Robust Economic Recovery Requires a Change in Policies
Dear Fraser Institute Friends and Supporters,

As Canadian governments begin to turn their focus to the economic recovery, it is important to remember that even before COVID, Canada faced enormous economic challenges.

In 2015, the then-new federal government turned its back on nearly two decades of proven fiscal policy by enacting higher taxes, borrowing more, and spending much more. It argued that these changes would produce a stronger economy.

But did it work? That’s the question my colleagues and I answer on page 18. We find that the Trudeau government’s policies had an effect opposite the one it desired—that is, its policies contributed to a marked slowing of GDP and income growth, and a collapse of business investment. Clearly, the country needs a change in policy direction.

Over the past months, our team at the Institute has been highlighting this need and has been offering many ideas for change. For example, our recent commentary, “Trudeau Government’s Fiscal ‘Snapshot’ Doubles down on Uncertainty” (page 16) highlights the need for a robust plan to reduce the near $350 billion deficit and balance the budget, improve tax competitiveness, and ease the regulatory burden to get the conditions right for investment and entrepreneurship.

Our study Canada’s Rising Personal Tax Rates and Falling Tax Competitiveness, 2020 (page 2) highlights just how uncompetitive Canada’s taxes are and recommends lowering personal income taxes to encourage skilled workers, job-creators, and entrepreneurs.

In “Creative Destruction’ Can Help Canada Recover from COVID Recession” (page 28), Russell Sobel and Jason Clemens highlight that one-third of the Canadian economy is protected from competition through things likes limits on foreign firms, government monopolies, and licensing requirements. Opening up the economy to entrepreneurial competition would certainly lead to increased economic growth and prosperity.

There is, of course, a lot more great content in this edition of The Quarterly. I would be remiss if I did not draw your attention to our open letter in support of the people of Hong Kong (see page 14) as their rights and freedoms are threatened by the actions of the Communist Party of China (CPC). Our letter was signed by 39 member and associate member organizations of the Fraser Institute’s Economic Freedom of the World Network. The recent large-scale arrests, and the CPC’s encroachment on Hong Kong is in direct violation of the “one nation, two systems” principle that China agreed to when Hong Kong came under Chinese rule in 1997. I am pleased to report that our partners around the world issued news releases in their respective countries to promote the letter.

I hope you enjoy this edition of The Quarterly. After you are finished reading it, please pass it on to your friends, family, and colleagues.

Stay safe,

Niels

Niels Veldhuis
President, Fraser Institute
New Research

Across All Income Levels, Canadians Pay Higher Personal Income Taxes than Americans 2

Business Investment in Canada Propped Up by Housing in BC and Ontario; Sharply Declines in AB and SK; Quebec, Maritimes Consistent Laggards 4

Access to Affordable, Abundant Energy Could Be Key to COVID Recovery 6

American Cities Show that Growing, Prospering Metropolitan Areas Can Also be Affordable to Live In 8

Young Canadians Living in High-Income Households Eligible for Nearly $12 Billion in CERB Payments 10

Four-day Work Week Possible by 2030 Without Sacrificing Income, Living Standards 12

Recent Columns

An Open Letter to the People of Hong Kong 14

Trudeau Government’s Fiscal “Snapshot” Doubles Down on Uncertainty 16

History is Clear—the Trudeau Government Needs to Change Direction 18

COVID Underscores Problems with Government Intervention 20

Huge Backlog of Surgeries Underscores Need for Sweeping Health Care Reform in BC 22

Restore Market Forces to End Ontario’s Hydro Mess 24

Alberta’s Outsized Role in Canada Matters for All Canadians 26

“Creative Destruction” Can Help Canada Recover from COVID Recession 28

Education Programs

Digital Programs Launched and Explore Public Policy Issues Online 30

Staff Profile—Accounting Team

Venia Tan, Timothy Greengrass, and Chris Howey 32
Across All Income Levels, Canadians Pay Higher Personal Income Taxes than Americans

Tegan Hill, Nathaniel Li, and Milagros Palacios

In December 2015, Canada’s new Liberal government introduced changes to Canada’s personal income tax system. Among the changes for the 2016 tax year, the federal government added a new income tax bracket, raising the top tax rate from 29 to 33 percent on incomes over $200,000. This increase in the federal tax rate is layered on top of numerous recent provincial increases. Starting with Nova Scotia in 2010, through 2019 at least one Canadian government has increased the top personal income tax rate in every year except 2011 and 2019. Over this period, seven out of 10 provincial governments increased tax rates on upper-income earners. As a result, the combined federal and provincial top personal income tax rate has increased in every province since 2009.

The largest tax hike has been in Alberta, where the combined top rate increased by 9 percentage points (or 23.1 percent), in part because the new rates were added to a relatively low initial rate. In Ontario, the combined top rate increased by 7.1 percentage points (or 15.3 percent); in Quebec it increased by 5.1 percentage points (or 10.6 percent).

These increases have important consequences for Canada’s economy. In particular, high and increasing marginal tax rates—that is, the tax rate on the next dollar earned—discourage people from engaging in productive economic activity, ultimately hindering economic growth and prosperity. This occurs because marginal tax rates reduce the reward of earning more income and, in the case of personal income taxes, more labour income. There is general agreement in the economic literature on this point; the debate is about the magnitude of the effect.

The federal and provincial increases to Canada’s marginal income tax rates from 2009 to 2019 have put the country at a greater competitive disadvantage for attracting and retaining skilled labour and, less directly, investment and entrepreneurs. Even before the changes, the country’s combined federal and provincial top marginal tax rates compared unfavourably to those in the United States and other industrialized countries.

Out of 61 Canadian and US jurisdictions (including the provinces, states, and Washington, DC), Nova Scotia currently has the highest combined top statutory marginal rate (54.00 percent), followed by Ontario (53.53 percent), and Quebec (53.31 percent). Nine Canadian provinces occupy the list of 10 jurisdictions with the highest
The fact that Canada’s top tax rates are often applied to lower levels of income than is the case in other countries further erodes our tax competitiveness. To adjust for differences in income thresholds, we compare the combined statutory marginal tax rates at various income levels in Canadian dollars for each Canadian and US jurisdiction. At an income of CA$300,000, the highest threshold (with the slight exception of Alberta) in which a Canadian combined top rate is applied, Canadians in every province face a higher marginal income tax rate than Americans in any US state. Results are the same at an income of CA$150,000 and Canada’s marginal tax rates are also uncompetitive at incomes of CA$75,000 and CA$50,000. Taken together, Canada’s personal income tax rates are decidedly uncompetitive compared to those in the United States. And, Canada also competes with other industrialized countries for highly skilled workers and investment. To measure the competitiveness of Canada’s top tax rates, the study compares the combined top statutory marginal income tax rates with rates in 36 industrialized countries. In 2018 (latest year of available international data) Canada had the 7th highest combined top tax rate out of 36 countries. The federal change to the top rate in 2016 has markedly worsened Canada’s competitive position. For instance, Canada had the 13th highest combined tax rate in 2014, before the changes in the federal top rate.

Canadian governments have put the country in this uncompetitive position in part to raise more revenue as they grapple with persistent deficits and mounting debt. However, the tax increases are unlikely to raise as much revenue as governments expect since taxpayers—particularly upper-income earners—tend to change their behaviour in response to higher tax rates in ways that reduce the amount of tax they might pay. Federal and provincial governments would do well to consider reversing the trend towards higher marginal tax rates on upper-income earners, and lower personal income tax rates.
Business Investment in Canada Propped Up by Housing in BC and Ontario; Sharply Declines in AB and SK; Quebec, Maritimes Consistent Laggards

Steven Globerman and Joel Emes

Previous research by the Fraser Institute has documented a substantial decline in capital investment after 2014. The decline was especially marked for business investment and, within that category, for machinery and equipment and intellectual property products (IPP). Furthermore, the decline in business investment after 2014 was not confined to the oil and gas sector. In fact, two-thirds of the 15 industries we studied in 2019 experienced a decline in investment in recent years.

