insurance.

Table 2 divides the Canadian population into 10 income groups (deciles) to show what families from various income brackets will pay for public health care insurance in 2011.

According to this calculation, the 10% of Canadian families with the lowest incomes will pay an average of about $496 for public health care insurance. The 10% of Canadian families who fall into the fifth decile (who earn an average income of $54,339) will pay an average of $5,123 for public health insurance. The families among the top 10% of income earners in Canada will pay $32,116.

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

Notes

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

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

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

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An Alberta ***Energy Super Board****:* *Effective regulatory streamlining or* SMOKE & MIRRORS

Gerry Angevine

In the discussion paper, *Enhancing Assurance, Developing an Integrated Energy Resource Regulator*, which the Alberta government released in May, it was proposed that regulatory responsibilities for oil and gas development and production be integrated as a new entity (Alberta Government, 2011). According to the proposal, the regulatory responsibilities of the Energy Resources Conservation Board's (ERCB), including assessment of applications for drilling, proposed schemes for recovering oil or gas resources (where potential recovery of resources in geological formations in close proximity could be negatively impacted), oil sands facilities, and related adjudication processes, would be transferred to a single regulator. Alberta Environment's (AENV) responsibilities for energy activities such as issuing licenses and authorizations under the *Water Act* and the *Environmental Protection and Enhancement Act,* would also be transferred to the new regulator. AENV would, however, continue to provide such services with respect to non-energy activities such as forestry and mining. Similarly, Sustainable Resource Development's (SRD) responsibilities regarding public land dispositions (including remediation and reclamation), geographical authorizations, and right-of-entry permits for energy activities would be transferred.

In 1995, then Premier Ralph Klein sought to quell criticism of the efficiency of energy regulation in the province by integrating the ERCB's oil, gas, and electricity regulatory responsibilities with the Public Utilities Board in the form of "Alberta Energy and Utilities Board" (AEUB). By 2008, faced with criticism over the time required for the AEUB to respond to project applications, former Premier Ed Stelmach and his government split the board into the ERCB, regulating the petroleum and coal mining industries, and the Alberta Utilities Commission, responsible for regulatory oversight of energy utilities. Having acknowledged in 2008 that the single board approach could not resolve the timeliness issues surrounding regulation of the energy industry, it is remarkable that the government is now flirting with the concept of an energy super board.[1]

The Alberta government argues that if proponents of new oil and natural gas exploration and production projects must only deal with a single regulator when filing applications and monitoring oil and gas operations, the Alberta economy will benefit as a result of "greater clarity, efficiency, and effectiveness" in the energy regulatory process (Alberta Government, 2011). Reducing delays for drilling and other energy project approvals is commendable, but instead of touting a super regulator as the remedy for Alberta's pressing regulatory problems, the government should be focusing on the reasons why the present system is not functioning as efficiently as it could.

The government needs to simplify existing regulations and remove duplication and overlaps in ERCB, AENV, and SRD information requirements. Further, if the ERCB, the AENV, and/or SRD are understaffed (as suggested by the

time that it reportedly takes to examine applications and reach decisions) the government must ensure that they have sufficient well-trained, experienced professionals to assess applications and proposals and to monitor and report on ongoing operations in a timely manner.

There is little doubt that Alberta needs to do something to break the regulatory log jam. This is underscored by results from the Fraser Institute's 2011 Global Petroleum Survey which suggest that administration of regulations pertaining to Alberta's energy sector is a major source of frustration to present and would-be investors (Angevine and Cervantes, 2011). In fact, the Regulatory Climate Index (constructed from responses to questions about regulatory uncertainty and compliance costs) shows that Alberta ranks as only the 68th best of 135 jurisdictions worldwide. This is much less favorable than the situation in Texas and in many other petroleum rich democratic jurisdictions around the globe. In Canada, Alberta's Regulatory Climate ranking compares very poorly in comparison with Manitoba, which ranked 8th overall, and Saskatchewan, which ranked 16th (Angevine and Cervantes, 2011).

The detailed survey results also show that the cost of regulatory compliance is of increasing concern to Alberta investors. Presumably, this is something that a super board would be expected to fix. But, apart from reducing existing informational overlaps and duplication among the ERCB, AENV, and SRD, how could having a single agency with which to file project applications be expected to shorten approval times and reduce applicants' costs given that applications will still need to be scrutinized according to the same detailed criteria (e.g. environmental and landowner impacts and operational aspects)? Reducing regulatory process congestion and compliance costs also requires simplification of the pertinent regulations to the extent possible so as to reduce the burden on the industry and the administrative cost to the government. Further, it requires ensuring that sufficient staff is available to respond to project applications. These actions don't require establishment of an energy super board.