The research we summarized in 2019 focused on capital expenditures at the national level. Our current study, *Capital Investment in Canada’s Provinces: A Provincial Report*, examines investment patterns at the level of the individual provinces and disaggregates investment into net capital expenditures on residential and non-residential assets. The study examines differences across provinces in net capital expenditures from 1990 to 2018, paying particular attention to how patterns of provincial investment behaviour changed when comparing the pre- and post-2014 periods.

The study finds that over the full period (1990-2018), there was substantial variation across provinces in the average annual rate of growth of investment in total net fixed assets (residential plus non-residential). A comparison of the pre-2014 and post-2014 periods identifies a particularly notable change. Specifically, after enjoying well above-average investment performance prior to 2014, Alberta’s investment performance has been well below average since then. Newfoundland & Labrador exhibit the opposite timing pattern. Saskatchewan experienced a substantial decline in its relative overall investment performance after 2014, while Ontario enjoyed an increase in its relative performance in the most recent period. This pattern is consistent with the dramatic shifts in global and North American energy markets and the related fall-off in oil and gas investment in Alberta and Saskatchewan post-2014, alongside the growth of the utilities sector in Newfoundland & Labrador and the financial, insurance, and real estate sectors in Ontario.

When looking at specific asset categories, the dramatic decline in Alberta’s relative investment performance
post-2014 primarily reflects a sharp drop-off in non-residential, i.e., business investment. Interestingly, the annual average growth rate of investment in residential assets in Alberta remained above the national average after 2014. Indeed, and unlike the case for the growth rates of total net fixed assets, relative provincial performances with respect to the annual growth of net residential fixed asset investment were relatively constant from 1990 to 2018.

Given significant differences across provinces in relative growth rates for total net fixed assets, the modest differences in the relative growth rates for net residential assets suggest that investment in non-residential net assets is where the main differences across provinces are found. And the data show that this is indeed the case. In particular, Alberta experienced the fastest relative average annual growth in the net stock of non-residential assets among all provinces from 1990 to 2014, whereas it posted the next-to-slowest average annual growth rate in these assets from 2014 to 2018. Conversely, Ontario ranked eighth in average annual growth in non-residential net assets from 1990 to 2014, while it recorded the third fastest growth rate from 2014 to 2018.

British Columbia was exceptional in that it experienced sustained above-average growth in total net assets, as well as in both the net residential and net non-residential asset categories. Conversely, Quebec and the Atlantic provinces consistently experienced below-average performances in average annual growth rates for each asset category as well as for total net assets over the entire sample period.

Steven Globerman is resident scholar and Addington Chair in Measurement at the Fraser Institute and Joel Emes is president of Abacus Economics and a Fraser Institute senior fellow. They are co-authors of the study *Capital Investment in Canada’s Provinces: A Provincial Report*.
Access to Affordable, Abundant Energy Could Be Key to COVID Recovery

Elmira Aliakbari, Ashley Stedman, and Jairo Yunis

With Canada’s economy expected to contract by at least 6.8 percent this year, governments across the country—including the Trudeau government—must identify existing policies that hinder economic recovery and growth. According to the new study, Stimulating Economic Growth through Abundant Energy, policies meant to constrain energy use or increase energy costs will impede economic growth. And that’s something we simply can’t afford.

Specifically, the study found a positive long-run relationship between energy use and economic activity, and that energy consumption is an essential input in economic growth. In other words, jurisdictions with abundant and affordable energy, which allow for greater energy consumption, are likely to experience higher rates of economic growth. For example, a 10 percent increase in energy consumption is associated with a 1.2 percent increase in economic activity.

According to the Trudeau government’s recent fiscal snapshot, Canada’s economy will decline by 41 percent (on an annualized basis) in the second quarter of 2020. Canada also experienced sluggish economic growth prior to COVID-19. Between 2010 and 2019, Canada’s real Gross Domestic Product (GDP), the total value of domestically produced goods and services, grew at an average annual rate of 2.2 percent compared to 2.8 percent in the 2000s, 2.4 percent in the 1990s, and almost 3 percent in 1980s. In fact, Canada’s economic growth over the past decade was weaker than other developed countries including the United States, Germany, the United Kingdom, and Japan.

Again, given Canada’s slow economic growth in recent years, and the deteriorating state of the economy due to COVID-19, policymakers should evaluate new and existing government programs and regulations—and eliminate those that hinder economic growth—so Canadians and their families can recover and thrive.

Unfortunately, in recent years, despite the important role affordable energy plays in economic growth, federal and provincial governments have implemented policies that artificially constrain energy use and/or increase energy costs. The most glaring example is Ontario’s Green Energy Act, which forced investment in renewable energy sources and caused sky-high electricity prices.

Then there’s the federal government’s plan to have 90 percent of Canada’s electricity produced by non-emitting sources by 2030, which requires reduced fossil fuel use and increased reliance on renewables such as wind and solar. These targets will adversely affect both the availability and affordability of energy.
While Ottawa’s rhetoric, that renewable energy investments will “build our economy,” sounds good, in reality, policies that reduce energy availability and make it more expensive will actually hinder economic growth.

“Jurisdictions with abundant and affordable energy, which allow for greater energy consumption, are likely to experience higher rates of economic growth.”

Interestingly, earlier this July federal Finance Minister Bill Morneau said that the government will “focus on growth.” But if the federal government, or other governments across Canada, want to foster economic growth, they must understand that energy availability and affordability are key. This will require a fundamental rethink of various energy policies and environmental targets meant to reduce energy use.

Fostering energy abundance by striking the proper balance between environmental and economic concerns—not trying to ration, reduce, or overprice energy—should be the guiding principle for federal and provincial governments as they grapple with one of the worst recessions in Canadian history.

Elmira Aliakbari is associate director of Natural Resource Studies, Ashley Stedman is a senior policy analyst, and Jairo Yunis is a junior policy analyst at the Fraser Institute. They are co-authors of the study Stimulating Economic Growth through Abundant Energy.
American Cities Show that Growing, Prospering Metropolitan Areas Can Also be Affordable to Live In

Steven Globerman and Josef Filipowicz

Many Canadians believe that moving to a large dynamic city for a higher-paying job inevitably means accepting a substantially higher cost of living, especially when it comes to housing.

But is that true?

As noted in a new study by the Fraser Institute, *Changes in the Affordability of Housing in Canadian and American Cities, 2006–2016*, most growing North American metropolises have seen housing affordability improve, alongside population and economic growth—just not in Canada.

Our study, which compared changes in affordability (shelter costs as a share of income) with changes in population across 396 Canadian and US metropolitan areas between 2006 and 2016 (the latest decade of comparable data), found that most US locations experienced positive population growth along with a declining share of (median) income dedicated to housing costs (i.e., rents, mortgages, taxes). In other words, the majority of US cities simultaneously enjoyed population and income growth and increasing housing affordability.

For example, large metropolitan areas surrounding Atlanta, Dallas, and Houston all grew quickly (Dallas and Houston each added more than one million inhabitants) between 2006 and 2016, accompanied by rising median incomes. Despite this growth, housing affordability improved in all three places with housing costs falling relative to income by between 13 and 16 percent.

This same pattern was true for cities across a range of sizes and locations in the US. Conversely, most Canadian locations, including the largest cities, saw affordability decline, which raises the obvious question. Why are so many booming American metropolises—such as Charlotte, Tampa, and Columbus—able to avoid the affordability crunch seen in big Canadian cities such as Montreal, Toronto, and Vancouver?

Simply put, while median incomes increased at broadly comparable rates in Canadian and US cities, housing costs in most Canadian cities increased at far faster rates (up to four times in some cases). Moreover, in most US metropolitan areas, housing costs remained flat or rose at a slower pace than incomes, while housing costs in most Canadian cities grew faster (more than 50 percent faster, in some cases) than incomes.
These findings have important implications for public policy, particularly now during the COVID recovery. Many federal and provincial housing policies provide financial incentives (including down payment assistance and tax exemptions) to homebuyers. Meanwhile, hundreds of American cities have improved affordability by containing the growth of housing costs, largely by helping increase the housing supply. The laws of supply and demand apply to housing, like any other good.

Yes, currently there seems to be a trade-off between better job opportunities and housing affordability in Canada’s largest cities. But fast-growing cities south of the border prove that this trade-off is not inevitable. The sooner Canada’s governments, at all levels, learn from these success stories, the sooner that choice—between economic opportunity and housing affordability—will no longer apply to Canadian workers and their families.

Steven Globerman is resident scholar and Addington Chair in Measurement at the Fraser Institute and Josef Filipowicz is a former policy analyst with the Fraser Institute. They, along with Joel Emes, are co-authors of Changes in the Affordability of Housing in Canadian and American Cities, 2006-2016.
Young Canadians Living in High-Income Households Eligible for Nearly $12 Billion in CERB Payments

Jason Clemens, Milagros Palacios, and Nathaniel Li

Prudent use of public finances should always be a top priority for any government. With the federal budget deficit now projected to reach almost $350 billion, Ottawa should apply additional prudence to new and existing government programs. Unfortunately, this federal government seems to have discarded any remaining semblance of fiscal discipline in the name of expediency. Doing so has produced poorly targeted programs, wasted resources, and a larger deficit.

At the heart of the federal government’s response to the COVID recession lies the Canada Emergency Response Benefit (CERB)—a taxable $2,000 monthly benefit for eligible Canadians who earned at least $5,000 in the previous 12 months (or in 2019), experienced a decline in their earnings due to the recession, and now earn less than $1,000 per month.

The cost of the initial 16-week program increased from an original estimate of $35.5 billion to $53.4 billion (after cost recoveries)—an increase of 50.4 percent in just a few months. Despite these marked cost increases, Ottawa recently announced an eight-week extension of the program with no changes. CERB will now cost an estimated $73.1 billion.

According to our new study, Distribution of CERB: Estimating the Number of Eligible Young People Living with Parents, an estimated 400,000 Canadians aged 18 to 24 who are still in school and still living with their parents—in households with total incomes of at least $100,000—and who earned between $5,000 and $12,000 in 2019 are eligible for CERB benefits. These 400,000 Canadians represent a total potential cost to CERB of $4.8 billion (before taxes on CERB). It’s also worth noting that for this group of CERB-eligible Canadians, CERB benefits are on average higher than receipt of CERB compared to their 2019 earnings.

Another 287,500 CERB-eligible Canadians with the same characteristics earned between $12,001 and $24,000 and experienced no decline in their average monthly earnings and would likely have seen an increase. Add in Canadians under the age of 18 with the same characteristics in the two previous groups with earnings between $5,000 and $24,000 and the number of potential CERB recipients increases to 1.1 million with a potential upper-bound cost of $10.3 billion.

Finally, if Canadians under the age of 18 and still living with their parents in households with total incomes of $80,000 and $24,000—and the number of potential CERB recipients increases to 985,200 with a potential cost of $11.8 billion.

A second analysis lowered the household income threshold to $80,000. The total number of potential CERB recipients increases to 855,500 with a potential cost of $10.3 billion.

These 400,000 Canadians represent a total potential cost to CERB of $4.8 billion (before taxes on CERB). It’s also worth noting that for this group of CERB-eligible Canadians, CERB benefits are on average higher than their monthly earnings in 2019 (which at most would have been $1,000), meaning they’re actually better off receiving CERB than they were working.

Another 287,500 CERB-eligible Canadians with the same characteristics earned between $12,001 and $24,000 and experienced no decline in their average monthly earnings and would more than likely experience an increase.
When the analysis includes Canadians under the age of 18 with the same characteristics noted above, who earned between $5,000 and $24,000, the number of potential CERB recipients increases to 855,500 with a total potential cost of $10.3 billion.

And finally, when the analysis includes Canadians age 15 to 24 who live with their parents in households making at least $100,000 but who do not attend school and who earned between $5,000 and $24,000 in 2019, the number of potential CERB recipients increases to 985,200 with a total potential cost of $11.8 billion.

These are significant expenditures to a large group of Canadians whose need is at least questionable given that they live at home as dependents in households with significant income (in 2019) and, in most cases, whose average monthly earnings under CERB would be higher than when they were working.

Though income stabilization during a recession can be sound policy, there’s increasing evidence that this federal government has discarded caution in the name of convenience, with the result that potentially large transfers are going to groups of Canadians whose need is questionable and who may now actually enjoy higher incomes than when they were working. At a time of unprecedented federal spending and borrowing, policymakers in Ottawa need to demonstrate much greater prudence and fiscal discipline.

"At a time of unprecedented federal spending and borrowing, policymakers in Ottawa need to demonstrate much greater prudence and fiscal discipline.”

And finally, when the analysis includes Canadians age 15 to 24 who live with their parents in households making at least $100,000 but who do not attend school and who earned between $5,000 and $24,000 in 2019, the number of potential CERB recipients increases to 985,200 with a total potential cost of $11.8 billion.

These are significant expenditures to a large group of Canadians whose need is at least questionable given that they live at home as dependents in households with significant income (in 2019) and, in most cases, whose average monthly earnings under CERB would be higher than when they were working.

Though income stabilization during a recession can be sound policy, there’s increasing evidence that this federal government has discarded caution in the name of convenience, with the result that potentially large transfers are going to groups of Canadians whose need is questionable and who may now actually enjoy higher incomes than when they were working. At a time of unprecedented federal spending and borrowing, policymakers in Ottawa need to demonstrate much greater prudence and fiscal discipline.
Four-day Work Week Possible by 2030 Without Sacrificing Income, Living Standards

Steven Globerman

A recent study from the Angus Reid Institute found that a majority of Canadian adults feel it’s a good idea to make a 30-hour work week standard in Canada. Support is highest (64 percent) at the lowest levels of household income and lowest (47 percent) among those with income over $150,000 per year.

The survey also called a 30-hour work week a “four-day work week.” Hence, the study effectively identifies an unsurprising phenomenon—most Canadians would like to have three-day weekends all the time. It would have been more revealing had the study reported how much income Canadians are willing to give up for a four-day work week. This is because the compensation of workers is closely tied to their productivity. Indeed, research shows that inflation-adjusted hourly labour compensation and labour productivity in Canada have been closely linked for decades.

In economic speak, labour productivity is basically the value of output that is produced per unit of labour input. If the latter is measured in terms of hours of work, average labour productivity is simply the total value of output produced in the economy per hour of labour employed.

As noted in a recent Fraser Institute study, Reducing the Work Week Through Improved Productivity, given the mix of full and part-time workers in Canada in 2018 (the latest year of comparable data), the average weekly hours worked was approximately 37. The COVID crisis has undoubtedly affected that number for 2020, but 37 hours is still a useful benchmark to illustrate the main point. A 30-hour work week would represent a reduction of approximately 19 percent in the average hours worked per week by Canadians. But crucially, to maintain the same value of total produced output, labour productivity would need to increase by about 23 percent. Any smaller increase in labour productivity would mean reduced income levels for Canadian workers.

More specifically, if labour productivity remained unchanged as we moved to a 30-day work week, compensation would be about 81 percent of the compensation received under the former 37-hour work week. In other words, for a Canadian worker earning $66,000, inflation-adjusted annual compensation would decline by about $12,500.
While it would be nice to think that simply moving to a four-day work week would itself promote a significant improvement in labour productivity, perhaps by contributing to a more enthusiastic and energized workforce, the (admittedly limited) evidence does not support this hopeful inference. While available evidence does suggest that working fewer hours per week modestly improves our productivity by reducing worker fatigue, this benefit tends to be realized primarily by workers who are new to their jobs. In short, a 30-hour work week does not guarantee improved productivity.

In reality, improving labour productivity in Canada will require substantial and wide-ranging initiatives in both the public and private sectors. Subsequently, a good first step towards a four-day work week—while maintaining our standard of living—is to make productivity growth a priority for public policy once the COVID-crisis is behind us.

If labour productivity remained unchanged as we moved to a 30-day work week, compensation would be about 81 percent of the compensation received under the former 37-hour work week.”