Notes

1 The Stelmach government appears to have decided to break the AEUB apart in response to industry criticism and concern than applications were taking too long to process.

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Q&A

Interview with *Chris Schafer*

Chris Schafer, executive director of the Canadian Constitution Foundation (www.theCCF.ca) and former Fraser Institute intern, recently gave a presentation on economic freedom and the Supreme Court of Canada. Schafer sat down with Fraser Forum to discuss economic liberty and why it is crucial for Canadians.

Fraser Forum: You believe that economic freedom is included in the Constitution. Could you explain this?

Chris Schafer: Section 7 of the Canadian Charter of Rights and Freedoms provides "the right to life, liberty, and security of the person." I think economic freedom or economic liberty is, or ought to be, a component of "liberty" under the Charter.

Unfortunately, it has become almost a mantra for legal commentators and lower courts to write that section 7 does not include economic liberty. However, the Supreme Court of Canada has always been careful not to close the door to interpretations of section 7 that might include economic components.

FF: How do you define liberty and how is it different from the way the Supreme Court of Canada has decided to define the word?

CS: According to dictionaries, the word "liberty" revolves around notions of freedom of choice and the absence of external constraints. Unfortunately, in early Charter jurisprudence, the Supreme Court of Canada did not adopt this definition. Instead of accepting that legislation and regulations often violate liberty, then forcing the government to defend its proposed laws, the Supreme Court simply defined away the problem by deciding that violations of the common understanding of "liberty" were in fact not violations of liberty. As a result, governments have routinely not had to defend before the courts what otherwise would be violations of liberty. For example, in R. v. Edwards Books and Art Ltd., where a store desired to remain open on Sunday, the Supreme Court of Canada decided that liberty in section 7 of the Charter of Rights and Freedoms "is not synonymous with unconstrained freedom" and does not include "an unconstrained right to transact business whenever one wishes".

FF: In what ways do you think that the courts have been ignoring economic liberty?

CS: Canadian courts have ruled that a wide variety of activities that would certainly fall within the dictionary definition of "liberty" do not fall within the concept of "liberty" for the purposes of section 7. For instance, according to the Supreme Court of Canada, liberty in section 7 of the Charter "is not synonymous with unconstrained freedom" and does not include "an unconstrained right to transact business whenever one wishes." Likewise, the Ontario Court of Appeal has held that "liberty" does not include the right of a doctor to practice his profession.

As such, it would have accorded far better with the plain use of language for the courts to have acknowledged that laws restraining business hours and medical licensing, for example, were indeed restrictions on liberty but were justified under section 1 of the Charter.

By tightly circumscribing the scope of section 7, what the courts have effectively accomplished is not the trivialization of the Charter so feared by some Supreme Court of Canada judges in 1985, but the far worse trivialization of Canadians' liberty.

FF: How have you been bringing attention to economic freedoms that are currently ignored?

CS: The Canadian Constitution Foundation has been bringing attention to economic freedom through the cases it litigates, most notably in our "consumer choice" defence of our client, raw milk dairy farmer Michael Schmidt.

In January 2010, Schmidt was acquitted of 19 charges related to the production, sale, and distribution of raw milk and raw-milk products related to his cow-share business. The court found that Schmidt did not contravene the province's Health Protection and Promotion Act and the Milk Act because he only distributed the milk products to the joint owners of a cow-share and not the public at large. (In Canada, it is illegal to market, sell, distribute, or deliver unpasteurized milk or cream). However, the province of Ontario appealed.

On appeal, the Canadian Constitution Foundation argued that the prohibition on the distribution of raw milk denies raw milk farmers like Schmidt his right to economic liberty because not only do the penalties threaten to destroy him financially, but the inability to continue in the occupation he has followed since childhood would be a denial of his right to economic liberty by preventing him from working and earning an honest living.

FF: Why is the right to economic freedom so important to Canadians today?

CS: The Canadian Constitution Foundation sees "economic freedom" as the basic human right to earn, own, and enjoy private property; the freedom to contract; and such protections as due process.

The right to economic freedom is, or ought to be, important to Canadians today because economic freedom, in addition to individual freedom, is crucial to the social and economic well-being of Canadians. Such freedoms go hand in hand with desirable social and economic outcomes such as greater economic growth and rising incomes. In fact, individual freedom and economic freedom often advance each other. Economic freedom begets individual freedom, and vice versa, both leading to increased economic prosperity for Canadians. ■