Steven Globerman is resident scholar and Addington Chair in Measurement at the Fraser Institute. He is a co-author, along with Joel Emes, of Reducing the Work Week Through Improved Productivity.
To the People of Hong Kong

FROM: Members of the Economic Freedom of the World Network

We the undersigned of the Economic Freedom of the World Network stand with the people of Hong Kong as their rights and freedoms are threatened by the actions of the Communist Party of China (CPC).

Hong Kong was left devastated at the end of World War II yet by granting its people the highest level of economic freedom in the world, Hong Kong rose to become one of the most prosperous places on the planet. The growth in quality of life was astonishing. In 1950, Hong Kong was about tied with the world average per capita GDP at just over $2,000 in constant 2010 US dollars; in 2018, Hong Kong’s per capita GDP reached $40,000, four times the world average. The OECD, formed in 1961, had an average per capita income more than three times that of Hong Kong then; now they are equal.

Civil and personal freedom blossomed too since Hongkongers were not dependent on government or other powerful players and were protected by a strong and impartial rule of law. Hongkongers came to enjoy the highest level of personal freedom in the world, according to the Human Freedom Index. This includes security and safety, the right to practice a religion of one’s choosing, the freedom to associate and assemble, the right to join political organizations, freedom of personal expression, freedom of the press, freedom to use the internet and freedoms to establish one’s own identity. China, unfortunately, fails to provide its citizens with many of these basic human freedoms.

Hong Kong is the world’s most entrepreneurial society, with new business formation the highest in the world, at 28.6 per thousand working age population, compared to an OECD average of 3.8 and a world average of 1.5. In the World Bank’s Human Capital Index, Hong Kong at .822 scores fourth globally, compared to an OECD average of .751 and a world average of .567.

To protect the Hong Kong miracle, when Britain returned Hong Kong to China in 1997, China agreed that the economic and political systems in Hong Kong would not be changed for 50 years. That is, China would abide by the “one nation, two systems” principle. Over the past several years, communist China has been attempting to strip from Hong Kong its long-held status as one of the freest places in the world and undermining the “one nation, two systems”.

Most recently, China has ordered large scale arrests of dissidents and, on May 28, China’s National People’s Congress imposed a security law which attacks Hong Kong’s freedoms and Hong Kong’s Basic Law (effectively, a freedom-protecting constitution) by bypassing Hong Kong’s Legislative Council. While the CPC has yet to release details, the law is intended to allow mainland authorities to crush freedom in Hong Kong and extend absolute CPC rule.

Pro-democracy demonstrators, young and old, Chinese, and the many other groups that populate Hong Kong, are demonstrating to protect their freedoms and hopes for the future of their children and grandchildren. We stand with the people of Hong Kong as they attempt to protect their freedoms and rights and believe a strong global response is critical.
MEMBER ORGANIZATIONS
of the Economic Freedom of the World Network

Niels Veldhuis
President
The Fraser Institute, Canada

Michael A. Walker
Founder
The Fraser Institute, Canada

Fred McMahon
Michael A Walker Chair
The Fraser Institute, Canada

Aldo Abran
Executive Director
Libertad y Progreso, Argentina

Candelaria de Elizalde
General Coordinator
Libertad y Progreso, Argentina

Admir Čavalić
Director
Association Multi
Bosnia and Herzegovina, Bosnia and Herzegovina

Vladimir Fernandes Maciel
Coordenador
Coordenador do Centro Mackenzie de Liderdade Económica, Brazil

Christina Cortez C.
Directora de Comunicaciones
Libertad y Desarrollo, Chile

Gisèle Dutheuil
Directrice
Audace Institut Afrique, Côte d’Ivoire

Martin Panek
Director
Liberal Institute, Czech Republic

Dora De Ampuer
Executive Director
Ecuatoriano de Economia Politica, Ecuador

Omar Shaban
Director
PalThink for Strategic Studies, Gaza Strip

Gia Jandieri
Vice-President, Founder
New Economic School, Georgia

Franklin Cudjoe
Founding President & CEO
IMANI (Centre for Policy and Education), Ghana

Nicos Rompapas
Executive Director
KEFIM (Center for Liberal Studies), Greece

Alexander Skouras
President
KEFIM (Center for Liberal Studies), Greece

Marcela Porta, Ph.D.
Directora Administrativa
Centro de Estudios Económico-Sociales, Guatemala

Máté Hajba
Director
Free Market Foundation, Hungary

Zoltán Kész
Honorary President
Free Market Foundation, Hungary

Parth J Shah
Director
Indian School of Public Policy, India

Rainer Heufers
Executive Director
The Center for Indonesian Policy Studies (CIPS), Indonesia

Nijjar Khalid
Representative
Mesopotamia Foundation for Entrepreneurship and Development, Iraqi Kurdistan Region

Corrine Parenti
Co-founder & Director
Jerusalem Institute for Market Studies, Israel

Beppe Facchetti
President
Centro Einaudi, Italy

Dr. Roberto Salinas León
Presidente
Mexico Business Forum, Mexico

Robin Sitoula
Executive Director
Samiridhi Foundation, Nepal

Surse Pierpoint
President
Fundacion Libertad, Panama

Marissa Kriener
Executive Director
Fundacion Libertad, Panama

Jose L. Tapia
Executive Director
Instituto de Libre Empresa, Peru

Andrzej Sadowski
President
Adam Smith Research Centre of Warsaw (ASRC), Poland

Prof. Andrzej Kondratowicz
Head, ASRC Economic Freedom Project
Adam Smith Research Centre of Warsaw (ASRC), Poland

Andrei Illarionov
President
Institute of Economic Analysis, Russia

Leon Louw
Executive Director
Free Market Foundation of Southern Africa, South Africa

Tembta Nolutshungu
Director
Free Market Foundation of Southern Africa, South Africa

Eustace Davie
Director
Free Market Foundation of Southern Africa, South Africa

Jasson Urbach
Director
Free Market Foundation of Southern Africa, South Africa

Sung-no Choi
President
Center for Free Enterprise, South Korea

Roxana Nicula
Presidenta / Chair
Fundación para el Avance de la Libertad, Spain

Pierre Bessard
President
Liberal Institute, Switzerland

Bican Şahin
President
Freedom Research Association, Turkey

David J. Theroux
Founder, President, and Chief Executive Officer
Independent Institute, USA

Perth Tolle
Founder
Life + Liberty Indexes, USA

Jerry L. Jordan
President
Pacific Academy for Advanced Studies, USA

Rocio Guijarro
Gerente General
Cedice Libertad, Venezuela

Carlos Goedder
Member of the Academic Council
Cedice Libertad, Venezuela

INDIVIDUALS
Associated with the Economic Freedom of the World Network

Kamal Smimou, Ph.D.
Professor of Economics
Ontario Tech University, Canada

Óscar Álvarez Araya, Ph.D.
Former Ambassador
Costa Rica

Juan Carlos Hidalgo
Former Ambassador
Guatemala

Fred McMahon
Michael A Walker Chair
The Fraser Institute, Canada

Peter Kurrild-Klitgaard
Professor of Political Science
University of Copenhagen, Denmark

Miguel A. Cervantes
Associated with the Economic Freedom of the World Network

Anthea Haryoko
Individual
Indonesian Policy Studies (CIPS), Indonesia

Morteza Sameti
Full Professor of Economic Science
University of Isfahan, Iran

Dr. Martin Rode
Professor
Universidad de Navarra, Spain

Mark A Jamison
Director
Public Utility Research Center
DigitalMarkets Initiative, USA

Dr. James Gwartney
Professor of Economics
Florida State University, USA

John Garen
BB&T Professor of Economics
Georgia College and State University, USA

Lawrence J. McQuillan, Ph.D.
Senior Fellow and Director
Center on Entrepreneurial Innovation
Independent Institute, USA

Dean Stansel, Ph.D.
Senior Research Fellow
C. N. O’Neil Center for Global Markets and Freedom, Cox School of Business, Southern Methodist University, USA

Gia Jandieri
Vice-President, Founder
New Economic School, Georgia

Franklin Cudjoe
Founding President & CEO
IMANI (Centre for Policy and Education), Ghana

Nicos Rompapas
Executive Director
KEFIM (Center for Liberal Studies), Greece

Alexander Skouras
President
KEFIM (Center for Liberal Studies), Greece

Marcela Porta, Ph.D.
Directora Administrativa
Centro de Estudios Económico-Sociales, Guatemala

Máté Hajba
Director
Free Market Foundation, Hungary

Zoltán Kész
Honorary President
Free Market Foundation, Hungary

Parth J Shah
Director
Indian School of Public Policy, India

Rainer Heufers
Executive Director
The Center for Indonesian Policy Studies (CIPS), Indonesia

Nijjar Khalid
Representative
Mesopotamia Foundation for Entrepreneurship and Development, Iraqi Kurdistan Region

Corrine Parenti
Co-founder & Director
Jerusalem Institute for Market Studies, Israel

Beppe Facchetti
President
Centro Einaudi, Italy

Dr. Roberto Salinas León
Presidente
Mexico Business Forum, Mexico

Robin Sitoula
Executive Director
Samiridhi Foundation, Nepal

Surse Pierpoint
President
Fundacion Libertad, Panama

Marissa Kriener
Executive Director
Fundacion Libertad, Panama

Jose L. Tapia
Executive Director
Instituto de Libre Empresa, Peru

Andrzej Sadowski
President
Adam Smith Research Centre of Warsaw (ASRC), Poland

Prof. Andrzej Kondratowicz
Head, ASRC Economic Freedom Project
Adam Smith Research Centre of Warsaw (ASRC), Poland

Andrei Illarionov
President
Institute of Economic Analysis, Russia

Leon Louw
Executive Director
Free Market Foundation of Southern Africa, South Africa

Tembta Nolutshungu
Director
Free Market Foundation of Southern Africa, South Africa

Eustace Davie
Director
Free Market Foundation of Southern Africa, South Africa

Jasson Urbach
Director
Free Market Foundation of Southern Africa, South Africa

Sung-no Choi
President
Center for Free Enterprise, South Korea

Roxana Nicula
Presidenta / Chair
Fundación para el Avance de la Libertad, Spain

Pierre Bessard
President
Liberal Institute, Switzerland

Bican Şahin
President
Freedom Research Association, Turkey

David J. Theroux
Founder, President, and Chief Executive Officer
Independent Institute, USA

Perth Tolle
Founder
Life + Liberty Indexes, USA

Jerry L. Jordan
President
Pacific Academy for Advanced Studies, USA

Rocio Guijarro
Gerente General
Cedice Libertad, Venezuela

Carlos Goedder
Member of the Academic Council
Cedice Libertad, Venezuela

Fall 2020 15
A t 168 pages, the “Long-Winded Economic and Fiscal Update” might have been a more appropriate title. While lengthy, it was unfortunately short on substance, particularly about the future of government finances and the government’s plans to tackle its $343 billion budget deficit. As such, this federal government continued its record of fuelling uncertainty.

In difficult times, workers, businesses, investors, and entrepreneurs crave certainty, particularly with respect to government policy. With a deficit of $343 billion this year (which follows $89.1 billion in total deficits since 2015), there’s a real risk of higher taxes in the immediate future. Without a plan for how the government will deal with the state of federal finances, workers, businesses, investors, and entrepreneurs are left guessing about whether taxes might be raised, and by how much. This uncertainty means that investments that might look profitable today might not be so in a near future with higher taxes. This kind of uncertainty means that workers, businesses, investors, and entrepreneurs will take a wait-and-see attitude towards potential investments.

Again, this government has a record of creating policy uncertainty. Even prior to the COVID-induced recession, deficits created uncertainty about future taxes, aiding rumours of potential increases to capital gains taxes and limits on interest-deductibility for business. New subjective regulations for major projects created massive uncertainty about how and if new infrastructure projects would be approved. And earlier this year, the government’s indecisive handling of the # ShutDownCanada movement
and ensuing rail blockades created yet more uncertainty, not to mention significant economic damage.

“Currently, policy uncertainty is at an all-time 35-year high in Canada.”

Nicholas Bloom, professor of economics at Stanford University, and Steven Davis, professor of economics at the University of Chicago, developed the first rigorous analytical framework for measuring the extent and impact of policy uncertainty. Data for Canada show an increasing trend of policy uncertainty over the past five years, with many periods of uncertainty eclipsing that of the 2008/09 recession. Currently, policy uncertainty is at an all-time 35-year high in Canada.

To be fair, federal Finance Minister Bill Morneau clearly understands that we live in uncertain times. During his “snapshot” speech, which to his credit was actually quite short, the minister noted that “Businesses of all sizes are still facing uncertainty.” The actual snapshot document, which mentions “uncertain” or “uncertainty” 35 times, also notes that “Businesses drastically reduced investment... in response to large revenue losses and high uncertainty.”

Unfortunately, the Trudeau government seems oblivious to how it creates policy uncertainty rather than reducing it.

The need for increased certainty is why during the Great Recession of 2008/09, the then-Conservative federal government produced an Update of Economic and Fiscal Projections (which, by the way, was only 24 pages long) and included updated forecasts for revenues, spending, and the deficit for the current year and the following five-year period. Canadians could see the government had a plan to get the budget, which was $56 billion in deficit, back to near balance, and that tax increases would not be required.

Clarity and certainty are critically important, now more than ever. With its snapshot, the Trudeau government missed an opportunity to reassure workers, businesses, investors, and entrepreneurs that an attack on capital through tax increases was not coming. It missed an opportunity to show it would return to budget balance, or at least close to it, without massive tax increases. And it missed an opportunity to end long-running rumours of capital gains tax increases, limits on interest-deductibility, and additional taxes on stock options.

“With its snapshot, the Trudeau government missed an opportunity to reassure workers, businesses, investors, and entrepreneurs that an attack on capital through tax increases was not coming.”

If this government is serious about Canada’s economic recovery, it would prioritize key reforms central to economic growth including developing a robust plan to reduce the deficit and balance the budget, improving tax competitiveness for individuals and businesses, and easing the regulatory burden to get the conditions right for investment and entrepreneurship. For our economy to thrive, for Canadians to benefit from the fruits of investment, economic activity, and job creation, the government must send strong signals that it has a viable plan.

But instead, the government doubled down on its pattern of fuelling more uncertainty in this very uncertain time.

Niels Veldhuis is president and Milagros Palacios is associate director, Addington Centre for Measurement, at the Fraser Institute.
The Trudeau Liberals were elected in 2015 promising a new direction in fiscal policy. Their 2015 platform stated that “Canada’s economy has faltered... It is time for smart, strategic investments that will turn our economy around and get it growing again.” In their inaugural budget in 2016, they talked about the need for “fundamental change” and massive “investments” by government.

In its first steps, the Trudeau government raised taxes on most taxpayers (despite promising tax relief for the middle class), and dramatically increased spending and borrowing. These changes, the government argued, would produce a stronger, more robust economy.

Before assessing the economy’s performance, it’s first important to recognize the Trudeau government’s striking break from a two-decade long policy consensus. First, unlike prime ministers Chrétien, Martin, and Harper, Prime Minister Trudeau voluntarily decided to run deficits to finance additional spending, originally committing to cumulative budget deficits of $25.1 billion over three years and a return to balanced budgets in 2019-20. In fact, the government ran $89.1 billion in deficits over five years (2015-2019) with no end in sight—and it did this pre-recession.

The government also raised taxes, including by imposing a new top income tax rate on professionals, entrepreneurs, and business owners. Although the govern-
ment did reduce the federal personal income tax rate for middle-income earners from 22.0 to 20.5 percent, it also eliminated a host of tax credits. The net effect was to increase personal income taxes for more than 80 percent of middle-income families. It’s also worth noting that more than 60 percent of families in the bottom 20 percent pay higher income taxes today because of the discontinued tax credits.

The higher tax revenues weren’t enough, however, to finance all the new spending the government wanted, so additional borrowing was needed. Federal spending on government programs between 2015 and 2019, the latest year for which detailed data are available, increased by $69.1 billion or 27.2 percent.

This fiscal bacchanalia of higher taxes, more borrowing, and more spending was all meant to improve the economy and increase incomes for Canadian families. But, like past experiences with such policies, the economy did not flourish as promised.

Real GDP per person—the total value of all goods and services produced in Canada in a particular year, adjusted for population and inflation (in 2018 dollars)—grew 2.3 percent between 2014 and 2018, the latest year for which data are available. That’s less than half the growth rate (4.9 percent) of the years between 2004 and 2008, before the last recession.

The average income for individual Canadians (after tax) grew by 3.7 percent between 2014 and 2018—again, less than half the rate of growth (8.0 percent) between 2004 and 2008.

The results are no better for Canadian families. Average after-tax income for families increased by 4.4 percent between 2014 and 2018, less than half the increase (9.7 percent) between 2004 and 2008.

A decline in business investment, the foundation for economic prosperity, partly explains the recent slowdown in overall economic and income growth. Between 2014 and 2019, business investment—including investment in machinery, equipment, factories, and intellectual property, but excluding residential investment—dropped 17.3 percent. This compares with a 42.1 percent increase between 2003 and 2008. It’s hard to imagine a starker contrast. And we can’t blame the recent drop in investment on the energy sector’s decline; a recent analysis found that two-thirds of Canada’s industries have experienced a decline in business investment.

It’s important to recognize the impact of the policy reforms introduced in 2015 and continued to this day, particularly as we contemplate policies to aid in economic recovery. Simply put, the Liberal mix of higher taxes, more government spending, and indebtedness did not result in a robust economy as promised. Rather, GDP and income growth have slowed, and business investment has collapsed. And that all happened before anyone had heard of COVID-19. If the federal government wants to help foster economic recovery and a return to prosperity, it needs to change direction.

The Liberal mix of higher taxes, more government spending, and indebtedness did not result in a robust economy as promised. Rather, GDP and income growth have slowed, and business investment has collapsed.

Jason Clemens is executive vice-president, Milagros Palacios is associate director, Addington Centre for Measurement, and Niels Veldhuis is president of the Fraser Institute.
Livio Di Matteo

Some economists justify government intervention by citing “market failure”—that is, the failure of the free market and price system to allocate resources efficiently. In other words, under certain conditions, the market is unable to capture the true value of transactions and therefore too little or too much of a good is provided. So these economists want the government to “correct” the market failure with taxes, subsidies and/or regulation.

However, there can also be government failure. That is, government decisions can also result in inefficiencies or mistakes that have real effects. With the COVID pandemic, we’ve seen government failures across Canada.

For example, in the years before the pandemic, the federal government seemingly (and quietly) deactivated its pandemic early warning system, failed to maintain stockpiles of personal protective equipment (e.g., masks), and once the pandemic began often moved slowly to deal with its impact. While there was a massive fiscal response, producing a projected $343 billion federal budget deficit, this is really a fiscal atonement for the sin of being caught with your pants down. And remember, the “government” doesn’t pay for it, taxpayers do.
Then there’s the provinces that—given that health care is a provincial responsibility—allowed their long-term care sectors to become fertile fields of death for so many seniors.

Of course, we don’t need a pandemic to witness government failure. Our municipalities frequently make decisions or choose spending priorities that ultimately lead to deteriorating roads, sewers, and other municipal infrastructure. Sometimes municipalities make decisions to solve one problem on the cheap while creating bigger problems down the road. For example, in Thunder Bay (where I teach economics), the municipal government put sodium hydroxide in the city’s water to reduce lead levels for a minority of households, which generated a rampant citywide pinhole leak problem in the piping—which eventually led to a policy reversal.

Again, when markets fail, the stock solution is government involvement. But what to do when government fails? Given that government decisions are made via a political and bureaucratic process, one expects that ultimate redress is through political accountability in parliaments, legislatures, and municipal councils. Yet we have witnessed the erosion of political accountability in Canada over the years, with the pandemic providing the opportunity for further erosion.

When decentralized markets fail, governments are quick to intervene. However, when governments fail, there’s an even bigger problem—the people who failed are in charge.

Livio Di Matteo is a Fraser Institute senior fellow and a professor of economics at Lakehead University in Thunder Bay, Ontario.
As the pandemic continues, the COVID—and non-COVID—health implications are becoming clearer in British Columbia. The Horgan government estimates it will take up to two years to complete the 30,000 cancelled “non-urgent” surgeries and address the additional 24,000 patients waiting for surgery referrals. Thankfully, the BC government’s response plan includes private clinics, but broader health-care reform is needed.

First, it’s important to clarify that most “non-urgent” surgeries (often called elective procedures) are not optional. Rather, they are medically necessary treatments scheduled or planned in advance including hip and knee surgeries, and cardiac bypass and stent procedures. In BC, cancellations of these surgeries have already had fatal consequences. According to the BC government, the backlog is “more significant than anything we have ever faced.” While likely true, BC’s health care system faced major challenges before COVID-19.

For example, prior to the outbreak, British Columbians waited 12.7 weeks (on average) in 2019 to see a specialist after a referral from a GP—and then an additional 11.3 weeks to receive treatment after consultation with a specialist (for a total of 24 weeks). In 2019, these delays left 166,195 patients in the province waiting to receive treatment after seeing a specialist.

The knee-jerk response from governments across the country, including in BC, is often to spend more money on health care. Given the rapid deterioration in government finances, this isn’t realistic. BC’s budget deficit is projected to reach $8.8 billion this year. Debt is also rising sharply.
Simply put, most provinces, including BC, are struggling with deficits and mounting debt. And federal finances are in worse shape than most provinces. The Parliamentary Budget Officer recently estimated that Ottawa’s deficit would eclipse $252 billion this year. This is the highest level on record and doesn’t include billions in additional spending announced over the last few weeks.

But even if governments could afford to spend more on health care, it’s unclear that increased spending would improve the system. Even in the pre-COVID world, there was mounting evidence that Canada spends more on its universal health care system than other countries with universal health care programs, while performing poorly in key areas. For example, despite being one of the highest-spending universal health care countries in the OECD (as a percentage of the economy), in 2017 Canada ranked low on the number of doctors (2.8 per 1,000, ranking 26th of 28), acute care beds (2.0 per 1,000, ranking 26th of 27), MRIs (10.4 per million, ranking 21st of 26) and CT scanners (15.9 per million, ranking 21st of 27), on an age-adjusted basis.

In contrast, countries such as Australia are also struggling to clear their own elective surgery backlog, but have more doctors (4.0 per 1,000, ranking 6th of 28), MRIs (15.4 per million, ranking 11th of 26), and CT scanners (69.9 per million, ranking 2nd of 27) after adjusting for age. And fewer Australians (8 percent) were waiting four months or longer for elective surgery than Canadians (18 percent) in 2016, the latest year of comparable data.

So why the disparity between countries?

Simply put, other countries with universal health care systems embrace, to varying degrees, the private sector. Australia, for example, uses parallel private health care to augment its public system, allowing physicians to practice in both the public and private sectors, and it contracts out the delivery of services to private hospitals. In Canada, we limit or effectively prohibit private-sector involvement in a significant portion of health care.

“Most “non-urgent” surgeries (often called elective procedures) are not optional. Rather, they are medically necessary treatments scheduled or planned in advance including hip and knee surgeries, and cardiac bypass and stent procedures.”

As noted, however, BC’s COVID backlog response will include limited partnership with private clinics. This type of initiative is not without precedent in Canada. In 2010, the aptly-named Saskatchewan Surgical Initiative used private clinics to provide publicly funded surgeries and helped Saskatchewan lower its wait times from Canada’s longest (28.8 weeks in 2008) to the shortest by 2015 (13.6 weeks). It’s also worthwhile noting that private clinics in Saskatchewan provided services at a lower cost per procedure than public hospitals.

The impact of COVID-19 on the provincial health care system underscores the need for greater flexibility to increase treatment options for patients within a universal framework. Simply throwing more money at the system is not a viable solution.

Mackenzie Moir is a policy analyst, Alex Whalen is a Policy Analyst, and Bacchus Barua is associate director of Health Policy Studies at the Fraser Institute.
The cost of electricity has been a drain on Ontario's economy and public finances for decades. Successive governments have meddled more and more in the market for electricity, with Ontario ratepayers and taxpayers paying for the resulting rise in electricity costs, according to my new study, Ontario Government Perpetuates Poor Electricity Policy, released recently by the Fraser Institute. Despite promises to fix the mess, Premier Ford's government has continued the policy of directly setting electricity's price without lowering its cost.

As long as governments in Ontario treat electricity as a tool to be manipulated for electoral purposes and avoid re-establishing the supremacy of market forces, ratepayers and taxpayers will continue to hemorrhage money. When the government lowers hydro rates below electricity's cost, taxpayers lose; when prices rise toward its cost ratepayers lose. This no-win dilemma will continue until competition and market forces are unleashed to lower costs.

Governments in Ontario have long used hydro prices as electoral fodder, going back to the price freeze imposed by the NDP in 1994. Continued meddling by a succession of NDP, Progressive Conservative and Liberal governments led one academic as far back as 2005 to conclude “Ontario’s competitive market has been destroyed by the government.”

After 2005, government intervention only made things worse, culminating in the disastrous Green Energy Act.
of 2009 that guaranteed access and prices for renewable energy from wind and solar power. This substitution of government dictates for market forces in determining the source of energy had increasingly harmful results over the following decade. Fuelled by the high cost of renewable energy, Ontario’s electricity prices increased by 71 percent between 2008 and 2016.

As long as governments in Ontario treat electricity as a tool to be manipulated for electoral purposes and avoid re-establishing the supremacy of market forces, ratepayers and taxpayers will continue to hemorrhage money.”

Rising electricity prices aggravated the 2008-2009 recession and slowed Ontario’s recovery. Without guidance from market forces, falling demand for electricity had an unforeseen and perverse effect on Ontario’s supply. With demand cratering so much the province could meet it with its nuclear plants alone, Ontario soon had a massive surplus of electricity, with capacity double its domestic needs. Because surplus power from wind and solar could not be stored it was dumped on nearby states at half the price charged Ontario customers. The province’s auditor general estimated that subsidizing exports cost $1.3 billion between 2005 and 2011. Worse, the low price for this power helped industries in nearby states become even more competitive vis-à-vis Ontario’s industries.

Desperate to win re-election, in 2017 the Wynne government slashed hydro rates. Because the cost of electricity remained high, however, cutting its price meant more subsidies from government and shifting the burden from ratepayers to taxpayers. Ultimately, according to Ontario’s Financial Accountability Office (FAO), this bit of electioneering will cost the government $45 billion over 29 years. The FAO left no doubt the government was playing a shell game: lower rates, it said, were “providing savings to eligible electricity ratepayers but a corresponding increase in costs to the Province.”

The government raised its costs even further by not issuing the debt required to subsidize hydro rates in its own name—this in a futile attempt to lasso its growing budget deficits. The auditor general concluded that “in essence, the government is making up its own accounting rules.” This deceit of not borrowing directly in the province’s name cost Ontarians $4 billion in higher interest rates.

It should by now be clear that the only way to cut the Gordian knot of Ontario’s electricity mess is to restore competition and market pricing, which would force costs down. Without lower costs, manipulating the price of electricity only shifts the burden back and forth between ratepayers and taxpayers, who are ultimately the same people.

Instead, the Ford government has continued the policy of paying renewable-energy producers exorbitant prices while cynically manipulating retail prices, depending on which way the political winds are blowing. It first raised prices in 2019 for households and especially for industrial customers. It then slashed them for households in response to the 2020 pandemic, before raising them again in June. The only positive development for taxpayers is that the province resumed directly issuing hydro debt, thus saving on interest payments.

Had Ontario relied on market prices to guide its energy choices, it would have avoided expensive wind and solar power, curbed government deficits, lowered electricity prices for households and industry, not subsidized hydro costs for its competitors, and prevented a serious erosion of public trust. Ontario’s electricity morass is a textbook example of what can happen when governments think their judgement is superior to market forces.

As long as governments in Ontario treat electricity as a tool to be manipulated for electoral purposes and avoid re-establishing the supremacy of market forces, ratepayers and taxpayers will continue to hemorrhage money.”

Philip Cross is a Fraser Institute senior fellow and former chief economic analyst at Statistics Canada. He is the author of Ontario Government Perpetuates Poor Electricity Policy.
Tegan Hill and Jason Clemens

In June, Alberta’s “Fair Deal Panel” submitted its long-awaited report, which recommends Alberta conduct a referendum on equalization and consider withdrawing from the Canada Pension Plan. All of this suggests that broad negotiations will soon start between Ottawa and the provinces on fiscal federalism (the financial relationship between the federal and provincial governments). If Canadians outside Alberta develop a better understanding of the province’s role in the federation, this report could help create a stronger better country.

Fiscal federalism includes the functioning of federal programs such as equalization, and national programs such as the Canada Pension Plan (CPP) and employment insurance (EI). Ottawa collects various taxes then redistributes money to the provinces and Canadians depending on the program. In 2018, for instance, Albertans’ contributions to such programs outstripped their use of the programs by $15.3 billion. Understanding these disproportionate contributions to national programs is critical if the pending negotiations are to produce a stronger country. Alberta has a comparatively young population (fewer retirees), higher rates of employment, and higher average incomes. These demographic and income advantages,
which persist despite the province’s weak economy, result in Albertans disproportionately contributing to national programs.

Consider the CPP. In 2017, Alberta workers contributed 16.5 percent of the total premiums paid while retirees in the province received only 10.6 percent of the payments—a net contribution of $2.9 billion. Put differently, Albertans contributed $2.9 billion more to the CPP than they consumed in 2017. From 2008 to 2017, Albertans cumulative net contribution to the CPP was $27.9 billion—that’s almost four times greater than the net contribution from Ontario, the next highest net contributor.

This disproportionate contribution to the CPP matters to all Canadians because if Alberta withdrew from the program, the CPP’s contribution rate for the rest of the country would have to increase from 9.9 percent to 10.6 percent. (At the same time, Albertans would have a lower contribution rate for their provincial-only program, as low as 5.85 percent.)

Similarly, employment insurance relies on disproportionate contributions from Albertans. In 2014, workers in Alberta contributed 15.2 percent of EI’s total revenues while receiving only 9.4 percent of EI’s benefits. That year, Albertans’ net contribution to EI was almost $2.0 billion. And from 2007 to 2018, Albertans’ cumulative net contribution was $12.3 billion (although recent increases in unemployment in Alberta has reduced its net contribution).

Simply put, in their current form, both the CPP and EI rely on Alberta’s participation; its withdrawal would produce fundamental changes to these programs including higher contribution rates (i.e., taxes) and potentially reduced benefits.

”If Canadians outside Alberta develop a better understanding of the province’s role in the federation, this report could help create a stronger better country.”

This need not be the case, however, if the rest of Canada recognizes Alberta’s key role in national programs. Again, that recognition could form the basis for new agreements in areas meaningful to Albertans including changes to the regulatory system for large national infrastructure projects (which would mean a rethink of Bill C-69, also known as the federal Impact Assessment Act), reversal of the West Coast tanker ban (as spelled out in federal Bill C-48), fixing equalization, and/or reforming the national carbon tax.

This national discussion, which is just getting started, is an opportunity to improve Canada for everyone if—and only if—the rest of the country understands the situation and is willing to compromise.

In their current form, both the CPP and EI rely on Alberta’s participation; its withdrawal would produce fundamental changes to these programs including higher contribution rates (i.e., taxes) and potentially reduced benefits.”

Tegan Hill is an economist and Jason Clemens is executive vice-president at the Fraser Institute.
Russell S. Sobel and Jason Clemens

As more and more Canadians, and indeed people around the globe, focus on how best to foster economic recovery from one of the deepest recessions in history, the ideas of economist Joseph Schumpeter should be front and centre.

Joseph Schumpeter is best known for popularizing the term “creative destruction”—the process whereby new innovations arise and cause the old way of doing things to disappear. This “perennial gale,” as Schumpeter described it, is the foundation for economic progress. Simply put, the creativity, innovation, ingenuity, and diligence of entrepreneurs is at the heart of prosperity.

For economies to grow and prosper requires the decentralized efforts of entrepreneurs, in the pursuit of profit, experimenting with new combinations of productive resources including raw materials, labour, and perhaps most importantly, ingenuity. This process of trial and error, with the profit and loss system providing feedback on the quality of the entrepreneurial ideas, is the engine driving a brighter and wealthier future.

There are three keys to fostering entrepreneurship and the prosperity that accompanies it. First, societies must value and view entrepreneurs for their enormous positive contributions—and quit villainizing wealth,
successful entrepreneurs, and business people. Aspiring to be a successful entrepreneur should be as worthwhile a dream for a child as being a doctor, engineer, or a political leader.

Second, ensure markets are contestable, meaning they’re open to competition from new and existing firms. This means avoiding or removing government-erected barriers that protect incumbent firms from the entry of new competitors.

Third, let the profit and loss system work—don’t subsidize failing firms or play favourites with certain industries.

These barriers to entrepreneurship and innovation are significant in Canada, but the current economic situation offers an opportunity for reforms that will foster economic growth. Economist Vincent Geloso recently estimated that more than one-third of the Canadian economy is protected from competition through a variety of government mechanisms including limits on foreign firms, government monopolies, and licensing requirements, to name but a few.

As Josef Schumpeter first realized in the 1920s, limitations on entrepreneurs will have costly implications for both short- and long-term economic growth and prosperity. Schumpeter’s lessons are perhaps more timely now than ever given that Canada and the world desperately need economic growth.

As Josef Schumpeter first realized in the 1920s, limitations on entrepreneurs will have costly implications for both short- and long-term economic growth and prosperity. Schumpeter’s lessons are perhaps more timely now than ever given that Canada and the world desperately need economic growth.

One such barrier—government restrictions on companies in one province selling into other provinces—should be top of the list for reforms. After all, one of the reasons for Confederation was to promote trade within the new country. University of Calgary economist Trevor Tombe has studied interprovincial trade barriers extensively and concluded that removing the barriers and allowing firms to compete across provincial boundaries could increase the Canadian economy by between $50 and $130 billion annually.

Other examples of barriers to entrepreneurship include preferential tax treatment, direct subsidies from government, and beneficial regulations for particular sectors and industries.

Societies must value and view entrepreneurs for their enormous positive contributions—and quit villainizing wealth, successful entrepreneurs, and business people.”

Russell S. Sobel is a professor of economics and entrepreneurship in the Baker School of Business at The Citadel in Charleston, South Carolina. He is the author of The Essential Joseph Schumpeter. Jason Clemens is executive vice-president of the Fraser Institute.
DIGITAL PROGRAMS LAUNCHED

COVID-19 restrictions beginning this spring made it a priority for us to pivot our educational programs so they are now available online. Our first digital program was a teacher webinar held in May covering our popular “Economics of Superheroes” curriculum. We had 32 teachers; they gave the webinar a rating of 4.85/5.0—which for our first program of this type was extremely gratifying.

“Love the fact that I could attend the lesson and still return to school to teach my own classes. I really like the online format.”

Timed to coincide with the return to school, we are offering a dozen digital teacher webinars this fall.

Similar to the teacher webinars, our first-ever virtual Student Leaders Colloquium, which gathers engaged students together to discuss public policy. The June program, held through the Munk Centre for Free Enterprise Education, was well-received by the participants. The online format allowed us to increase the number of attendees across Canada by nearly 50 percent. Students heard from experts in economics, public policy, environmental economics, and pharmaceutical policy and had online discussions with their peers in digital sessions that spanned four days. While the webinar program could not replace the interaction afforded by our traditional program, it was wonderful to be able to engage with these young leaders and keep their interest in public policy alive until such time that we can once again meet in person. One of our student leaders is profiled below.

**STUDENT LEADERS**

**COLLOQUIUM**

**HI, I'M HANNAH JENSEN, AND I WANT TO BE A FOUNDING PARTNER OF A POLITICAL STRATEGY FIRM.**

Queen's University
EXPLORE PUBLIC POLICY ISSUES ONLINE

We have also developed a webinar series for university students based on our popular “Explore Public Policy Issues” program. There are a number of silver linings that come from offering these programs online. First, we are no longer restricted by Canada’s geography and can open the programs to people across the country at no added cost. Second, virtual programming has given us access to a wider range of internationally acclaimed speakers, including those listed below, who in our fall programs will be speaking on topics of interest to many students.

These internationally acclaimed speakers give students reasons to be optimistic about our future.

One of TIME Magazine’s top 100 most influential people in the world, author and think tank leader Bjørn Lomborg will launch our fall line-up of virtual student seminars. He will summarize for Canadian students his views on the smartest ways to protect our planet—by avoiding bad climate change policies and through investing in human capital and innovation.

Dr. Paul Zak, popular TED speaker, pioneer in the field of neuroeconomics, and a Fraser Institute senior fellow, will speak to students about one of F.A. Hayek’s key insights, spontaneous order. Dr. Zak will explain the brain basis for spontaneous order, why strangers cooperate, and how institutions can scale trust to create sustained increases in living standards.

Other speakers in the fall series include Arthur Brooks, Hernando De Soto, Johan Norberg, and Aeon Skoble, to name just a few.

See a full list of speakers on the Fraser Institute’s web site under Education Programs: fraserinstitute.org/education-programs/west/students/post-secondary-policy-seminars
Venia Tan
What’s your role at the Institute?
I am the Director of Finance and Accounting and lead a small team that handles the whole accounting and finance activity of the Institute.

How did you arrive at the Institute?
In 2005, while doing my CGA designation, I required local experience as I was a new immigrant. So I applied to be the Institute’s accounting assistant and was fortunate to be hired for my first job in Canada.

Tell us something exciting you’re working on now for the immediate future.
The Finance and Accounting department is doing lots of updates to our accounting system and instituting procedures that will keep it current and compliant with the latest regulations.

What do you enjoy doing in your spare time that your colleagues may not be aware of?
I love gardening and I plant flowers and veggies during the spring and summer. During the winter, I love reading, which enables me to learn all sorts of new things.

Timothy Greengrass
What’s your role at the Institute?
I am the Senior Accountant at the Fraser Institute and take care of accounting and financial reporting activities.

How did you arrive at the Institute?
I previously worked at another not-for-profit and wanted to continue working for a similar type of organization. The Fraser Institute provided a new challenge in a familiar field. Economics was my second favourite subject in University—after accounting, of course.

Tell us something exciting you’re working on now for the immediate future.
As 2020 will be my first full year in the position I look forward to wrapping up the year efficiently, allowing for a great audit in early 2021. Also, after passing the CFE (the final examination for CPAs) in 2019, I will be applying for the CPA credentials in 2020.

What do you enjoy doing in your spare time that your colleagues may not be aware of?
I enjoy going for walks, going out for brunch on the weekends with my family, and I also sometimes enjoy baking.

Chris Howey
What’s your role at the Institute?
My role is Accounts Payable Administrator.

How did you arrive at the Institute?
I arrived at the Institute through a chance meeting with the wife of an ex Institute employee at my son’s elementary school not long after we arrived in Canada. The Institute needed a person to fulfill their publication orders and I became that person. I helped out with various duties and eventually ended up in the accounting department where I have been ever since.

Tell us something exciting you’re working on now for the immediate future.
The accounting department’s main goal is to maintain the accounting system while continuing to look for ways to improve and streamline it.

What do you enjoy doing in your spare time that your colleagues may not be aware of?
I enjoy going for walks, going out for brunch on the weekends with my family, and I also sometimes enjoy baking.
Help us keep Canadians informed

The unprecedented government spending in response to COVID-19 will have consequences for years to come.

There will be no shortage of voices encouraging governments to retain their expanded economic control post-pandemic. But the Institute’s research will continue to inform and educate Canadians about the long-term effects these policies and debt levels will have.

This is why the Institute is, and will continue to be, more important than ever.

To help support our independent work please consider making a charitable donation at fraserinstitute.org/donate